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SOUTHERN COMPANY 2001 ANNUAL REPORT

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Focusing on what you do best is the clearest path to success. For Southern Company, it's a strategy that's clearly working. We are focused on the business we know best in the region we know best. With 4 million customers and nearly 35,000 megawatts of generating capacity, Southern Company is the premier super-regional energy company in the Southeast. Our three major businesses—regulated utilities, a fast-growing competitive generation company, and energy-related new products and services—produced superior results in 2001. Our strategy is to be an income-oriented, low-risk investment with growth opportunities.

strategy

on track

We've set aggressive goals. And we met or exceeded them in 2001. Southern Company is focused on growing. Our earnings. Our generating capacity. Our product offerings. Our regional presence. Our positive reputation with investors. We grew earnings per share from continuing operations by 6.6 percent in 2001 and have targeted EPS growth of more than 5 percent in 2002. We are on course to increase annual earnings from competitive generation to more than \$200 million by 2005. And we plan to produce \$50 million a year in net income from energy-related new products and services by 2004, apart from traditional kilowatt-hour sales.

Southern Company places the highest priority on keeping our promises. We do what we say we'll do. We kept our promises to shareholders in 2001 with solid financial results that met or exceeded targets. We kept our promises to customers by providing reliable power at prices below the national average and with customer service that ranks among the industry's best. Our commitment is to create shareholder value – consistently – by continuing to invest in the businesses and markets we know best. Our goal is to continue to be a customer service leader.

the money

FINANCIAL HIGHLIGHTS

Data in the table below reflects the spinoff of Mirant Corporation in April 2001.

	2001	2000	change
Operating revenues <i>(in millions)</i>	\$10,155	\$10,066	0.9 %
Earnings from continuing operations <i>(in millions)</i>	\$1,120	\$994	12.7 %
Basic earnings per share from continuing operations	\$1.62	\$1.52	6.6 %
Diluted earnings per share from continuing operations	\$1.61	\$1.52	5.9 %
Dividends per share	\$1.34	\$1.34	—
Dividend yield <i>(percent)</i>	5.3	4.0	32.5 %
Average shares outstanding <i>(in millions)</i>	689	653	5.6 %
Return on average common equity <i>(percent)</i>	13.51	13.20	2.3 %
Book value per share	\$11.43	\$15.69	(27.2)%
Market price <i>(year-end, closing)</i>	\$25.35	\$33.25	(23.8)%
Total market value of common stock <i>(year-end, in millions)</i>	\$17,703	\$22,649	(21.8)%
Total assets <i>(in millions)</i>	\$29,824	\$31,260	(4.6)%
Total kilowatt-hour sales <i>(in millions)</i>	176,113	176,947	(0.5)%
Retail	145,345	150,178	(3.2)%
Sales for resale	30,768	26,769	14.9 %
Total number of customers <i>(year-end, in thousands)</i>	3,998	3,944	1.4 %

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on solid
ground

Allen Franklin *Chairman, President, and CEO*

Mild weather and a weak economy. These are words no one in our business likes to hear. They are the words, though, that best describe the business environment we faced in 2001. It challenged our ability to create value for our shareholders.

But I'm pleased to report that we rose to the challenge and delivered solid results.

Our results from continuing operations for 2001 position us as one of the industry's strongest performers. Net income for 2001 was \$1.12 billion. Our earnings per share of \$1.62 represented a 6.6 percent increase from 2000 and exceeded both our own target and the consensus expectations of analysts.

Solid Performance

Continued customer growth and significantly lower interest expenses offset the reduced demand for electricity caused by the weather and economy. We saw that our business model and our employees can withstand negative factors and still produce positive results.

I'm especially pleased to report that our stock performed well in 2001. From April 2, the date of the Mirant spinoff, through the end of the year, our shares gained almost 18 percent. We maintained our annual dividend of \$1.34 per share. The spinoff of Mirant unlocked real value for Southern Company shareholders. On March 31, 2000, just before we announced plans to spin off Mirant, Southern Company's market value—including our 100 percent ownership of Mirant—was \$14.1 billion. At the end of 2001, our market value—totally *excluding* Mirant—had risen to \$17.7 billion.

There are some significant milestones from the past year I'd like to mention. Each was important to our success during 2001 and also helped strengthen our foundation for ongoing success:

- After the spinoff of Mirant, we turned our focus to the Southeast. Our strategy remains based here, in the region we know so well.
- We successfully concluded major rate reviews by state regulators in Georgia, Alabama, and Mississippi. The outcomes provide, for several years, continued predictable earnings from our regulated business.
- We put in place an executive management team with extraordinary depth of talent, leadership, experience, and understanding of the business. Our management team members have had success both in regulated and competitive energy markets. They share a common vision for our company as well as my excitement about the opportunity to lead Southern Company to new heights.

Sharp Focus

Going forward, we will continue to concentrate on what we do best in the region we know best. This produced excellent results in 2001, and I am confident it is the right direction for the future. The backbone of our company will continue to be our regulated business in Alabama, Florida, Georgia, and Mississippi. It is strong and it's growing.

It is augmented by higher-growth competitive generation. We are well on the way to meet our five-year goal of doubling the annual earnings from this part of the business by 2005. Our competitive generation business is structured to provide good returns with relatively low risk. The output from our well-run

competitive units is sold primarily under long-term contracts, so we are not subject to the degree of price volatility that has been experienced elsewhere among independent power producers. For this business, we define the Southeast broadly to include several states beyond the area of our regulated retail business. In the future, the scope of our wholesale business may very well expand as attractive business opportunities arise. In any event, we expect future investments to have the low-risk characteristics of our existing wholesale generation business.

We also are encouraged by the progress of our new products and services business. We're off to a good start on our goal of producing \$50 million a year in earnings from new products and services by 2004. This business centers on the development of products and services that are closely tied to our own energy expertise and marketed to our existing customer base but which produce revenues apart from our traditional kilowatt-hour sales. It's a business with exciting potential to add to our growth.

Looking Ahead

As in any year, there are challenges in 2002. Our plans assume continued slow economic activity, at least through mid-year. We have demonstrated the flexibility to produce strong financial results even in a slow economy. However, we hope to see better economic times here and across the country soon.

We are working on the issue of establishing regional transmission organizations, which would place the planning and operation of the high-voltage transmission systems in the Southeast in the hands of an independent operator. Our proposed Southeastern RTO would be one of the country's largest. And we believe its model is consistent with the key principles the Federal Energy Regulatory Commission is advocating.

The overall outlook for Southern Company is excellent. *Our fundamentals are strong. Our region continues to grow.* Our management team is talented, motivated, and focused on keeping our commitments to shareholders and customers. And we remain focused as well on our social and civic responsibilities, including the environment. We believe the pieces are in place for success this year and beyond. That's what we mean when we say, "We're On."

Thank you for your continued support.



Allen Franklin
March 18, 2002

questions & answers

What does our performance in 2001 say about our strategy?

That there's no question our strategy of sticking to the business we understand best is right for us. Our share price performance indicates that investors agree. A key component of our strategy is to invest our capital consistent with what we believe are the expectations of our shareholders: a low-risk, income-oriented investment with a growing dividend and upside earnings-growth potential. We've been very disciplined in this regard. And all of the factors that led us to view the Southeast as the foundation of our strategy remain. It's a good region with high population and economic growth relative to the rest of the country. It's a business-friendly part of the country. And it's the part of the world where we have our greatest strengths. So naturally our growth should be from the Southeast outward. We're very encouraged by the way the market has responded to our first year of implementing this strategy.

The regulated side is still the biggest part of our business. What are we doing to keep it strong?

Primarily, recognizing that it's our core business. It's our mainstay, the foundation, and it's what we spend most of our time and effort on. We are making sure we keep it customer-focused. A retail business, whether it's regulated or not, has to be built on bringing value and good service to customers over a long period of time. Any model that's not based on that is doomed to failure. Any model that is based on that and is well implemented is likely to succeed.

Are competitive generation and new products and services making the contributions we need?

We had an excellent year in the competitive generation business. We're actually ahead of our target to double net income from that business by 2005. We believe we can grow that business for the foreseeable future at a 15 percent-plus compound annual growth rate, which provides a significant boost to our overall corporate growth. And we are able to do it in a way that does not materially increase the risks of the business. That's because it's primarily a contract business—we sign long-term contracts for the output of these plants. We're also making good progress in our new products and services business. We set an extremely aggressive goal for new products and services to retail customers to make sure we give a very high level of attention to that business. We're very serious about the longer-term potential of that business, and I feel very good about the emphasis it is receiving.

Are we meeting our environmental responsibilities?

We're in a business where we have to balance the energy needs of a growing population with the pace of improving our environment. It's a balance we have to meet every day. I think our balance has been good. We continue to have some of the lower-cost power in the country, and we're showing significant reductions of total emissions out of our plants. We have spent a great deal of money over the past few years, and we have plans to spend significant amounts of capital—more than \$1 billion—over the next three years for environmental controls at existing coal-fired plants. The new generation facilities we are constructing use natural gas, which is a clean and more efficient fuel. The progress we have made looks good, and we've been able to do it in a way that has kept the price of electricity affordable.

What were your priorities in assembling your executive management team?

I set out to develop a management group that could function very effectively, with teamwork as the focus, and to put in place a team that had stability and could carry this company forward for a number of years. And we've been able to do that. We deal with corporate issues as a team, and it's working incredibly well. Something we wanted in our team was a mix of regulated and competitive experience. During the years we invested in Mirant, one of the things we were gaining was competitive experience, in this country and in other countries. When we were looking at the spinoff of Mirant, we wanted to make sure that Southern Company retained a level of that experience. We were fortunate to retain some key people who gained experience in competitive energy markets while working for Mirant, and now they are members of our senior management team.

What is our philosophy about dividends?

It has not changed. We have structured Southern Company's business to offer an investment opportunity that we believe should appeal to income-oriented investors who are looking for a combination of relatively low-risk dividend growth and earnings growth. We said last year we expected to begin looking seriously at increasing the dividend in 2002. We are still on course to make that decision later this year. We would likely start with dividend increases of about half our earnings-per-share growth rate. That would allow us to begin to increase the dividend and at the same time continue to work our payout ratio to our target of 75 percent or less. Our plan is ultimately to grow dividends over time roughly at the growth rate of our earnings per share.

How much emphasis is the company placing on diversity?

Diversity has a very high emphasis. Continued improvement is a priority at all levels of the company. Our success depends on our ability to welcome and value differences among our employees, customers, and the communities we serve. It's good business as well as the right thing to do. It strengthens our ability to attract and keep good employees and to serve our diverse mix of customers. It's about more than race and gender. It's about maintaining a work environment where all employees have the opportunity to reach their full potential.

What's your perspective on the turbulence in the industry during the past year?

Some of the developments this past year have reinforced our belief that this industry is different in important ways from others, and it has to be seen in that light. Electricity is not just another commodity, and electric markets cannot be structured just like any other commodity market. I think the developments of the past year have caused many policymakers and the public to have a similar view. Many people have now paused and recognized we need to be thoughtful and very deliberate in making changes to what is in my judgment the most critical infrastructure and the most critical market in this country.

What is your long-term outlook for Southern Company? What will the company look like in five years?

One key attribute of our strategy is flexibility. We have put a strategy in place that delivers near-term value and preserves our business options. We're still vertically integrated. We still serve retail customers and wholesale customers. We own the wires. We own generation. We have a strong balance sheet. Regulators and state policymakers still have all restructuring options available to ensure consumers' interests are protected. So we still have all our business options open, and that's extremely important, given the continuing evolution of our business and energy markets. That said, Southern Company five years from now is still likely to have the majority of its investment in the Southeast. We're likely to still be pursuing a business that's closely aligned to our core strengths, which are related to electricity, both retail and wholesale. I think we're likely to have the same kind of financial parameters, with a continuing goal of being a high-performing, income-oriented investment that delivers on the growth side as well.

empowering your generation

Large commercial customers, such as the new Discover Mills shopping center in Lawrenceville, Georgia, are a key part of Southern Company's growth plans. Electricity sales to commercial customers increased to 46.9 billion kilowatt-hours in 2001.



Serving up great service to customers big and small is at the heart of everything we do. Our recipe is simple: We do all we can to build strong relationships with our customers, like Bill Waiton, a franchise owner for the Alabama-based chicken restaurant chain Willy T's.



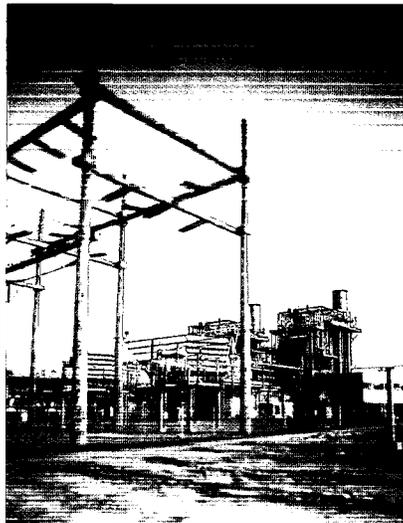
New homes under construction in the Southeast, such as this John Wieland Homes and Neighborhoods development near Atlanta, are a sign of the region's continued population growth, which is adding to our base of customers. We gained 54,000 new customers in 2001, including 43,000 new residential customers.



Our Three Major Businesses

Regulated Utilities are the core of Southern Company's business. They are responsible for more than 90 percent of our earnings. Our electric utilities serve 4 million customers in Alabama, Florida, Georgia, and Mississippi. It's a vertically integrated business with transmission, distribution, and generation in the four-state service territory. We expect continued demand growth of about 2.5 percent a year and customer growth of 1.5 percent a year in this vibrant part of the country. With an intense focus on customer satisfaction, we provide high reliability, excellent service, and retail prices that are 15 percent below the national average. Our goal is to continue to lead the industry in service and customer satisfaction.

Smooth operation is a hallmark of our generating plants. Our reputation for reliable and efficient operations is helping our competitive generation business grow. Chris Prescott, combustion turbine site manager at Plant Dahlberg in Georgia, is part of the team that is building on our record of operational excellence.



New generation is an essential part of our competitive generation business model. The first unit of our Goat Rock combined-cycle plant in Alabama goes into operation this year with 570 megawatts of capacity.

