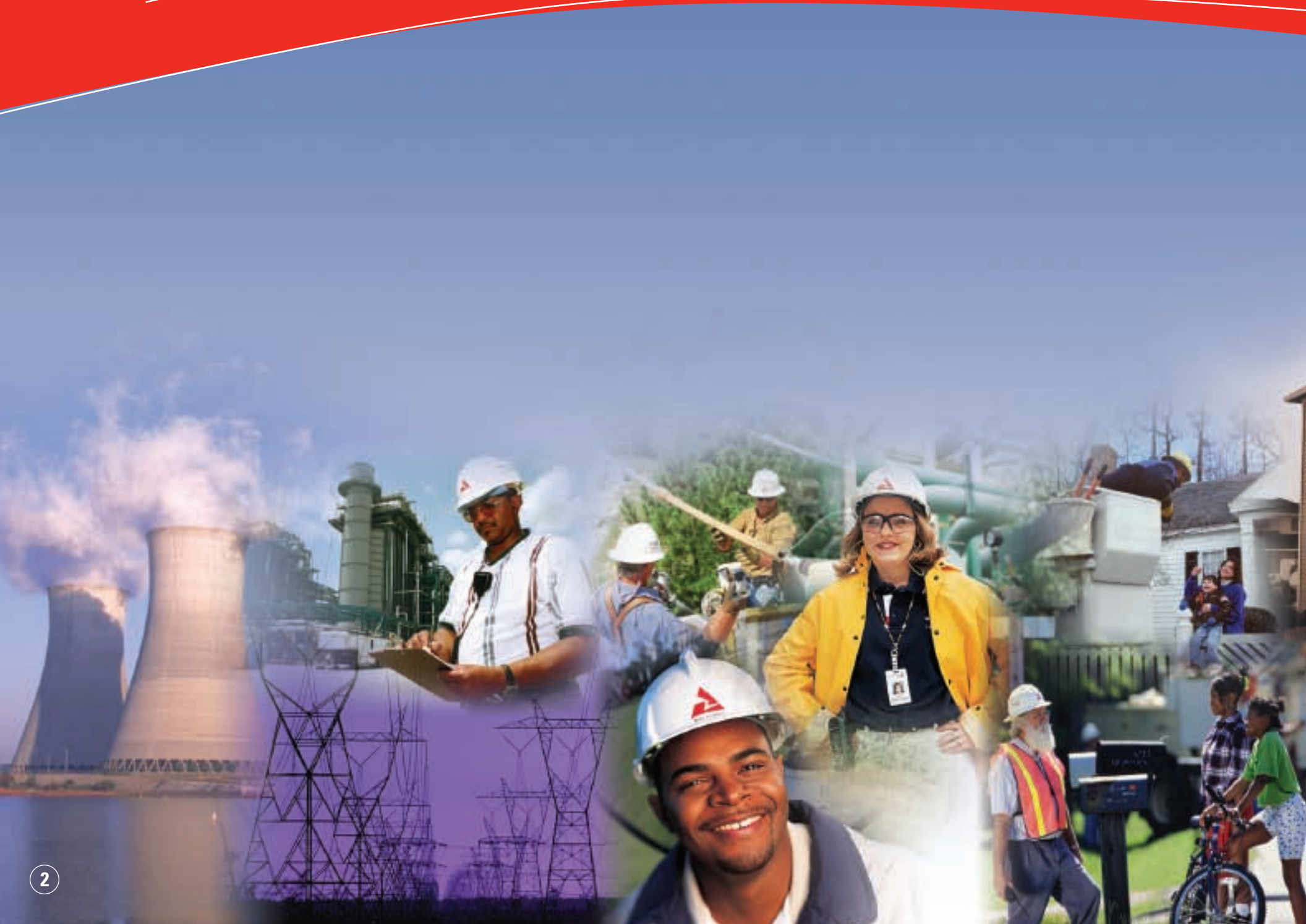


# FROM DAVID RATCLIFFE, CEO





Electricity brings comfort and security to people everywhere. It is the backbone of the world economy, as vital and necessary as the air we breathe and the water we drink. Our more than 25,000 employees are proud to be responsible for the critical infrastructure that generates and distributes reliable electric service to 4.3 million customers in the southeastern United States.

To us, electricity is both our business and our responsibility.

It is our business to provide value to shareholders; it is our responsibility to provide reliable energy to customers. It is our business to generate affordable power; it is our responsibility to keep our environment clean. It is our business to compete and serve; it is our responsibility to work ethically and help communities grow.

There need be no conflict between our business and our responsibility. They shape each other. Here at Southern Company they define who we are, what we do, how we do it, and where we stand on the issues of our times.

Most fundamental to me is “how we do it.” My view is that big plans start and run on the ideas, dedication, and commitment of our individual employees. So our aim is to offer employees experiences that help them grow into leadership roles and at the same time create a framework of shared values to guide their thinking. We call these values Southern Style.

Southern Style includes striving to earn *unquestionable trust*, dedication to *superior performance* throughout our business, and *total commitment* to the success of our customers, shareholders, employees, and the communities we serve.

With trust, performance, and commitment as the core of *who* we are as people, we can extend these qualities to become the core of *what* we do as a business. It can shape our social, environmental, and economic actions within the neighborhood, city, state, nation, and world we serve.

We are presented with the challenge of a growing population with growing energy needs and growing pressure on the environment. Southern Company can help meet this challenge, not just talk about it. We can provide reliable energy while being a citizen wherever we serve – sustaining our quality of life, energizing our economy, and keeping our environment clean and safe.