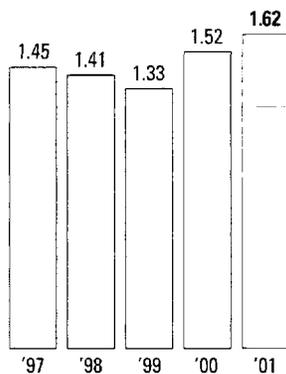
Outdoor lighting is among the energy-related products and services that boost our retail business beyond traditional kilowatt-hour sales. Such offerings are attracting a growing number of customers, such as Atlanta's Northlake Office Park, where Georgia Power's Jerry Cook (left) and complex manager Brenda Norman bask in the glow.

Competitive Generation is a high-growth part of our business. We generate electricity for wholesale customers in the "Super Southeast," primarily under long-term contracts. We are active in all aspects of wholesale power markets in the Southeast. We are focused on operational excellence. Our power plants are dedicated to high reliability standards and maintenance quality. Our goal is to be the world's best at running power plants. With \$153 million in earnings in 2001, competitive generation is ahead of schedule in its goal to earn more than \$200 million from this segment by 2005. We are growing to help meet the energy needs of the Southeast. Our competitive generation capacity will be more than 5,000 megawatts by the summer of 2003.

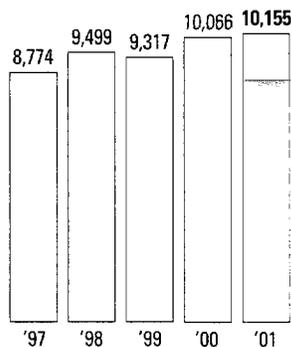
New Products and Services represent the growing variety of offerings that we are making available to our retail customers. We have set a very aggressive goal of producing \$50 million of net income annually from energy-related new products and services by 2004, apart from our traditional kilowatt-hour sales, and we are off to an excellent start. Some of the new products and services introduced in 2001 include EnergyDirect.com, Bill Payment Protection, and Surge Protection. Among our other products and services are outdoor lighting, appliance sales and services, energy services, and telecommunications. These and other products and services under development have potential to become a significant part of our retail business.

value proposition

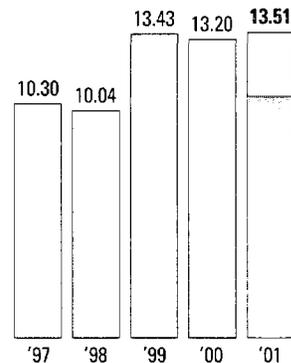
When companies talk about achieving results, the numbers tell the story best. In the case of Southern Company, the numbers tell a good story. We are committed to creating value consistently—in the short term and the long term.



Basic Earnings Per Share
(continuing operations, in dollars)

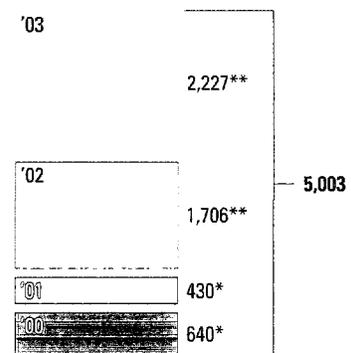


Operating Revenues
(in millions of dollars)



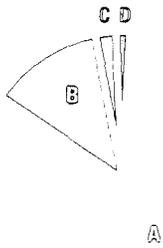
Return on Average Common Equity
(percent)

With **\$153** million in earnings in 2001 we are ahead of target to earn \$200 million a year from competitive generation by 2005.



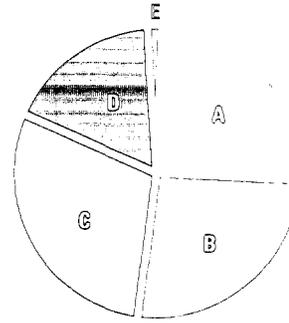
Competitive Generation Capacity
(megawatts)

* in service / ** scheduled



Customers
(year-end 2001, in thousands)

- A. Residential: 3,441
- B. Commercial: 539
- C. Industrial: 14
- D. Other: 4



Kilowatt-Hour Sales
(2001, in millions)

- A. Residential: 44,538
- B. Commercial: 46,939
- C. Industrial: 52,891
- D. Wholesale: 30,768
- E. Other: 977

4 million Total Customers

176.1 billion Total kwh Sales

Total Return (percent)

	2001	5 Year	10 Year
Southern Company	32.20	19.06	15.42
S&P Electric Index	(8.26)	10.59	8.42
S&P 500 Index	(11.89)	10.70	12.94

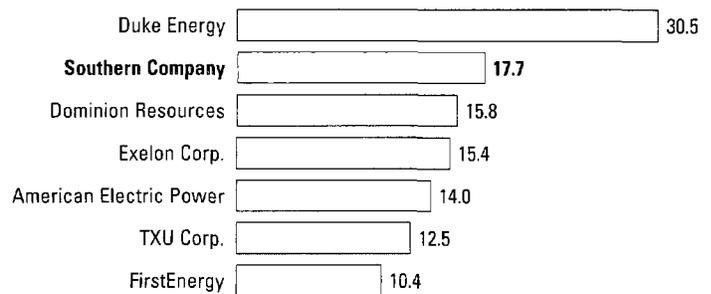
*Annual returns for the period ending Dec. 31, 2001
Assumes dividends were reinvested*

#1 Ranking

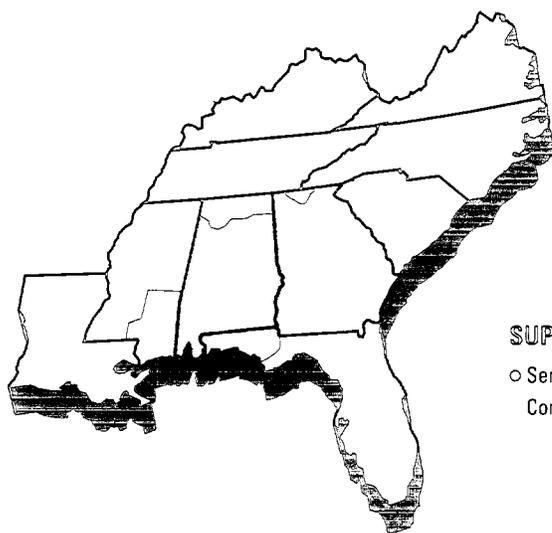
**Fortune magazine's "Most Admired"
electric and gas utilities**

\$1.71

2002 Earnings Per Share Target



2001 Market Value Comparison
(year-end, in billions of dollars)



SUPER SOUTHEAST

- Service Territory
- Competitive Generation Opportunities

at home in our region

There are many good things about being in the Southeast. One of the things we like best is the region's growth. The Southeast is one of the highest-growth regions in the country, and that is an important factor in Southern Company's expansion. Our growth is tied directly to that of the markets we serve.

The trends look good. The South has had the nation's largest population increase since the release of the 2000 Census. According to the Census Bureau, the region's population has grown during this time by an estimated 1.6 million people. And two of the nation's five fastest growing states, Florida and Georgia, are in our service territory. This translates into more customers for Southern Company. We added 54,000 in 2001.

We take a broad view of the Southeast. Our regulated business serves customers in a 120,000-square-mile territory that includes most of Georgia and Alabama, southeastern Mississippi, and the panhandle region of Florida. It's an area with about 12 million people. Our competitive generation business extends our reach to neighboring states in an expansive area we call the "Super Southeast." It currently includes our four core states plus Kentucky, North Carolina, South Carolina, Tennessee, Louisiana, and Virginia. This gives us an option to expand our geographic scope as opportunities arise, with the Southeast still being the foundation and center of our business. When it comes to serving the growing energy needs of this region, we feel right at home.



A growth region. The Southeast continues to outpace much of the country in population growth, and Atlanta—Southern Company's headquarters city—is the region's major economic growth engine. Our business strategy is based in the Southeast because it's the region we know best.

customer satisfaction

Our customers get star treatment. Just ask Okaloosa-Walton Community College in Niceville, Florida. When a construction error caused a campus-wide outage that put in doubt a weekend filled with major events, including a national touring theater performance, Gulf Power was called to the scene. The team restored power in time for the events to go on as scheduled.

The effort earned the Gulf Power team the Southern Company Presidential Award for Outstanding Customer Service. This is a dramatic example, for sure. But Southern Company people demonstrate that same commitment to customer service in hundreds of ways every day. Customer service excellence is the cornerstone of our business. It's behind everything we do.

That helps explain why we received the highest rating of any utility company in last year's American Customer Satisfaction Index. And why the Edison Electric Institute gave its prestigious Emergency Response Award to Alabama Power for restoring power quickly after a severe windstorm. The awards are a great honor; the continued confidence of our customers is even better.





The show goes on. Okaloosa-Walton Community College President James R. "Bob" Richburg had reason to smile after Gulf Power's performance. When construction workers accidentally cut a power line, an outage threatened a Friday evening performance of a national tour of the musical "Ragtime," a commissioning ceremony for a new ROTC unit, and a Fine Arts Center exhibition. But then Gulf Power put on its own show—getting power restored in time for all the events to go on as scheduled.

Producing savings. Tyson Foods Inc., the nation's largest meat producer, wanted to use energy more efficiently. We helped Tyson implement numerous energy-saving measures at many of its facilities. So while grower Rozier Wingate is working to raise Tyson chickens, we're working to lower Tyson's energy costs.



perfect solutions

Reliable doesn't mean dull. From innovative energy solutions to our fast-growth competitive energy business to new products and services, exciting things are going on at Southern Company beyond our core business.

Competitive generation is building a complementary growth engine for Southern Company, consistent with our goal of providing our investors with low risk. In fact, we're already growing earnings from this business ahead of forecasts. At the heart of this growth business is our commitment to be the world's best at constructing and operating generating plants. Our reputation for reliability is very attractive to wholesale customers, as evidenced by the new long-term wholesale power sales contracts we signed last year totaling 1,000 megawatts with 30 electric membership cooperatives in Georgia and 250 megawatts with

Alabama Electric Cooperative. In 2001, we put 430 megawatts of new competitive generation into commercial operation. Our schedule for 2002 includes an additional 1,706 megawatts of new gas-fired generation.

Everyone wants to use energy more efficiently. Southern Company Energy Solutions is helping companies such as Tyson Foods Inc. put a wide assortment of effective, energy-saving ideas to work. Our comprehensive energy plan resulted in Tyson reducing energy use by nearly 50 million kilowatt-hours a year.

We're rolling out more new products and services to our core market of 4 million retail customers. Our existing relationships provide a great opportunity to expand our business with them. We brought out several new offerings in 2001, and others are on the way in 2002.

employees with passion

Chuck Darville
Information Resources,
Southern Company Services

Calvin Jones
Nuclear Security Officer,
Southern Nuclear-Plant Vogtle

LaTanya Moore
Customer Service Representative,
Southern LINC

Tim Adam
Lineman, Mississippi Power

Cathy Walker
Customer Service Supervisor,
Georgia Power





Dan Diehl
Telecommunications Supervisor,
Southern LINC

Paula Marino
Planning and Engineering Services Manager,
Generation and Energy Marketing

Chris Alexander
Storekeeper, Gulf Power-Plant Smith

Lamar Owens
Meter Reader, Savannah Electric

Carol Mitchell
Administrative Assistant, Alabama Power

Outstanding people are the key ingredients that make sound strategies and world-class operations succeed. The people who work at Southern Company—more than 26,000 employees—give the company a unique competitive advantage. We bring a depth of skill and know-how to our jobs that is matched only by our commitment to customer service, shareholder value, and the communities where we live.

We're a big company, with many different kinds of people doing many different kinds of jobs. But always with one focus—meeting our commitments to our customers and shareholders. We expect a lot of ourselves. We're constantly raising the bar, with an emphasis on speed, teamwork, high performance, and

people development. Southern Company also is emphasizing diversity throughout the company, combining a respect for differences with wide-ranging initiatives to ensure all employees have fair and equal access to information on job opportunities, training, and development. Grass-roots input from employees was actively sought in developing the initiatives, and this input became an integral part of the resulting diversity actions.

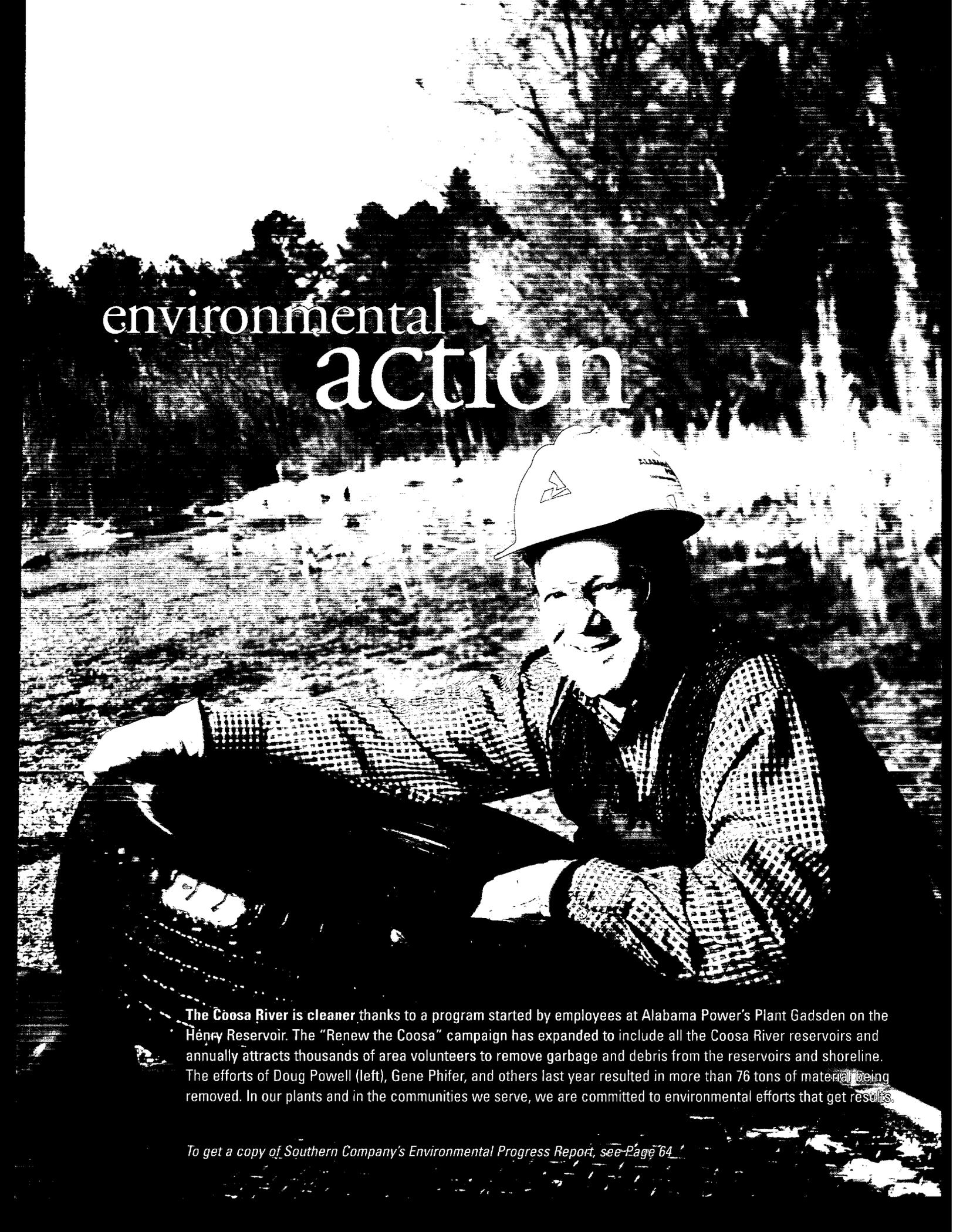
There are many things that make Southern Company special: quick restoration of power after a storm, power plants that run efficiently, courteous service when a customer calls, involvement in the communities we serve. These aren't things that companies do. These are things that people do.

Our responsibility as one of the country's largest producers of electricity is to have as little impact on the environment as possible and, where possible, to improve the environment. It is a commitment we must balance with our responsibility to meet the needs of those who rely on the energy and services we provide. We strive each day to keep that balance, and to find new solutions.

We're getting results. Emissions of sulfur dioxide and nitrogen oxides are down significantly since 1990. Over the next three years, we will further reduce emissions substantially at key facilities across our system. We have avoided or offset more than 40 million metric tons of carbon dioxide during the past 10 years and project additional offsets of up to 150 million metric tons by 2005.

Our environmental commitment encompasses the ongoing installation of state-of-the-art emissions controls at our generating plants; grass-roots projects to clean up rivers and land, managing more than 300,000 acres of land in the Southeast for recreational purposes, and promoting clean-air transportation such as electric vehicles. We also are a leader in research to produce energy more cleanly and efficiently. This includes work on advanced emission controls for existing power plants—such as the nation's first full-scale demonstration of mercury-control technology—and advanced technology for new plants at the Power Systems Development Facility, America's premier coal utilization research facility.





environmental action

The Coosa River is cleaner thanks to a program started by employees at Alabama Power's Plant Gadsden on the Henry Reservoir. The "Renew the Coosa" campaign has expanded to include all the Coosa River reservoirs and annually attracts thousands of area volunteers to remove garbage and debris from the reservoirs and shoreline. The efforts of Doug Powell (left), Gene Phifer, and others last year resulted in more than 76 tons of material being removed. In our plants and in the communities we serve, we are committed to environmental efforts that get results.

To get a copy of Southern Company's Environmental Progress Report, see Page 64.

MANAGEMENT'S REPORT

The management of Southern Company has prepared—and is responsible for—the consolidated financial statements and related information included in this report. These statements were prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts that are based on the best estimates and judgments of management. Financial information throughout this annual report is consistent with the financial statements.

The company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that the accounting records reflect only authorized transactions of the company. Limitations exist in any system of internal controls, however, based on a recognition that the cost of the system should not exceed its benefits. The company believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The company's system of internal accounting controls is evaluated on an ongoing basis by the company's internal audit staff. The company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The audit committee of the board of directors, composed of four independent directors, provides a broad overview of management's financial reporting and control functions.

Periodically, this committee meets with management, the internal auditors, and the independent public accountants to ensure that these groups are fulfilling their obligations and to discuss auditing, internal controls, and financial reporting matters. The internal auditors and independent public accountants have access to the members of the audit committee at any time.

Management believes that its policies and procedures provide reasonable assurance that the company's operations are conducted according to a high standard of business ethics.

In management's opinion, the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Southern Company and its subsidiary companies in conformity with accounting principles generally accepted in the United States.



H. Allen Franklin
Chairman, President, and Chief Executive Officer



Gale E. Klappa
Executive Vice President, Chief Financial Officer, and Treasurer
February 13, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Southern Company:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Southern Company (a Delaware corporation) and subsidiary companies as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by

management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements (pages 33-57) referred to above present fairly, in all material respects, the financial position of Southern Company and subsidiary companies as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the financial statements, effective January 1, 2001, Southern Company changed its method of accounting for derivative instruments and hedging activities.



Atlanta, Georgia
February 13, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Overview of Consolidated Earnings and Dividends

Earnings

Southern Company's basic earnings per share from continuing operations increased 6.6 percent in 2001. This increase was achieved by cost containment and lower interest rates despite the mild temperatures and the economic downturn. Basic earnings per share from continuing operations were \$1.62 in 2001 compared with \$1.52 in 2000. Dilution—which factors in additional shares related to stock options—decreased earnings per share by 1 cent in 2001 and had no impact in 2000.

In April 2000, Southern Company announced an initial public offering of up to 19.9 percent of Mirant Corporation—formerly Southern Energy, Inc.—and intentions to spin off its remaining ownership of 272 million Mirant shares. On April 2, 2001, the tax-free distribution of Mirant shares was completed at a ratio of approximately 0.4 for every share of Southern Company common stock.

As a result of the spin off, Southern Company's financial statements and related information reflect Mirant as discontinued operations. Therefore, the focus of Management's Discussion and Analysis is on Southern Company's continuing operations. The following chart shows earnings from continuing and discontinued operations:

(in millions)	Consolidated Net Income		Basic Earnings Per Share	
	2001	2000	2001	2000
Earnings from—				
Continuing operations	\$1,120	\$ 994	\$1.62	\$1.52
Discontinued operations	142	319	0.21	0.49
Total earnings	\$1,262	\$1,313	\$1.83	\$2.01

Dividends

Southern Company has paid dividends on its common stock since 1948. Dividends paid on common stock in 2001 and 2000 were \$1.34 per share or 33½ cents per quarter. In January 2002, Southern Company declared a quarterly dividend of 33½ cents per share. This is the 217th consecutive quarter that Southern Company has paid a dividend equal to or higher than the previous quarter. Our dividend payout ratio goal is 75 percent.

Southern Company Business Activities

Discussion of the results of continuing operations is focused on Southern Company's primary business of electricity sales by the operating companies—Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric—and Southern Power. Southern Power is a new electric wholesale

generation subsidiary with market-based rates. The remaining portion of Southern Company's other business activities include telecommunications, energy products and services, leveraged leasing activities, and the parent holding company. The net impact of these other business activities on the consolidated results of operations is not significant. See Note 12 to the financial statements for additional information.

Electricity Business

Southern Company's electric utilities generate and sell electricity to retail and wholesale customers in the Southeast. A condensed income statement for these six companies is as follows:

(in millions)	Amount 2001	Increase (Decrease) From Prior Year	
		2001	2000
Operating revenues	\$9,906	\$ 46	\$735
Fuel	2,577	13	236
Purchased power	718	41	268
Other operation and maintenance	2,489	19	40
Depreciation and amortization	1,144	9	89
Taxes other than income taxes	533	1	11
Total operating expenses	7,461	83	644
Operating income	2,445	(37)	91
Other income, net	15	51	2
Earnings before interest and taxes	2,460	14	93
Interest expenses and other, net	609	(25)	29
Income taxes	702	(1)	28
Net income	\$1,149	\$ 40	\$ 36

Revenues

Operating revenues for the core business of selling electricity in 2001 and the amount of change from the prior year are as follows:

(in millions)	Amount 2001	Increase (Decrease) From Prior Year	
		2001	2000
Retail—			
Base revenues	\$5,921	\$ (93)	\$174
Fuel cost recovery and other	2,519	(67)	336
Total retail	8,440	(160)	510
Sales for resale—			
Within service area	338	(39)	27
Outside service area	836	236	127
Total sales for resale	1,174	197	154
Other operating revenues	292	9	71
Operating revenues	\$9,906	\$ 46	\$735
Percent change		0.5%	8.1%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Base revenues declined by \$93 million in 2001 because of mild temperatures and the economic downturn. Total base revenues of \$6.0 billion in 2000 increased as a result of continued customer growth in the service area and the positive impact of weather on energy sales.

Electric rates—for the operating companies—include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. Under these fuel cost recovery provisions, fuel revenues generally equal fuel expenses—including the fuel component of purchased energy—and do not affect net income. However, cash flow is affected by the economic loss from untimely recovery of these receivables.

Sales for resale revenues within the service area were \$338 million in 2001, down 10.2 percent from the prior year. This sharp decline resulted primarily from the mild weather experienced in the Southeast during 2001, which significantly reduced energy requirements from these customers. Sales for resale within the service area for 2000 were up from the prior year as a result of additional demand for electricity during the hot summer.

Revenues from energy sales for resale outside the service area have increased sharply the past two years with a 39 percent and 27 percent increase in 2001 and 2000, respectively. This growth was primarily driven by new contracts. As Southern Company increases its competitive wholesale generation business, sales for resale outside the service area should reflect steady increases over the near term. Recent wholesale contracts have shorter contract periods, and many are market priced compared with the traditional cost-based contracts entered into in the 1980s. Those long-term cost-based contracts are principally unit power sales to Florida utilities. Revenues from long-term unit power contracts have both capacity and energy components. Capacity revenues reflect the recovery of fixed costs and a return on investment under the contracts. Energy is generally sold at variable cost. The capacity and energy components of the unit power contracts were as follows:

<i>(in millions)</i>	2001	2000	1999
Capacity	\$170	\$177	\$174
Energy	201	178	157
Total	\$371	\$355	\$331

Capacity revenues in 2001 and 2000 varied slightly compared with the prior year as a result of adjustments and true-ups

related to contractual pricing. No significant declines in the amount of capacity are scheduled until the termination of the contracts in 2010.

Energy Sales

Changes in revenues are influenced heavily by the amount of energy sold each year. Kilowatt-hour sales for 2001 and the percent change by year were as follows:

<i>(billions of kilowatt-hours)</i>	Amount	Percent Change		
	2001	2001	2000	1999
Residential	44.5	(3.6)%	6.5%	(0.2)%
Commercial	46.9	1.5	6.6	4.0
Industrial	52.9	(6.8)	1.0	1.6
Other	1.0	0.7	2.7	1.6
Total retail	145.3	(3.2)	4.3	1.7
Sales for resale—				
Within service area	9.4	(2.0)	1.5	(4.1)
Outside service area	21.4	24.4	33.0	(0.4)
Total	176.1	(0.5)	6.4	1.2

Although the number of residential customers increased 43,000 in 2001, retail energy sales registered a 3.2 percent decline. This is the first decrease since 1982. Reduced retail sales in 2001 were driven by extremely mild weather and the sluggish economy, which severely impacted industrial sales. In 2000, the rate of growth in total retail energy sales was very strong. Residential energy sales reflected a substantial increase as a result of the hotter-than-normal summer weather and the increase in customers served. Also in 2000, commercial sales continued to reflect the strong economy in the Southeast. Energy sales to retail customers are projected to increase at an average annual rate of 1.8 percent during the period 2002 through 2012.

Sales to customers outside the service area under long-term contracts for unit power sales increased 2.7 percent in 2001 and increased 21 percent in 2000. These changes in sales were influenced by weather—discussed earlier—and fluctuations in prices for oil and natural gas. These are the primary fuel sources for utilities with which the company has long-term contracts. However, these fluctuations in energy sales under long-term contracts have minimal effects on earnings because the energy is generally sold at variable cost.

Expenses

In 2001, operating expenses of \$7.5 billion increased only \$83 million compared with the prior year. The moderate increase

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

reflected flat energy sales and tighter cost containment measures. The costs to produce electricity for the core business in 2001 increased \$96 million. However, non-production operation and maintenance declined by \$23 million.

In 2000, operating expenses of \$7.4 billion increased \$644 million compared with the prior year. The costs to produce electricity in 2000 increased by \$498 million to meet higher energy requirements. Non-production operation and maintenance expenses increased \$46 million in 2000. Depreciation and amortization expenses in 2000 increased \$89 million, of which \$50 million resulted from additional accelerated amortization by Georgia Power.

Fuel costs constitute the single largest expense for the six electric utilities. The mix of fuel sources for generation of electricity is determined primarily by system load, the unit cost of fuel consumed, and the availability of hydro and nuclear generating units. The amount and sources of generation and the average cost of fuel per net kilowatt-hour generated – within the service area – were as follows:

	2001	2000	1999
Total generation (billions of kilowatt-hours)	174	174	165
Sources of generation (percent)–			
Coal	72	78	78
Nuclear	16	16	17
Oil and gas	9	4	3
Hydro	3	2	2
Average cost of fuel per net kilowatt-hour generated (cents)–	1.56	1.51	1.45

In 2001, fuel and purchased power costs of \$3.3 billion increased \$54 million. Continued efforts to control energy costs combined with additional efficient gas-fired generating units helped to hold the increase in fuel expense to \$13 million in 2001.

Total fuel and purchased power costs increased \$504 million in 2000 as a result of 10.6 billion more kilowatt-hours being sold than in 1999. Demand was met with some 2.5 billion additional kilowatt-hours being purchased and using generation with higher unit fuel cost than in 1999.

Total interest charges and other financing costs in 2001 decreased \$25 million from amounts reported in the previous year. The decline reflected substantially lower short-term interest rates that offset new financing costs. Total interest charges and other financing costs in 2000 increased \$29 million reflecting some additional external financing for new generating units.

Effects of Inflation

The operating companies are subject to rate regulation and income tax laws that are based on the recovery of historical costs. Therefore, inflation creates an economic loss because the company is recovering its costs of investments in dollars that have less purchasing power. While the inflation rate has been relatively low in recent years, it continues to have an adverse effect on Southern Company because of the large investment in utility plant with long economic lives. Conventional accounting for historical cost does not recognize this economic loss nor the partially offsetting gain that arises through financing facilities with fixed-money obligations such as long-term debt and preferred securities. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed.

Future Earnings Potential

General

The results of continuing operations for the past three years are not necessarily indicative of future earnings potential. The level of Southern Company's future earnings depends on numerous factors. The two major factors are the ability of the operating companies to achieve energy sales growth while containing cost in a more competitive environment and the profitability of the new competitive market-based wholesale generating facilities being added.

Future earnings for the electricity business in the near term will depend upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, new short and long-term contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the service area.