At the same time, a diverse and inclusive work force is a top priority. We will help our customers be more efficient in their energy use. And we will lead the nation to better ways to generate affordable electricity.

Please read more about our progress toward this vision and the challenges we face in the pages that follow. We welcome your questions and suggestions.

Truly,

David M. Ratcliffe,  
Chairman, President, and CEO  
Southern Company

## Achievements

- Continued to reduce overall emissions of sulfur dioxide, nitrogen oxides, and mercury per kilowatt-hour produced.
- Selected by the U.S. Department of Energy to build a coal gasification plant – the cleanest, most efficient coal-fueled power plant in the world – in conjunction with the Orlando Utilities Commission.
- Joined the FutureGen Industrial Alliance to help design the world's first near-zero emissions coal-based power plant. It will capture and permanently store carbon dioxide underground.
- Opened the nation's first mercury-controls technology research center in Florida.
- Awarded 48 biodiversity and habitat improvement grants from 2003-2005 through the National Fish and Wildlife Foundation and other partners.
- Paid our 236th consecutive quarterly dividend, through October, 2006.
- Outperformed S&P 500 Index and S&P 500 Electric Index for total shareholder return in 5-year and 10-year periods ended December 31, 2005.
- Restored power to all customers who could receive it 12 days after Hurricane Katrina destroyed 322 transmission towers, 2,500 miles of power lines, 10,376 power poles, and 65 percent of local transmission facilities.

## Executive Summary

### **We operate a business focused on customer service, shareholder value, and community responsibility.**

Our business is to provide reliable and affordable energy to more than 4.3 million customers\* in the southeastern United States. In 2005, we ranked among the largest generators of electricity in the United States, with operating revenues of \$13.6 billion and earnings of \$1.59 billion. At the same time, it is our responsibility to preserve the environment and strengthen the communities in which we live, work, and serve.

Our model for corporate and professional values is Southern Style, which includes striving to earn unquestionable trust, dedication to superior performance throughout our business, and a total commitment to the success of our employees, customers, shareholders, and the communities we serve.

We interact with a range of stakeholders, including customers, employees, investors, suppliers, non-profit organizations, government agencies, community groups, academia, the media, and others to address a variety of social, economic, and environmental issues.

### **We help develop effective policies and comply with regulations.**

Southern Company meets all environmental, financial, and workplace requirements that govern our operations. We participate in dialogue to help develop fair and effective policies, communicating our experience and viewpoints on issues that impact the electric utility business while listening to opposing views. We are open to change based on information from other groups who participate in the process.

### **We help find better ways to generate electricity while minimizing environmental impact.**

In addition to meeting regulations through a comprehensive compliance strategy, Southern Company looks to develop new technologies to burn fuels more cleanly, expand use of proven nuclear generation, broaden practical use of renewable fuels, and champion energy efficiency.

Southern Company is spending \$3.1 billion over the next three years to add environmental controls to existing plants to further lower emissions of sulfur dioxide, nitrogen oxides, and mercury.

Southern Company supports voluntary programs and research initiatives to address scientific, economic, technological, and policy challenges in relation to greenhouse gas emissions. The projects we have undertaken include: coal gasification to gain generation efficiencies (making less carbon dioxide for each kilowatt-hour produced); sequestration experiments to see if carbon dioxide can be efficiently removed and permanently stored

\* through October 2006

underground; nuclear planning to add more carbon-free generation; biomass generation energy options that make economic and engineering sense today; and other initiatives, such as the planting of millions of trees to absorb carbon dioxide.

We have begun new programs to measure and use water more efficiently. We are also expanding programs to recycle solids such as coal ash and gypsum into concrete, wallboard, and agricultural products. We are stewards of the land and lakes we manage, enhancing and protecting habitats for wildlife.

**We help our customers make efficient use of energy.**

We encourage adoption of energy-efficient products and processes for homes and businesses through ENERGY STAR® programs, GoodCents® guidelines, energy audits, demand response programs and online energy tracking.

**We make a safe, diverse, and inclusive work force a top priority.**

We act with the highest regard for the health and safety of our employees and the general public while providing reliable, affordable energy. We have made safety a top priority, stepping up our safety education and awareness programs for all employees through our Target Zero initiative, which has already led to improvements in our safety record.

We're promoting the benefits of diversity and an inclusive work force on decision-making and performance. We're encouraging all employees to value differences in background, culture, race, and gender while improving our diversity record through recruitment and advancement opportunities. We strive to provide opportunities through education and leadership development programs for employees to grow, and we offer competitive benefits and salaries to attract and retain top talent.

**We are a citizen wherever we serve.**

We serve as volunteers, fund company foundations, and give to programs for education, the environment, health and human services, civic and community growth, arts, and culture.

We support economic development activities critical to maintaining the economy of our region. Our local utilities work with state agencies, chambers of commerce, and development authorities to bring investment into our region through new jobs and to provide capital spending. Additionally, we work within communities to broaden opportunities and develop leaders.

**Challenges**

- Meeting the forecasted need for more than 10,000 additional megawatts of generating capacity over the next 15 years.
- Adding transmission and distribution lines to meet growing demand.
- Continuously improving safety performance.
- Recruiting and training employees to maintain an expert work force while increasing diversity.
- Installing \$3.1 billion in environmental upgrades over the next three years.
- Developing cost-effective, environmentally friendly generation technologies.
- Developing renewable energy sources within our region.
- Maintaining affordable electricity rates.
- Evaluating the addition of new nuclear generation units.
- Funding the rising cost of medical benefits for an aging work force.
- Continuing to improve hurricane preparedness and recovery plans.

*After major storms outside our service territory, line crews help restore service in other communities.*