The operating companies operate as vertically integrated companies providing electricity to customers within the service area of the southeastern United States. Prices for electricity provided to retail customers are set by state public service commissions under cost-based regulatory principles. Retail rates and earnings are reviewed and adjusted periodically within certain limitations based on earned return on equity. See Note 3 to the financial statements for additional information about these and other regulatory matters.

In accordance with Financial Accounting Standards Board (FASB) Statement No. 87, Employers' Accounting for Pensions, Southern Company recorded non-cash income of approximately \$124 million in 2001. Future pension income is dependent on several factors including trust earnings and changes to the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

plan. For the operating companies, pension income is a component of the regulated rates and does not have a significant effect on net income. For more information, see Note 2 to the financial statements.

Southern Company currently receives tax benefits related to investments in alternative fuel partnerships and leveraged lease agreements for energy generation, distribution, and transportation assets that contribute significantly to the economic results for these projects. Changes in Internal Revenue Service interpretations of existing regulations or challenges to the company's positions could result in reduced availability or changes in the timing of such tax benefits. The net income impact of these investments totaled \$52 million, \$28 million, and \$11 million in 2001, 2000, and 1999, respectively. See Note 1 to the financial statements under "Leveraged Leases" and Note 6 for additional information and related income taxes.

Southern Company is involved in various matters being litigated. See Note 3 to the financial statements for information regarding material issues that could possibly affect future earnings.

Compliance costs related to current and future environmental laws and regulations could affect earnings if such costs are not fully recovered. The Clean Air Act and other important environmental items are discussed later under "Environmental Matters."

Industry Restructuring

The electric utility industry in the United States is continuing to evolve as a result of regulatory and competitive factors. Among the primary agents of change has been the Energy Policy Act of 1992 (Energy Act). The Energy Act allows independent power producers (IPPs) to access a utility's transmission network in order to sell electricity to other utilities. This enhances the incentive for IPPs to build cogeneration plants for a utility's large industrial and commercial customers and sell energy generation to other utilities. Also, electricity sales for resale rates are affected by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers.

Although the Energy Act does not permit retail customer access, it has been a major catalyst for recent restructuring and consolidations taking place within the utility industry. Numerous federal and state initiatives are in varying stages that promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their elec-

tricity provider. Some states have approved initiatives that result in a separation of the ownership and/or operation of generating facilities from the ownership and/or operation of transmission and distribution facilities. While various restructuring and competition initiatives have been discussed in Alabama, Florida, Georgia, and Mississippi, none have been enacted. Enactment would require numerous issues to be resolved, including significant ones relating to recovery of any stranded investments, full cost recovery of energy produced, and other issues related to the energy crisis that occurred in California. As a result of that crisis, many states have either discontinued or delayed implementation of initiatives involving retail deregulation.

Continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, if Southern Company's electric utilities do not remain low-cost producers and provide quality service, then energy sales growth could be limited, and this could significantly erode earnings.

To adapt to a less regulated, more competitive environment, Southern Company continues to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, acquisitions involving other utility or non-utility businesses or properties, internal restructuring, disposition of certain assets, or some combination thereof. Furthermore, Southern Company may engage in new business ventures that arise from competitive and regulatory changes in the utility industry. Pursuit of any of the above strategies, or any combination thereof, may significantly affect the business operations and financial condition of Southern Company.

The Energy Act amended the Public Utility Holding Company Act of 1935 (PUHCA) to allow holding companies to form exempt wholesale generators and foreign utilities to sell power largely free from regulation under PUHCA. These entities are able to own and operate power generating facilities and sell power to affiliates—under certain restrictions.

Southern Company is working to maintain and expand its share of wholesale energy sales in the Southeastern power markets. In January 2001, Southern Company formed a new subsidiary—Southern Power Company. This subsidiary constructs, owns, and manages wholesale generating assets in the Southeast. Southern Power will be the primary growth engine for Southern Company's competitive wholesale market-based energy business. By the end of 2003, Southern Power plans to have approximately 4,700 megawatts of generating capacity in commercial operation. At December 31, 2001, 800 megawatts are in commercial operation and some 3,900 megawatts of capacity are under construction.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In December 1999, the Federal Energy Regulatory Commission (FERC) issued its final rule on Regional Transmission Organizations (RTOs). The order encouraged utilities owning transmission systems to form RTOs on a voluntary basis. Southern Company has submitted a series of status reports informing the FERC of progress toward the development of a Southeastern RTO. In these status reports, Southern Company explained that it is developing a for-profit RTO known as SeTrans with a number of non-jurisdictional cooperative and public power entities. Recently, Entergy Corporation and Cleco Power joined the SeTrans development process. In January 2002, the sponsors of SeTrans held a public meeting to form a Stakeholder Advisory Committee, which will participate in the development of the RTO. Southern Company continues to work with the other sponsors to develop the SeTrans RTO. The creation of SeTrans is not expected to have a material impact on Southern Company's financial statements. The outcome of this matter cannot now be determined.

Accounting Policies

Critical Policy

Southern Company's significant accounting policies are described in Note 1 to the financial statements. The company's most critical accounting policy involves rate regulation. The operating companies are subject to the provisions of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. In the event that a portion of a company's operations is no longer subject to these provisions, the company would be required to write off related regulatory assets and liabilities that are not specifically recoverable and determine if any other assets have been impaired. See Note 1 to the financial statements under "Regulatory Assets and Liabilities" for additional information.

New Accounting Standards

Effective January 2001, Southern Company adopted FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. Statement No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. This statement requires that certain derivative instruments be recorded in the balance sheet as either an asset or liability measured at fair value and that changes in the fair value be recognized currently in earnings unless specific hedge accounting criteria are met. See Note 1 to the financial statements under "Financial Instruments" for additional information. The impact on net income in 2001 was not material. An additional interpretation of Statement No. 133 will result in a change—effective April 1, 2002—in accounting

for certain contracts related to fuel supplies that contain quantity options. These contracts will be accounted for as derivatives and marked to market. However, due to the existence of specific cost-based fuel recovery clauses for the operating companies, this change is not expected to have a material impact on net income.

In June 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets, which establishes new accounting and reporting standards for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17. Statement No. 142 addresses how intangible assets that are acquired individually or with a group of other assets—but not those acquired in a business combination—should be accounted for upon acquisition and on an ongoing basis. Goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, which are no longer limited to 40 years. Southern Company adopted Statement No. 142 in January 2002 with no material impact on the financial statements.

Also in June 2001, the FASB issued Statement No. 143, Asset Retirement Obligations, which establishes new accounting and reporting standards for legal obligations associated with retiring assets, including decommissioning of nuclear plants. The liability for an asset's future retirement must be recorded in the period in which the liability is incurred. The cost must be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. Changes in the liability resulting from the passage of time will be recognized as operating expenses. Statement No. 143 must be adopted by January 1, 2003. Southern Company has not yet quantified the impact of adopting Statement No. 143 on its financial statements.

FINANCIAL CONDITION

Overview

Southern Company's financial condition continues to remain strong. In 2001, most of the operating companies' earnings were at the high end of their respective allowed range of return on equity. Also, earnings from new business activities made a solid contribution. These factors drove consolidated net income from continuing operations to a record \$1.12 billion in 2001. The quarterly dividend declared in January 2002 was 33½ cents per share, or \$1.34 on an annual basis. Southern Company is committed to a goal of increasing the dividend over time consistent with growth in earnings. Southern Company's target is to grow

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

earnings per share at an average annual rate of 5 percent or more. The dividend payout ratio goal is 75 percent.

Gross property additions to utility plant from continuing operations were \$2.6 billion in 2001. The majority of funds needed for gross property additions since 1998 has been provided from operating activities. The *Consolidated Statements of Cash Flows* provide additional details.

Off-Balance Sheet Financing Arrangements

At December 31, 2001, Southern Company utilized two separate financing arrangements that are not required to be recorded on the balance sheet. In May 2001, Mississippi Power began the initial 10-year term of an operating lease agreement signed in 1999 with Escatawpa Funding, Limited Partnership, a special purpose entity, to use a combined-cycle generating facility located at Mississippi Power's Plant Daniel. The facility cost approximately \$370 million. The lease provides for a residual value guarantee—approximately 71 percent of the completion cost—by Mississippi Power that is due upon termination of the lease in certain circumstances. See Note 9 to the financial statements under "Operating Leases" for additional information regarding this lease.

Southern Power in 2001 entered into a financial arrangement with Westdeutsche Landesbank Girozentrale (WestLB) that is in effect until September 2002. Under this agreement, Southern Power may assign up to \$125 million in vendor contracts for equipment to WestLB. For accounting purposes, WestLB is the owner of the contracts. Southern Power acts as an agent for WestLB and instructs WestLB when to make payments to the vendors. At December 31, 2001, approximately \$47 million of such vendor equipment contracts had been assigned to WestLB. Southern Power currently anticipates terminating this arrangement and reacquiring these assets in the first quarter of 2002.

Credit Rating Risk

Southern Company and its subsidiaries do not have any credit agreements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are contracts that could require collateral—but not accelerated payment—in the event of a credit rating change to below investment grade. These contracts are primarily for physical electricity sales, fixed-price physical gas purchases,

and agreements covering interest rate swaps and currency swaps. At December 31, 2001, the maximum potential collateral requirements under the electricity sale contracts were approximately \$230 million. Generally, collateral may be provided for by a Southern Company guaranty, a letter of credit, or cash. At December 31, 2001, there were no material collateral requirements for the gas purchase contracts or other financial instrument agreements.

Market Price Risk

Southern Company is exposed to market risks, including changes in interest rates, currency exchange rates, and certain commodity prices. To manage the volatility attributable to these exposures, the company nets the exposures to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the company's policies in areas such as counterparty exposure and hedging practices. Company policy is that derivatives are to be used primarily for hedging purposes. Derivative positions are monitored using techniques that include market valuation and sensitivity analysis.

The company's market risk exposures relative to interest rate changes have not changed materially compared with the previous reporting period. In addition, the company is not aware of any facts or circumstances that would significantly affect such exposures in the near term.

If the company sustained a 100 basis point change in interest rates for all variable rate long-term debt, the change would affect annualized interest expense by approximately \$22 million at December 31, 2001. Based on the company's overall interest rate exposure at December 31, 2001, including derivative and other interest rate sensitive instruments, a near-term 100 basis point change in interest rates would not materially affect the consolidated financial statements.

Due to cost-based rate regulations, the operating companies have limited exposure to market volatility in interest rates, commodity fuel prices, and prices of electricity. To mitigate residual risks relative to movements in electricity prices for the operating companies, they and Southern Power enter into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market and to a lesser extent similar contracts for gas purchases. Also, some of the operating companies have implemented fuel-hedging programs at the instruction of their respective public service commissions. Realized gains and losses are recognized in the income statement as incurred. At December 31, 2001, exposure from these

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

activities was not material to the consolidated financial statements. Fair value of changes in energy trading contracts and year-end valuations are as follows:

<i>(in millions)</i>	Changes During the Year	
	Fair Value	
Contracts beginning of year	\$ 1.7	
Contracts realized or settled	(1.4)	
New contracts	–	
Changes in valuation techniques	–	
Current period changes	1.0	
Contracts end of year	\$ 1.3	

<i>(in millions)</i>	Source of Year-End Valuation Prices		
	Total Fair Value	Maturity	
		Year 1	1-3 Years
Actively quoted	\$(3.8)	\$(5.1)	\$1.3
External sources	5.1	5.1	–
Models and other methods	–	–	–
Contracts end of year	\$ 1.3	\$ –	\$1.3

For additional information, see Note 1 to the financial statements under "Financial Instruments."

Capital Structure

During 2001, the operating companies issued \$1.2 billion of senior notes. The majority of these proceeds was used to retire long-term debt. The companies continued to reduce financing costs by retiring higher-cost securities. Retirements of bonds and senior notes, including maturities, totaled \$1.2 billion in 2001, \$298 million during 2000, and \$1.2 billion during 1999.

Southern Company issued through the company's stock plans 17 million treasury shares of common stock in 2001. Proceeds were \$395 million and were primarily used to reduce short-term debt. At December 31, 2001, approximately 2 million treasury shares remain unissued.

At the close of 2001, the company's common stock market value was \$25.35 per share, compared with book value of \$11.44 per share. The market-to-book value ratio was 222 percent at the end of 2001, compared with 212 percent at year-end 2000.

Capital Requirements for Construction

The construction program of Southern Company is budgeted at \$2.8 billion for 2002, \$2.1 billion for 2003, and \$2.3 billion for 2004. Actual construction costs may vary from this estimate because

of changes in such factors as: business conditions; environmental regulations; nuclear plant regulations; load projections; the cost and efficiency of construction labor, equipment, and materials; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Southern Company has approximately 4,500 megawatts of new generating capacity scheduled to be placed in service by 2003. Approximately 3,900 megawatts of additional new capacity will be dedicated to the wholesale market and owned by Southern Power. Significant construction of transmission and distribution facilities and upgrading of generating plants will be continuing.

Other Capital Requirements

In addition to the funds needed for the construction program, approximately \$2.4 billion will be required by the end of 2004 for present improvement fund requirements and maturities of long-term debt. Also, the subsidiaries will continue to retire higher-cost debt and preferred stock and replace these obligations with lower-cost capital if market conditions permit.

These capital requirements, lease obligations, and purchase commitments—discussed in Notes 8 and 9 to the financial statements—are as follows:

<i>(in millions)</i>	2002	2003	2004
Bonds—			
First mortgage	\$ 7	\$ –	\$ –
Pollution control	8	–	–
Notes	410	1,072	890
Leases—			
Capital	4	4	4
Operating	74	71	70
Purchase commitments—			
Fuel	2,399	2,185	1,541
Purchased power	97	100	95

At the beginning of 2002, Southern Company had used \$293 million of its available credit arrangements. Credit arrangements are as follows:

<i>(in millions)</i>	Total	Unused	Expires	
			2002	2003 & Beyond
	\$5,423	\$5,130	\$3,658	\$1,472

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Environmental Matters

On November 3, 1999, the Environmental Protection Agency (EPA) brought a civil action in the U.S. District Court in Georgia against Alabama Power, Georgia Power, and the system service company. The complaint alleges violations of the New Source Review provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia. The civil action requests penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The EPA concurrently issued to the operating companies a notice of violation related to 10 generating facilities, which includes the five facilities mentioned previously. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notice of violation, and to add Gulf Power, Mississippi Power, and Savannah Electric as defendants. The complaint and notice of violation are similar to those brought against and issued to several other electric utilities. These complaints and notices of violation allege that the utilities failed to secure necessary permits or install additional pollution control equipment when performing maintenance and construction at coal burning plants constructed or under construction prior to 1978. The U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction in Georgia and granted the system service company's motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. The court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add Gulf Power and Mississippi Power based on lack of jurisdiction over those companies. The court directed the EPA to refile its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. The EPA refiled those claims as directed by the court. Also, the EPA refiled its claims against Alabama Power in U.S. District Court in Alabama. It has not refiled against Gulf Power, Mississippi Power, or the system service company. The Alabama Power, Georgia Power, and Savannah Electric cases have been stayed since the spring of 2001, pending a ruling by the U.S. Court of Appeals for the Eleventh Circuit in the appeal of a very similar New Source Review enforcement action against the Tennessee Valley Authority (TVA). The TVA case involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the outcome of the TVA case could have a significant adverse impact on Alabama Power and Georgia Power, both companies are parties to that case as well. The U.S. District Court in Alabama has indicated that it will revisit the issue of a continued stay in April 2002.

The U.S. District Court in Georgia is currently considering a motion by the EPA to reopen the Georgia case. Georgia Power and Savannah Electric have opposed that motion.

Southern Company believes that its operating companies complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. The Clean Air Act authorizes civil penalties of up to \$27,500 per day per violation at each generating unit. Prior to January 30, 1997, the penalty was \$25,000 per day. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

In November 1990, the Clean Air Act Amendments of 1990 (Clean Air Act) were signed into law. Title IV of the Clean Air Act—the acid rain compliance provision of the law—significantly affected Southern Company. Reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants were required in two phases. Phase I compliance began in 1995. Southern Company achieved Phase I compliance at its affected plants by primarily switching to low-sulfur coal and with some equipment upgrades. Construction expenditures for Phase I nitrogen oxide and sulfur dioxide emissions compliance totaled approximately \$300 million. Phase II sulfur dioxide compliance was required in 2000. Southern Company used emission allowances and fuel switching to comply with Phase II requirements. Also, equipment to control nitrogen oxide emissions was installed on additional system fossil-fired units as necessary to meet Phase II limits and ozone non-attainment requirements for metropolitan Atlanta through 2000. Compliance for Phase II and initial ozone non-attainment requirements increased total construction expenditures through 2000 by approximately \$100 million.

Respective state plans to address the one-hour ozone non-attainment standards for the Atlanta and Birmingham areas have been established and must be implemented in May 2003. Seven generating plants in the Atlanta area and two plants in the Birmingham area will be affected. Construction expenditures for compliance with these new rules are currently estimated at approximately \$940 million, of which \$520 million remains to be spent.

A significant portion of costs related to the acid rain and ozone non-attainment provisions of the Clean Air Act is expected to be recovered through existing ratemaking provisions. However, there can be no assurance that all Clean Air Act costs will be recovered.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In July 1997, the EPA revised the national ambient air quality standards for ozone and particulate matter. This revision made the standards significantly more stringent. In the subsequent litigation of these standards, the U.S. Supreme Court found the EPA's implementation program for the new ozone standard unlawful and remanded it to the EPA. In addition, the Federal District of Columbia Circuit Court of Appeals is considering other legal challenges to these standards. A court decision is expected in the spring of 2002. If the standards are eventually upheld, implementation could be required by 2007 to 2010.

In September 1998, the EPA issued regional nitrogen oxide reduction rules to the states for implementation. The final rule affects 21 states, including Alabama and Georgia. Compliance is required by May 31, 2004, for most states, including Alabama. For Georgia, further rulemaking was required, and proposed compliance was delayed until May 1, 2005. Additional construction expenditures for compliance with these new rules are currently estimated at approximately \$190 million.

In December 2000, having completed its utility studies for mercury and other hazardous air pollutants (HAPS), the EPA issued a determination that an emission control program for mercury and, perhaps, other HAPS is warranted. The program is being developed under the Maximum Achievable Control Technology provisions of the Clean Air Act, and the regulations are scheduled to be finalized by the end of 2004 with implementation to take place around 2007. In January 2001, the EPA proposed guidance for the determination of Best Available Retrofit Technology (BART) emission controls under the Regional Haze Regulations. Installation of BART controls is expected to take place around 2010. Litigation of the Regional Haze Regulations, including the BART provisions, is ongoing in the Federal District of Columbia Circuit Court of Appeals. A court decision is expected in mid-2002.

Implementation of the final state rules for these initiatives could require substantial further reductions in nitrogen oxide and sulfur dioxide and reductions in mercury and other HAPS emissions from fossil-fired generating facilities and other industries in these states. Additional compliance costs and capital expenditures resulting from the implementation of these rules and standards cannot be determined until the results of legal challenges are known, and the states have adopted their final rules.

In October 1997, the EPA issued regulations setting forth requirements for Compliance Assurance Monitoring in its state and federal operating permit programs. These regulations were amended by the EPA in March 2001 in response to a court order resolving challenges to the rules brought by environmental groups and the utility industry. Generally, this rule affects the

operation and maintenance of electrostatic precipitators and could involve significant additional ongoing expense.

The EPA and state environmental regulatory agencies are reviewing and evaluating various other matters including: control strategies to reduce regional haze; limits on pollutant discharges to impaired waters; cooling water intake restrictions; and hazardous waste disposal requirements. The impact of any new standards will depend on the development and implementation of applicable regulations.

Southern Company must comply with other environmental laws and regulations that cover the handling and disposal of hazardous waste. Under these various laws and regulations, the subsidiaries could incur substantial costs to clean up properties. The subsidiaries conduct studies to determine the extent of any required cleanup and have recognized in their respective financial statements costs to clean up known sites. These costs for Southern Company amounted to \$1 million in 2001 and \$4 million in both 2000 and 1999. Additional sites may require environmental remediation for which the subsidiaries may be liable for a portion or all required cleanup costs. See Note 3 to the financial statements for information regarding Georgia Power's potentially responsible party status at sites in Georgia.

Several major pieces of environmental legislation are periodically considered for reauthorization or amendment by Congress. These include: the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Toxic Substances Control Act; and the Endangered Species Act. Changes to these laws could affect many areas of Southern Company's operations. The full impact of any such changes cannot be determined at this time.

Compliance with possible additional legislation related to global climate change, electromagnetic fields, and other environmental and health concerns could significantly affect Southern Company. The impact of new legislation—if any—will depend on the subsequent development and implementation of applicable regulations. In addition, the potential exists for liability as the result of lawsuits alleging damages caused by electromagnetic fields.

Sources of Capital

The amount and timing of additional equity capital to be raised in 2002—as well as in subsequent years—will be contingent on Southern Company's investment opportunities. Equity capital can be provided from any combination of public offerings, private placements, or the company's stock plans.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The operating companies plan to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from internal sources. However, the type and timing of any financings—if needed—will depend on market conditions and regulatory approval. In recent years, financings primarily have utilized unsecured debt and trust preferred securities.

Southern Power will use both external funds and equity capital from Southern Company to finance its construction program.

To meet short-term cash needs and contingencies, Southern Company had at the beginning of 2002 approximately \$354 million of cash and cash equivalents and \$5.1 billion of unused credit arrangements with banks.

Cautionary Statement Regarding

Forward-Looking Information

Southern Company's 2001 Annual Report includes forward-looking statements in addition to historical information. Forward-looking information includes, among other things, statements concerning the strategic goals for Southern Company's new wholesale business and also Southern Company's goals for dividend payout ratio, earnings per share, and earnings growth. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other comparable terminology. Southern Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include the impact of recent and future federal and state regulatory change,

including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, and also changes in environmental and other laws and regulations to which Southern Company and its subsidiaries are subject, as well as changes in application of existing laws and regulations; current and future litigation, including the pending EPA civil action against certain Southern Company subsidiaries and the race discrimination litigation against certain Southern Company subsidiaries; the effects, extent, and timing of the entry of additional competition in the markets in which Southern Company's subsidiaries operate; the impact of fluctuations in commodity prices, interest rates, and customer demand; state and federal rate regulations; political, legal, and economic conditions and developments in the United States; the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities; internal restructuring or other restructuring options that may be pursued; potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to Southern Company or its subsidiaries; the effects of, and changes in, economic conditions in the areas in which Southern Company's subsidiaries operate; the direct or indirect effects on Southern Company's business resulting from the terrorist incidents on September 11, 2001, or any similar such incidents or responses to such incidents; financial market conditions and the results of financing efforts; the timing and acceptance of Southern Company's new product and service offerings; the ability of Southern Company to obtain additional generating capacity at competitive prices; weather and other natural phenomena; and other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed from time to time by Southern Company with the Securities and Exchange Commission.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

<i>in millions)</i>	2001	2000	1999
Operating Revenues:			
Retail sales	\$ 8,440	\$ 8,600	\$8,090
Sales for resale	1,174	977	823
Other revenues	541	489	404
Total operating revenues	10,155	10,066	9,317
Operating Expenses:			
Fuel	2,577	2,564	2,328
Purchased power	718	677	409
Other operations	1,852	1,861	1,838
Maintenance	909	852	829
Depreciation and amortization	1,173	1,171	1,139
Taxes other than income taxes	535	536	523
Total operating expenses	7,764	7,661	7,066
Operating income	2,391	2,405	2,251
Other income:			
Interest income	27	29	30
Other, net	3	(21)	(45)
Earnings From Continuing Operations Before Interest and Income Taxes	2,421	2,413	2,236
Interest and Other:			
Interest expense, net	557	643	527
Distributions on capital and preferred securities of subsidiaries	169	169	175
Preferred dividends of subsidiaries	18	19	20
Total interest and other	744	831	722
Earnings From Continuing Operations Before Income Taxes	1,677	1,582	1,514
Income taxes	558	588	599
Earnings From Continuing Operations Before Cumulative Effect of Accounting Change	1,119	994	915
Cumulative effect of accounting change – less income taxes of less than \$1	1	–	–
Earnings From Continuing Operations	1,120	994	915
Earnings from discontinued operations, net of income taxes of \$93, \$86, and \$127 for 2001, 2000, and 1999, respectively	142	319	361
Consolidated Net Income	\$ 1,262	\$ 1,313	\$1,276
Common Stock Data:			
Earnings per share from continuing operations –			
Basic	\$1.62	\$1.52	\$1.33
Diluted	1.61	1.52	1.33
Earnings per share including discontinued operations –			
Basic	\$1.83	\$2.01	\$1.86
Diluted	1.82	2.01	1.86
Average number of shares of common stock outstanding – <i>(in millions)</i>			
Basic	689	653	685
Diluted	694	654	686
Cash dividends paid per share of common stock	\$1.34	\$1.34	\$1.34

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2001 AND 2000

Assets (in millions)	2001	2000
Current Assets:		
Cash and cash equivalents	\$ 354	\$ 199
Special deposits	23	6
Receivables, less accumulated provisions for uncollectible accounts of \$24 in 2001 and \$22 in 2000	1,132	1,312
Under recovered retail fuel clause revenue	280	418
Fossil fuel stock, at average cost	394	195
Materials and supplies, at average cost	550	507
Other	223	188
Total current assets	2,956	2,825
Property, Plant, and Equipment:		
In service	35,813	34,188
Less accumulated depreciation	15,020	14,350
	20,793	19,838
Nuclear fuel, at amortized cost	202	215
Construction work in progress	2,089	1,569
Total property, plant, and equipment	23,084	21,622
Other Property and Investments:		
Nuclear decommissioning trusts, at fair value	682	690
Net assets of discontinued operations	-	3,320
Leveraged leases	655	596
Other	193	161
Total other property and investments	1,530	4,767
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	924	957
Prepaid pension costs	547	398
Debt expense, being amortized	103	99
Premium on reacquired debt, being amortized	280	280
Other	400	312
Total deferred charges and other assets	2,254	2,046
Total Assets	\$29,824	\$31,260

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED BALANCE SHEETS (CONTINUED) AT DECEMBER 31, 2001 AND 2000

Liabilities and Stockholders' Equity <i>(in millions)</i>	2001	2000
Current Liabilities:		
Securities due within one year	\$ 429	\$ 67
Notes payable	1,902	1,680
Accounts payable	847	869
Customer deposits	153	140
Taxes accrued –		
Income taxes	160	88
Other	193	208
Interest accrued	118	121
Vacation pay accrued	125	119
Other	445	426
Total current liabilities	4,372	3,718
Long-term debt (See accompanying statements)	8,297	7,843
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,088	4,074
Deferred credits related to income taxes	500	551
Accumulated deferred investment tax credits	634	664
Employee benefits provisions	450	401
Prepaid capacity revenues	41	58
Other	814	647
Total deferred credits and other liabilities	6,527	6,395
Company or subsidiary obligated mandatorily redeemable capital and preferred securities (See accompanying statements)	2,276	2,246
Cumulative preferred stock of subsidiaries (See accompanying statements)	368	368
Common stockholders' equity (See accompanying statements)	7,984	10,690
Total Liabilities and Stockholders' Equity	\$29,824	\$31,260
Commitments and Contingent Matters (Notes 1, 2, 3, 5, 8, 9, and 10)		

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF CAPITALIZATION AT DECEMBER 31, 2001 AND 2000

<i>(in millions)</i>	2001	2000	<i>(percent of total)</i>	
			2001	2000
Long-Term Debt of Subsidiaries:				
First mortgage bonds—				
<u>Maturity</u>	<u>Interest Rates</u>			
2003	6.13% to 6.63%	\$ —		\$ 325
2004	6.60%	—		35
2005	6.07%	2		10
2006	6.50% to 6.90%	45		45
2007 through 2011	6.88%	—		50
2021 through 2025	6.88% to 9.00%	437		635
2026 through 2030	6.88%	30		30
Total first mortgage bonds		514		1,130
Long-term senior notes payable—				
4.69% to 9.75% due 2002-2005		1,834		766
5.38% to 8.58% due 2006-2009		595		744
6.10% to 7.63% due 2010-2017		305		170
6.38% to 8.12% due 2018-2038		788		793
6.63% to 7.13% due 2039-2048		1,029		1,029
Adjustable rates (1.98% to 3.44% at 1/1/02) due 2002-2005		1,078		734
Total long-term senior notes payable		5,629		4,236
Other long-term debt—				
Pollution control revenue bonds—				
Collateralized:				
5.00% to 6.75% due 2005-2026		168		539
Variable rates (1.61% to 1.95% at 1/1/02) due 2015-2025		90		90
Non-collateralized:				
4.20% to 6.75% due 2015-2034		726		406
Variable rates (1.75% to 2.05% at 1/1/02) due 2011-2037		1,566		1,475
Total other long-term debt		2,550		2,510
Capitalized lease obligations		92		95
Unamortized debt (discount), net		(59)		(61)
Total long-term debt (annual interest requirement—\$443 million)		8,726		7,910
Less amount due within one year		429		67
Long-term debt excluding amount due within one year		8,297		7,843
			43.9%	37.1%

CONSOLIDATED STATEMENTS OF CAPITALIZATION (CONTINUED) AT DECEMBER 31, 2001 AND 2000

<i>(in millions)</i>	2001	2000	<i>(percent of total)</i>	
			2001	2000
Company or Subsidiary Obligated Mandatorily				
Redeemable Capital and Preferred Securities:				
\$25 liquidation value –				
6.85% to 7.00%	435	435		
7.13% to 7.38%	327	297		
7.60% to 7.63%	415	415		
7.75%	649	649		
8.14% to 8.19%	400	400		
Auction rate (3.60% at 1/1/02)	50	50		
Total company or subsidiary obligated mandatorily redeemable capital preferred securities (annual distribution requirement – \$170 million)	2,276	2,246	12.0	10.6
Cumulative Preferred Stock of Subsidiaries:				
\$100 par or stated value –				
4.20% to 7.00%	98	98		
\$25 par or stated value –				
5.20% to 5.83%	200	200		
Adjustable and auction rates – at 1/1/02:				
3.10% to 3.56%	70	70		
Total cumulative preferred stock of subsidiaries (annual dividend requirement – \$18 million)	368	368	1.9	1.7
Common Stockholders' Equity:				
Common stock, par value \$5 per share –				
Authorized – 1 billion shares				
Issued – 2001: 701 million shares				
– 2000: 701 million shares				
Treasury – 2001: 2 million shares				
– 2000: 19 million shares				
Par value	3,503	3,503		
Paid-in capital	14	3,153		
Treasury, at cost	(57)	(545)		
Retained earnings	4,517	4,672		
Accumulated other comprehensive income –				
From continuing operations	7	–		
From discontinued operations	–	(93)		
Total common stockholders' equity	7,984	10,690	42.2	50.6
Total Capitalization	\$18,925	\$21,147	100.0%	100.0%

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

<i>(in millions)</i>	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income From		Total
	Par Value	Paid-In Capital	Treasury		Continuing Operations	Discontinued Operations	
Balance at December 31, 1998	\$3,499	\$ 2,463	\$ (58)	\$3,878	\$—	\$ 15	\$ 9,797
Net income	—	—	—	1,276	—	—	1,276
Other comprehensive income	—	—	—	—	—	(107)	(107)
Stock issued	4	17	1	—	—	—	22
Stock repurchased, at cost	—	—	(861)	—	—	—	(861)
Cash dividends	—	—	—	(921)	—	—	(921)
Other	—	—	(1)	(1)	—	—	(2)
Balance at December 31, 1999	3,503	2,480	(919)	4,232	—	(92)	9,204
Net income	—	—	—	1,313	—	—	1,313
Other comprehensive income	—	—	—	—	—	(1)	(1)
Stock issued	—	121	789	—	—	—	910
Stock repurchased, at cost	—	—	(414)	—	—	—	(414)
Cash dividends	—	—	—	(873)	—	—	(873)
Other	—	552	(1)	—	—	—	551
Balance at December 31, 2000	3,503	3,153	(545)	4,672	—	(93)	10,690
Net income	—	—	—	1,262	—	—	1,262
Other comprehensive income	—	—	—	—	7	93	100
Stock issued	—	—	488	(93)	—	—	395
Mirant spin off distribution	—	(3,168)	—	(391)	—	—	(3,559)
Cash dividends	—	—	—	(922)	—	—	(922)
Other	—	29	—	(11)	—	—	18
Balance at December 31, 2001	\$3,503	\$ 14	\$ (57)	\$4,517	\$ 7	\$ —	\$ 7,984

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

<i>(in millions)</i>	2001	2000	1999
Consolidated Net Income	\$1,262	\$1,313	\$1,276
Other comprehensive income—continuing operations:			
Changes in fair value of qualifying cash flow hedges, net of tax of \$4	7	—	—
Total other comprehensive income—continuing operations	7	—	—
Other comprehensive income—discontinued operations:			
Cumulative effect of accounting change for qualifying hedges, net of tax of \$(121)	(249)	—	—
Changes in fair value of qualifying hedges, net of tax of \$(51)	(104)	—	—
Less reclassification adjustment for amounts included in net income, net of tax of \$29	60	—	—
Foreign currency translation adjustments, net of tax of \$(22), \$(1), and \$(58) for the years 2001, 2000, and 1999, respectively	(22)	(1)	(107)
Total other comprehensive income—discontinued operations	(315)	(1)	(107)
Consolidated Comprehensive Income	\$ 954	\$1,312	\$1,169

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

<i>(in millions)</i>	2001	2000	1999
Operating Activities:			
Consolidated net income	\$ 1,262	\$ 1,313	\$ 1,276
Adjustments to reconcile consolidated net income to net cash provided from operating activities –			
Less income from discontinued operations	142	319	361
Depreciation and amortization	1,358	1,337	1,216
Deferred income taxes and investment tax credits	(22)	97	10
Other, net	(192)	18	118
Changes in certain current assets and liabilities –			
Receivables, net	344	(379)	(141)
Fossil fuel stock	(199)	78	(41)
Materials and supplies	(43)	(15)	(37)
Accounts payable	(51)	180	(65)
Other	69	66	244
Net cash provided from operating activities of continuing operations	2,384	2,376	2,219
Investing Activities:			
Gross property additions	(2,617)	(2,225)	(1,881)
Other	(119)	(81)	(362)
Net cash used for investing activities of continuing operations	(2,736)	(2,306)	(2,243)
Financing Activities:			
Increase (decrease) in notes payable, net	223	(275)	831
Proceeds –			
Long-term senior notes	1,242	650	840
Other long-term debt	757	93	629
Capital and preferred securities	30	–	250
Common stock	395	910	24
Redemptions –			
First mortgage bonds	(616)	(211)	(890)
Other long-term debt	(569)	(204)	(483)
Capital and preferred securities	–	–	(100)
Preferred stock	–	–	(86)
Common stock repurchased	–	(415)	(862)
Payment of common stock dividends	(922)	(873)	(921)
Other	(33)	(54)	(50)
Net cash provided from (used for) financing activities of continuing operations	507	(379)	(818)
Cash provided from (used for) discontinued operations	–	354	684
Net Increase (Decrease) in Cash and Cash Equivalents	155	45	(158)
Cash and Cash Equivalents at Beginning of Year	199	154	312
Cash and Cash Equivalents at End of Year	\$ 354	\$ 199	\$ 154
Supplemental Cash Flow Information From Continuing Operations:			
Cash paid during the year for –			
Interest (net of amount capitalized)	\$624	\$802	\$684
Income taxes	\$721	\$666	\$656

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

[NOTE ONE]

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Southern Company is the parent company of five operating companies, a system service company, Southern Communications Services (Southern LINC), Southern Nuclear Operating Company (Southern Nuclear), Southern Power Company (Southern Power), and other direct and indirect subsidiaries. The operating companies—Alabama Power, Georgia Power, Gulf Power, Mississippi Power, and Savannah Electric—provide electric service in four Southeastern states. Contracts among the operating companies—related to jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power—are regulated by the Federal Energy Regulatory Commission (FERC) and/or the Securities and Exchange Commission. The system service company provides, at cost, specialized services to Southern Company and subsidiary companies. Southern LINC provides digital wireless communications services to the operating companies and also markets these services to the public within the Southeast. Southern Nuclear provides services to Southern Company's nuclear power plants. Southern Power was established in 2001 to construct, own, and manage Southern Company's competitive generation assets and sell electricity at market-based rates in the wholesale market.

On April 2, 2001, the spin off of Mirant Corporation (Mirant) was completed. As a result of the spin off, Southern Company's financial statements and related information reflect Mirant as discontinued operations. For additional information, see Note 11.

The financial statements reflect Southern Company's investments in the subsidiaries on a consolidated basis. All material intercompany items have been eliminated in consolidation. Certain prior years' data presented in the consolidated financial statements have been reclassified to conform with the current year presentation.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both the company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The operating companies also are subject to regulation by the FERC and their respective state public service commissions. The companies follow accounting

principles generally accepted in the United States and comply with the accounting policies and practices prescribed by their respective commissions. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of estimates, and the actual results may differ from those estimates.

Regulatory Assets and Liabilities

The operating companies are subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. Regulatory assets and (liabilities) reflected in the Consolidated Balance Sheets at December 31 relate to the following:

<i>(In millions)</i>	2001	2000
Deferred income tax charges	\$ 924	\$ 957
Premium on reacquired debt	280	280
Department of Energy assessments	39	46
Vacation pay	95	92
Postretirement benefits	28	30
Deferred income tax credits	(500)	(551)
Accelerated amortization	(311)	(220)
Storm damage reserves	(34)	(34)
Other, net	125	121
Total	\$ 646	\$ 721

In the event that a portion of a company's operations is no longer subject to the provisions of FASB Statement No. 71, the company would be required to write off related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the company would be required to determine if any impairment to other assets exists, including plant, and write down the assets, if impaired, to their fair value.

NOTES (CONTINUED)

Revenues and Fuel Costs

Revenues are recognized as services are rendered. Unbilled revenues are accrued at the end of each fiscal period. Fuel costs are expensed as the fuel is used. Electric rates for the operating companies include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current regulated rates.

Southern Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts continued to average less than 1 percent of revenues.

Fuel expense includes the amortization of the cost of nuclear fuel and a charge, based on nuclear generation, for the permanent disposal of spent nuclear fuel. Total charges for nuclear fuel included in fuel expense amounted to \$133 million in 2001, \$136 million in 2000, and \$137 million in 1999. Alabama Power and Georgia Power have contracts with the U.S. Department of Energy (DOE) that provide for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent nuclear fuel in January 1998 as required by the contracts, and the companies are pursuing legal remedies against the government for breach of contract. Sufficient pool storage capacity for spent fuel is available at Plant Farley to maintain full-core discharge capability until the refueling outages scheduled for 2006 and 2008 for units 1 and 2, respectively. Sufficient pool storage capacity for spent fuel is available at Plant Vogtle to maintain full-core discharge capability for both units into 2014. At Plant Hatch, an on-site dry storage facility became operational in 2000. Sufficient dry storage capacity is believed to be available to continue dry storage operations at Plant Hatch through the life of the plant. Procurement of on-site dry storage capacity at Plant Farley is in progress, with the intent to place the capacity in operation in 2005. Procurement of on-site dry storage capacity at Plant Vogtle will begin in sufficient time to maintain pool full-core discharge capability.

Also, the Energy Policy Act of 1992 required the establishment of a Uranium Enrichment Decontamination and Decommissioning Fund, which is funded in part by a special assessment on utilities with nuclear plants. This assessment is being paid over a 15-year period, which began in 1993. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The law provides that

utilities will recover these payments in the same manner as any other fuel expense. Alabama Power and Georgia Power—based on its ownership interests—estimate their respective remaining liability at December 31, 2001, under this law to be approximately \$21 million and \$16 million. These obligations are recorded in the Consolidated Balance Sheets.

Depreciation and Nuclear Decommissioning

Depreciation of the original cost of plant in service is provided primarily by using composite straight-line rates, which approximated 3.4 percent a year in 2001, 2000, and 1999. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its original cost—together with the cost of removal, less salvage—is charged to accumulated depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired. Depreciation expense includes an amount for the expected costs of decommissioning nuclear facilities and removal of other facilities.

Georgia Power recorded accelerated amortization and depreciation amounting to \$91 million in 2001, \$135 million in 2000, and \$85 million in 1999. See Note 3 under "Georgia Power Retail Rate Orders" for additional information.

The Nuclear Regulatory Commission (NRC) requires all licensees operating commercial nuclear power reactors to establish a plan for providing, with reasonable assurance, funds for decommissioning. Alabama Power and Georgia Power have external trust funds to comply with the NRC's regulations. Amounts previously recorded in internal reserves are being transferred into the external trust funds over periods approved by the respective state public service commissions. The NRC's minimum external funding requirements are based on a generic estimate of the cost to decommission the radioactive portions of a nuclear unit based on the size and type of reactor. Alabama Power and Georgia Power have filed plans with the NRC to ensure that—over time—the deposits and earnings of the external trust funds will provide the minimum funding amounts prescribed by the NRC.

Site study cost is the estimate to decommission a specific facility as of the site study year, and ultimate cost is the estimate to decommission a specific facility as of its retirement date. The estimated costs of decommissioning—both site study costs and ultimate costs—based on the most current study as

NOTES (CONTINUED)

of December 31, 2001, for Alabama Power's Plant Farley and Georgia Power's ownership interests in plants Hatch and Vogtle were as follows:

<i>(year)</i>	Plant Farley	Plant Hatch	Plant Vogtle
Site study basis	1998	2000	2000
Decommissioning periods:			
Beginning year	2017	2014	2027
Completion year	2031	2042	2045

(in millions)

Site study costs:			
Radiated structures	\$629	\$486	\$420
Non-radiated structures	60	37	48
Total	\$689	\$523	\$468

(in millions)

Ultimate costs:			
Radiated structures	\$1,868	\$1,004	\$1,468
Non-radiated structures	178	79	166
Total	\$2,046	\$1,083	\$1,634

Significant assumptions:

Inflation rate	4.5%	4.7%	4.7%
Trust earning rate	7.0	6.5	6.5

The decommissioning cost estimates are based on prompt dismantlement and removal of the plant from service. The actual decommissioning costs may vary from the above estimates because of changes in the assumed date of decommissioning, changes in NRC requirements, or changes in the assumptions used in making these estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the respective state public service commissions. The amount expensed in 2001 and fund balances were as follows:

<i>(in millions)</i>	Plant Farley	Plant Hatch	Plant Vogtle
Amount expensed in 2001	\$18	\$20	\$9
Accumulated provisions:			
External trust funds, at fair value	\$318	\$229	\$135
Internal reserves	36	20	12
Total	\$354	\$249	\$147

Alabama Power's decommissioning costs for ratemaking are based on the site study. Effective January 1, 2002, the Georgia Public Service Commission (GPSC) decreased Georgia Power's annual provision for decommissioning expenses to \$8 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 2000. The estimates are \$383 million and \$282 million for plants Hatch and Vogtle, respectively. The ultimate costs associated with the 2000 NRC minimum funding requirements are \$823 million and \$1.03 billion for plants Hatch and Vogtle, respectively. Alabama Power and Georgia Power expect their respective state public service commissions to periodically review and adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

In January 2002, Georgia Power received NRC approval for a 20-year extension of the license at Plant Hatch, which would permit the operation of units 1 and 2 until 2034 and 2038, respectively. The decommissioning costs disclosed above do not reflect this extension.

Income Taxes

Southern Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Investment tax credits utilized are deferred and amortized to income over the average lives of the related property.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the estimated cost of funds used during construction. The cost of funds capitalized was \$67 million in 2001, \$71 million in 2000, and \$36 million in 1999. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense as incurred or performed. The cost of replacements of property—exclusive of minor items of property—is capitalized.

NOTES (CONTINUED)

Leveraged Leases

Southern Company has several leveraged lease agreements—ranging up to 30 years—that relate to international energy generation, distribution, and transportation assets. Southern Company receives federal income tax deductions for depreciation and amortization and for interest on long-term debt related to these investments.

Southern Company's net investment in leveraged leases consists of the following at December 31:

<i>(In millions)</i>	2001	2000
Net rentals receivable	\$1,430	\$1,430
Unearned income	(775)	(834)
Investment in leveraged leases	655	596
Deferred taxes arising from leveraged leases	(193)	(128)
Net investment in leveraged leases	\$ 462	\$ 468

A summary of the components of income from leveraged leases is as follows:

<i>(In millions)</i>	2001	2000	1999
Pretax leveraged lease income	\$59	\$61	\$28
Income tax expense	21	21	10
Income from leveraged leases	\$38	\$40	\$18

Impairment of Long-Lived Assets and Intangibles

Southern Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

Materials and Supplies

Generally, materials and supplies include the costs of transmission, distribution, and generating plant materials. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed.

Comprehensive Income

Comprehensive income—consisting of net income and changes in the fair value of marketable securities and qualifying cash flow hedges, net of income taxes—is presented in the consolidated financial statements. Also, comprehensive income from discontinued operations includes foreign currency translation adjustments, net of income taxes. The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners.

Financial Instruments

Effective January 2001, Southern Company adopted FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The impact on net income was immaterial.

Southern Company uses derivative financial instruments to hedge exposures to fluctuations in interest rates, foreign currency exchange rates, and certain commodity prices. Gains and losses on qualifying hedges are deferred and recognized either in income or as an adjustment to the carrying amount of the hedged item when the transaction occurs. At December 31, 2001, Southern Company had \$450 million notional amount of interest rate swaps outstanding with deferred gains of \$12 million.

Southern Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The company has established controls to determine and monitor the creditworthiness of counterparties in order to mitigate the company's exposure to counterparty credit risk.

The operating companies and Southern Power enter into commodity related forward and option contracts to limit exposure to changing prices on certain fuel purchases and

NOTES (CONTINUED)

electricity purchases and sales. Substantially all of Southern Company's bulk energy purchases and sales contracts meet the definition of a derivative under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. In many cases, these fuel and electricity contracts qualify for normal purchase and sale exceptions under Statement No. 133 and are accounted for under the accrual method. Other contracts qualify as cash flow hedges of anticipated transactions, resulting in the deferral of related gains and losses, and are recorded in other comprehensive income until the hedged transactions occur. Any ineffectiveness is recognized currently in net income. Contracts that do not qualify for the normal purchase and sale exception and that do not meet the hedge requirements are marked to market through current period income.

Southern Company has firm purchase commitments for equipment that require payment in euros. As a hedge against fluctuations in the exchange rate for euros, the company entered into forward currency swaps. The total notional amount is 48 million euros maturing in 2002 and 2003. At December 31, 2001, the gain on these swaps was less than \$1 million.

Other Southern Company financial instruments for which the carrying amount did not equal fair value at December 31 were as follows:

<i>(in millions)</i>	Carrying Amount	Fair Value
Long-term debt:		
At December 31, 2001	\$8,634	\$8,693
At December 31, 2000	7,815	7,702
Capital and preferred securities:		
At December 31, 2001	2,276	2,282
At December 31, 2000	2,246	2,190

The fair values for long-term debt and capital and preferred securities were based on either closing market price or closing price of comparable instruments.

[NOTE TWO]

RETIREMENT BENEFITS

Southern Company has a defined benefit, trustee, pension plan that covers substantially all employees. Also, Southern Company provides certain medical care and life insurance benefits for retired employees. The operating companies fund trusts to the extent required by their respective regulatory commissions. In late 2000, Southern Company adopted several pension and postretirement benefit plan changes that had the effect of increasing benefits to both current and future retirees.

The measurement date for plan assets and obligations is September 30 for each year. The following disclosures exclude discontinued operations.

Pension Plan

Changes during the year in the projected benefit obligations and in the fair value of plan assets were as follows:

<i>(in millions)</i>	Projected Benefit Obligations	
	2001	2000
Balance at beginning of year	\$3,397	\$3,248
Service cost	104	96
Interest cost	260	239
Benefits paid	(176)	(159)
Plan amendments	173	4
Actuarial (gain) loss	2	(31)
Balance at end of year	\$3,760	\$3,397

<i>(in millions)</i>	Plan Assets	
	2001	2000
Balance at beginning of year	\$6,157	\$5,266
Actual return on plan assets	(889)	1,030
Benefits paid	(159)	(139)
Balance at end of year	\$5,109	\$6,157

The accrued pension costs recognized in the Consolidated Balance Sheets were as follows:

<i>(in millions)</i>	2001	2000
Funded status	\$ 1,349	\$ 2,760
Unrecognized transition obligation	(51)	(63)
Unrecognized prior service cost	269	116
Unrecognized net gain	(1,020)	(2,415)
Prepaid asset recognized in the Consolidated Balance Sheets	\$ 547	\$ 398

NOTES (CONTINUED)

Components of the pension plan's net periodic cost were as follows:

<i>(In millions)</i>	2001	2000	1999
Service cost	\$ 104	\$ 96	\$ 97
Interest cost	260	239	215
Expected return on plan assets	(423)	(384)	(348)
Recognized net gain	(73)	(62)	(40)
Net amortization	8	—	(2)
Net pension cost (income)	\$ (124)	\$ (111)	\$ (78)

Postretirement Benefits

Changes during the year in the accumulated benefit obligations and in the fair value of plan assets were as follows:

<i>(In millions)</i>	Accumulated Benefit Obligations	
	2001	2000
Balance at beginning of year	\$1,052	\$ 980
Service cost	22	18
Interest cost	88	76
Benefits paid	(54)	(43)
Plan amendments	186	69
Actuarial (gain) loss	(55)	(48)
Balance at end of year	\$1,239	\$1,052

<i>(In millions)</i>	Plan Assets	
	2001	2000
Balance at beginning of year	\$459	\$395
Actual return on plan assets	(59)	47
Employer contributions	79	59
Benefits paid	(54)	(42)
Balance at end of year	\$425	\$459

The accrued postretirement costs recognized in the Consolidated Balance Sheets were as follows:

<i>(In millions)</i>	2001	2000
Funded status	\$ (814)	\$ (593)
Unrecognized transition obligation	174	189
Unrecognized prior service cost	239	66
Unrecognized net loss (gain)	(9)	(53)
Fourth quarter contributions	41	35
Accrued liability recognized in the Consolidated Balance Sheets	\$ (369)	\$ (356)

Components of the postretirement plan's net periodic cost were as follows:

<i>(In millions)</i>	2001	2000	1999
Service cost	\$ 22	\$ 18	\$ 21
Interest cost	88	76	68
Expected return on plan assets	(40)	(34)	(26)
Recognized net gain	—	—	2
Net amortization	26	18	15
Net postretirement cost	\$ 96	\$ 78	\$ 80

The weighted average rates assumed in the actuarial calculations for both the pension plan and postretirement benefits plan were:

	2001	2000
Discount	7.50%	7.50%
Annual salary increase	5.00	5.00
Long-term return on plan assets	8.50	8.50

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 9.25 percent for 2001, decreasing gradually to 5.25 percent through the year 2010 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would affect the accumulated benefit obligation and the service and interest cost components at December 31, 2001, as follows:

<i>(In millions)</i>	1 Percent Increase	1 Percent Decrease
Benefit obligation	\$111	\$97
Service and interest costs	10	9

Employee Savings Plan

Southern Company also sponsors a 401(k) defined contribution plan covering substantially all employees. The company provides a 75 percent matching contribution up to 6 percent of an employee's base salary. Total matching contributions made to the plan for the years 2001, 2000, and 1999 were \$51 million, \$49 million, and \$46 million, respectively.

NOTES (CONTINUED)

[NOTE THREE]**CONTINGENCIES AND REGULATORY MATTERS****General**

Southern Company is subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on Southern Company's financial condition.

Georgia Power Potentially Responsible Party Status

Georgia Power has been designated as a potentially responsible party at sites governed by the Georgia Hazardous Site Response Act and/or by the federal Comprehensive Environmental Response, Compensation and Liability Act. Georgia Power has recognized \$33 million in cumulative expenses through December 31, 2001 for the assessment and anticipated cleanup of sites on the Georgia Hazardous Sites Inventory. In addition, in 1995 the EPA designated Georgia Power and four other unrelated entities as potentially responsible parties at a site in Brunswick, Georgia, that is listed on the federal National Priorities List. Georgia Power has contributed to the removal and remedial investigation and feasibility study costs for the site. Additional claims for recovery of natural resource damages at the site are anticipated. As of December 31, 2001, Georgia Power had recorded approximately \$6 million in cumulative expenses associated with Georgia Power's agreed-upon share of the removal and remedial investigation and feasibility study costs for the Brunswick site.

The final outcome of each of these matters cannot now be determined. However, based on the currently known conditions at these sites and the nature and extent of Georgia Power's activities relating to these sites, management does not believe that the company's cumulative liability at these sites would be material to the financial statements.

Environmental Litigation

On November 3, 1999, the EPA brought a civil action in U.S. District Court in Georgia against Alabama Power, Georgia Power, and the system service company. The complaint alleges violations of the New Source Review provisions of the Clean Air Act with respect to five coal-fired generating facilities in Alabama and Georgia. The civil action requests penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units. The Clean Air Act authorizes civil penalties of up to \$27,500 per day, per violation at each generating unit. Prior to January 30, 1997, the penalty was \$25,000 per day.

The EPA concurrently issued to the operating companies a notice of violation related to 10 generating facilities, which includes the five facilities mentioned previously. In early 2000, the EPA filed a motion to amend its complaint to add the violations alleged in its notice of violation and to add Gulf Power, Mississippi Power, and Savannah Electric as defendants. The complaint and notice of violation are similar to those brought against and issued to several other electric utilities. These complaints and notices of violation allege that the utilities had failed to secure necessary permits or install additional pollution control equipment when performing maintenance and construction at coal-burning plants constructed or under construction prior to 1978. The U.S. District Court in Georgia granted Alabama Power's motion to dismiss for lack of jurisdiction and granted the system service company's motion to dismiss on the grounds that it neither owned nor operated the generating units involved in the proceedings. The court granted the EPA's motion to add Savannah Electric as a defendant, but it denied the motion to add Gulf Power and Mississippi Power based on lack of jurisdiction over those companies. The court directed the EPA to refile its amended complaint limiting claims to those brought against Georgia Power and Savannah Electric. The EPA refiled those claims as directed by the court. Also, the EPA refiled its claims against Alabama Power in U.S. District Court in Alabama. It has not refiled against Gulf Power, Mississippi Power, or the system service company.

The Alabama Power, Georgia Power, and Savannah Electric cases have been stayed since the spring of 2001, pending a ruling by the U.S. Court of Appeals for the Eleventh Circuit in the appeal of a very similar New Source Review enforcement action against the Tennessee Valley Authority (TVA). The TVA case involves many of the same legal issues raised by the actions against Alabama Power, Georgia Power, and Savannah Electric. Because the outcome of the TVA case could have a significant adverse impact on Alabama Power and Georgia Power, both companies are parties to that case as well. The U.S. District Court in Alabama has indicated that it will revisit the issue of a continued stay in April 2002. The U.S. District Court in Georgia is currently considering a motion by the EPA to reopen the Georgia case. Georgia Power and Savannah Electric have opposed that motion.

NOTES (CONTINUED)

Southern Company believes that its operating companies complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place. An adverse outcome in any one of these cases could require substantial capital expenditures that cannot be determined at this time and could possibly require payment of substantial penalties. This could affect future results of operations, cash flows, and possibly financial condition if such costs are not recovered through regulated rates.

Mobile Energy Services' Petition for Bankruptcy

Mobile Energy Services Holdings (MESH), a subsidiary of Southern Company, is the owner and operator of a facility that generates electricity, produces steam, and processes black liquor as part of a pulp and paper complex in Mobile, Alabama. On January 14, 1999, MESH filed a petition for Chapter 11 bankruptcy relief in the U.S. Bankruptcy Court. This action was in response to Kimberly-Clark Tissue Company's (Kimberly-Clark) announcement in May 1998 of plans to close its pulp mill, effective September 1, 1999. The pulp mill had historically provided 50 percent of MESH's revenues.

As a result of settlement discussions with Kimberly-Clark and MESH's bondholders, Southern Company recorded in 1999 a \$69 million after-tax write down of its investment in MESH. Southern Company recorded an additional \$10 million after-tax write down in 2000. At December 31, 2001, MESH had total assets of \$359 million and senior debt outstanding of \$190 million of first mortgage bonds and \$72 million related to tax-exempt bonds. In connection with the bond financings, Southern Company provided certain limited guarantees, in lieu of funding debt service and maintenance reserve accounts with cash. As of December 31, 2001, Southern Company had paid the full \$41 million pursuant to the guarantees. Southern Company continues to have guarantees outstanding of certain potential environmental and other obligations of MESH that represent a maximum contingent liability of \$19 million at December 31, 2001. Mirant has agreed to indemnify Southern Company for any future obligations incurred under such guarantees.

On August 4, 2000, MESH filed a proposed plan of reorganization with the U.S. Bankruptcy Court. The proposed plan of reorganization was most recently amended on October 15, 2001. Southern Company expects that approval of a plan of reorganization would result in either a termination of Southern Company's ownership interest in MESH or the exchange of all assets of MESH for the cancellation of securities held by the

bondholders but would not affect Southern Company's continuing guarantee obligations discussed earlier. The final outcome of this matter cannot now be determined.

California Electricity Markets Litigation

Prior to the spin off of Mirant, Southern Company was named as a defendant in two lawsuits filed in the superior courts of California alleging that certain owners of electric generation facilities in California, including Southern Company, engaged in various unlawful and anticompetitive acts that served to manipulate wholesale power markets and inflate wholesale electricity prices in California. One lawsuit naming Southern Company, Mirant, and other generators as defendants alleged that, as a result of the defendants' conduct, customers paid approximately \$4 billion more for electricity than they otherwise would have and sought an award of treble damages, as well as other injunctive and equitable relief. The other suit likewise sought treble damages and equitable relief. The allegations in the two lawsuits in which Southern Company was named seemed to be directed to activities of subsidiaries of Mirant. On September 28 and November 6, 2001, the plaintiffs voluntarily dismissed Southern Company without prejudice from the two lawsuits in which it had been named as a defendant. Prior to being dismissed, Southern Company had notified Mirant of its claim for indemnification for costs associated with the lawsuits under the terms of the master separation agreement that governs the spin off of Mirant. Mirant had undertaken the defense of the lawsuits. Plaintiffs would not be barred by their own dismissal from naming Southern Company in some future lawsuit, but management believes that the likelihood of Southern Company having to pay damages in any such lawsuit is remote.

Race Discrimination Litigation

On July 28, 2000, a lawsuit alleging race discrimination was filed by three Georgia Power employees against Georgia Power, Southern Company, and the system service company in the Superior Court of Fulton County, Georgia. Shortly thereafter, the lawsuit was removed to the United States District Court for the Northern District of Georgia. The lawsuit also raised claims on behalf of a purported class. The plaintiffs seek compensatory and punitive damages in an unspecified amount, as well as injunctive relief. On August 14, 2000, the lawsuit was amended to add four more plaintiffs. Also, an additional subsidiary of Southern Company, Southern Company Energy Solutions, Inc., was named a defendant.

NOTES (CONTINUED)

On October 11, 2001, the district court denied the plaintiffs' motion for class certification. The plaintiffs filed a motion to reconsider the order denying class certification, and the court denied the plaintiffs' motion to reconsider. On December 28, 2001, the plaintiffs filed a petition in the United States Court of Appeals for the Eleventh Circuit seeking permission to file an appeal of the October 11 decision. The defendants filed a brief in opposition of the petition on January 18, 2002. Discovery of the seven named plaintiffs' individual claims that remain in the case is ongoing. The final outcome of the case cannot now be determined.

Alabama Power Rate Adjustment Procedures

In November 1982, the Alabama Public Service Commission (APSC) adopted rates that provide for periodic adjustments based upon Alabama Power's earned return on end-of-period retail common equity. The rates also provide for adjustments to recognize the placing of new generating facilities in retail service. Both increases and decreases have been placed into effect since the adoption of these rates. Most recently, a 2 percent increase in retail rates was effective in October 2001, in accordance with the Rate Stabilization Equalization plan. The rate adjustment procedures allow a return on common equity range of 13 percent to 14.5 percent and limit increases or decreases in rates to 4 percent in any calendar year and prohibits two consecutive quarterly adjustments in the same direction.

In December 1995, the APSC issued an order authorizing Alabama Power to reduce balance sheet items—such as plant and deferred charges—at any time the company's actual base rate revenues exceed the budgeted revenues. During the years 2001, 2000, and 1999, Alabama Power did not record any such reductions.

The ratemaking procedures will remain in effect until the APSC votes to modify or discontinue them.

Georgia Power Retail Rate Orders

On December 20, 2001, the GPSC approved a three-year retail rate order for Georgia Power ending December 31, 2004. Under the terms of the order, earnings will be evaluated against a retail return on common equity range of 10 percent to 12.95 percent. Two-thirds of any earnings above the 12.95 percent return will be applied to rate refunds, with the remaining one-third retained by Georgia Power. Retail rates were decreased by \$118 million effective January 1, 2002.

Under a previous three-year order ending December 2001, Georgia Power's earnings were evaluated against a retail return on common equity range of 10 percent to 12.5 percent. The order further provided for \$85 million in each year, plus up to \$50 million of any earnings above the 12.5 percent return during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of additional earnings above the 12.5 percent return were applied to rate refunds, with the remaining one-third retained by Georgia Power. Pursuant to the order, Georgia Power recorded \$336 million of accelerated amortization and interest thereon, which has been credited to a regulatory liability account as mandated by the GPSC.

Under the new rate order, the accelerated amortization and the interest will be amortized equally over three years as a credit to expense beginning in 2002. Effective January 1, 2002, Georgia Power discontinued recording accelerated depreciation and amortization. Georgia Power will not file for a general base rate increase unless its projected retail return on common equity falls below 10 percent. Georgia Power is required to file a general rate case on July 1, 2004, in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

In 2000 and 1999, Georgia Power recorded \$44 million and \$79 million, respectively, of revenue subject to refund for estimated earnings above 12.5 percent retail return on common equity. Refunds applicable to 2000 and 1999 were made to customers in 2001 and 2000, respectively.

[NOTE FOUR]**JOINT OWNERSHIP AGREEMENTS**

Alabama Power owns an undivided interest in units 1 and 2 of Plant Miller and related facilities jointly with Alabama Electric Cooperative, Inc.

Georgia Power owns undivided interests in plants Vogtle, Hatch, Scherer, and Wansley in varying amounts jointly with Oglethorpe Power Corporation (OPC), the Municipal Electric Authority of Georgia, the city of Dalton, Georgia, Florida Power & Light Company (FP&L), and Jacksonville Electric Authority (JEA). In addition, Georgia Power has joint ownership agreements with OPC for the Rocky Mountain facilities and with Florida Power Corporation (FPC) for a combustion turbine unit at Intercession City, Florida. Southern Power owns an undivided interest in Stanton Unit A and related facilities jointly with the Orlando Utilities Commission, Kissimmee Utility Authority, and Florida Municipal Power Agency. The unit is scheduled to go into commercial operation in October 2003.

NOTES (CONTINUED)

At December 31, 2001, Alabama Power's and Georgia Power's ownership and investment (exclusive of nuclear fuel) in jointly owned facilities with the above entities were as follows:

<i>(in millions)</i>	Jointly Owned Facilities		
	Amount of Investment	Accumulated Depreciation	Percent Ownership
Plant Vogtle <i>(nuclear)</i>	\$3,304	\$1,793	45.7%
Plant Hatch <i>(nuclear)</i>	881	668	50.1
Plant Miller <i>(coal)</i>			
Units 1 and 2	747	326	91.8
Plant Scherer <i>(coal)</i>			
Units 1 and 2	112	56	8.4
Plant Wansley <i>(coal)</i>	309	152	53.5
Rocky Mountain <i>(pumped storage)</i>	169	78	25.4
Intercession City <i>(combustion turbine)</i>	12	1	33.3
Plant Stanton <i>(combined cycle)</i>			
Unit A	31	—	65.0

Alabama Power, Georgia Power, and Southern Power have contracted to operate and maintain the jointly owned facilities—except for the Rocky Mountain project and Intercession City—as agents for their respective co-owners. The companies' proportionate share of their plant operating expenses is included in the corresponding operating expenses in the Consolidated Statements of Income.

[NOTE FIVE]

LONG-TERM POWER SALES AND LEASE AGREEMENTS

The operating companies have long-term contractual agreements for the sale and lease of capacity to certain non-affiliated utilities located outside the system's service area. These agreements are firm and are related to specific generating units. Because the energy is generally provided at cost under these agreements, profitability is primarily affected by capacity revenues.

Unit power from specific generating plants is currently being sold to FP&L, FPC, and JEA. Under these agreements, approximately 1,500 megawatts of capacity is scheduled to be sold annually unless reduced by FP&L, FPC, and JEA for the periods after 2001 with a minimum of three years notice—until the expiration of the contracts in 2010. Capacity revenues from unit power sales amounted to \$170 million in 2001, \$177 million in 2000, and \$174 million in 1999.

Southern Power and Mississippi Power have operating leases for portions of their generating unit capacity. Capacity revenues from these operating leases amounted to \$53 million in 2001 and \$20 million in 2000. These amounts are included in the financial statements as sales for resale. Minimum future capacity receipts from noncancelable operating leases as of December 31, 2001, are as follows:

<i>(in millions)</i>	Amounts
YEAR	
2002	\$ 64
2003	65
2004	64
2005	23
2006	21
2007 and thereafter	97
Total	\$334

[NOTE SIX]

INCOME TAXES

At December 31, 2001, the tax-related regulatory assets and liabilities were \$924 million and \$500 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized interest. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits. The following tables and disclosures exclude discontinued operations.

Details of income tax provisions are as follows:

<i>(in millions)</i>	2001	2000	1999
Total provision for income taxes:			
Federal—			
Current	\$477	\$421	\$504
Deferred	(10)	95	11
	467	516	515
State—			
Current	103	71	85
Deferred	(12)	1	(1)
	91	72	84
Total	\$558	\$588	\$599

NOTES (CONTINUED)

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

<i>(In millions)</i>	2001	2000
Deferred tax liabilities:		
Accelerated depreciation	\$3,222	\$3,199
Property basis differences	1,059	1,105
Other	739	650
Total	5,020	4,954
Deferred tax assets:		
Federal effect of state deferred taxes	116	111
Other property basis differences	178	206
Deferred costs	234	190
Pension and other benefits	123	125
Other	304	231
Total	955	863
Total deferred tax liabilities, net	4,065	4,091
Portion included in current		
assets (liabilities), net	23	(17)
Accumulated deferred income taxes		
in the Consolidated Balance Sheets	\$4,088	\$4,074

In accordance with regulatory requirements, deferred investment tax credits are amortized over the lives of the related property with such amortization normally applied as a credit to reduce depreciation in the Consolidated Statements of Income. Credits amortized in this manner amounted to \$30 million a year in 2001, 2000, and 1999. At December 31, 2001, all investment tax credits available to reduce federal income taxes payable had been utilized.

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. Federal statutory rate to earnings before income taxes and preferred dividends of subsidiaries, as a result of the following:

	2001	2000	1999
Federal statutory rate	35.0%	35.0%	35.0%
State income tax,			
net of federal deduction	3.7	3.4	3.8
Alternative fuel tax credits	(4.2)	(1.3)	(0.7)
Non-deductible book depreciation	1.7	1.7	1.9
Difference in prior years'			
deferred and current tax rate	(1.1)	(1.3)	(1.3)
Other	(2.2)	(0.8)	0.4
Effective income tax rate	32.9%	36.7%	39.1%

Southern Company files a consolidated federal income tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. In accordance with Internal Revenue Service regulations, each company is jointly and severally liable for the tax liability.

Mirant was included in the consolidated federal tax return through April 2, 2001. Under the terms of the separation agreement, Mirant will indemnify Southern Company for subsequent assessment of any additional taxes related to its transactions prior to the spin off.

[NOTE SEVEN] COMMON STOCK

Stock Issued and Repurchased

Southern Company issued 17 million and 5 million treasury shares of common stock in 2001 and 2000, respectively, through various company stock plans. Proceeds were \$395 million in 2001 and \$140 million in 2000. The shares were issued through various company stock plans. At December 31, 2001, approximately 2 million treasury shares remain unissued.

In December 2000, Southern Company issued 28 million treasury shares of common stock through a public offering. The offering, which included an overallotment of 3 million shares, raised some \$800 million and was priced at \$28.50 per share. The proceeds were used to repay short-term commercial paper.

In April 1999, Southern Company's Board of Directors approved the repurchase of up to 50 million shares of Southern Company's common stock over a two-year period through open market or privately negotiated transactions. Under this program, 50 million shares were repurchased by February 2000 at an average price of \$25.53 per share.

Shares Reserved

At December 31, 2001, a total of 76 million shares was reserved for issuance pursuant to the Southern Investment Plan, the Employee Savings Plan, the Outside Directors Stock Plan, and the Omnibus Incentive Compensation Plan (stock option plan).

NOTES (CONTINUED)

Stock Option Plan

Southern Company provides non-qualified stock options to a large segment of its employees ranging from line management to executives. As of December 31, 2001, 5,622 current and former employees participated in the stock option plan. The maximum number of shares of common stock that may be issued under this plan may not exceed 55 million. The prices of options granted to date have been at the fair market value of the shares on the dates of grant. Options granted to date become exercisable pro rata over a maximum period of three years from the date of grant. Options outstanding will expire no later than 10 years after the date of grant, unless terminated earlier by the Southern Company Board of Directors in accordance with the plan. Stock option data for the plan has been adjusted to reflect the Mirant spin off. Activity in 2000 and 2001 for the plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 1999	13,419,978	\$14.97
Options granted	11,042,626	14.67
Options canceled	(335,282)	14.87
Options exercised	(1,560,695)	13.65
Balance at December 31, 2000	22,566,627	14.92
Options granted	13,623,210	20.31
Options canceled	(3,397,152)	15.39
Options exercised	(3,161,800)	13.83
Balance at December 31, 2001	29,630,885	\$17.46
Shares reserved for future grants:		
At December 31, 1999	54,684,999	
At December 31, 2000	43,955,368	
At December 31, 2001	64,795,653	
Options exercisable:		
At December 31, 2000	9,354,705	
At December 31, 2001	11,965,858	

Southern Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25. Accordingly, no compensation expense has been recognized.

The following table summarizes information about options outstanding at December 31, 2001:

	Dollar Price Range of Options		
	11-15	15-20	20-24
Outstanding:			
Shares <i>(in thousands)</i>	11,742	12,882	5,007
Average remaining life <i>(in years)</i>	6.7	7.7	9.1
Average exercise price	\$14.38	\$18.34	\$22.43
Exercisable:			
Shares <i>(in thousands)</i>	6,694	5,027	245
Average exercise price	\$14.17	\$17.46	\$22.42

The estimated fair values of stock options granted in 2001, 2000, and 1999 were derived using the Black-Scholes stock option pricing model. The following table shows the assumptions and the weighted average fair values of stock options:

	2001	2000	1999
Interest rate	4.8%	6.7%	5.8%
Average expected life of stock options <i>(in years)</i>	4.3	4.0	3.7
Expected volatility of common stock	25.4%	20.9%	20.7%
Expected annual dividends on common stock	\$1.34	\$1.34	\$1.34
Weighted average fair value of stock options granted	\$2.82	\$3.36	\$4.61

The pro forma impact of fair-value accounting for options granted on earnings is as follows:

YEAR	Net Income <i>(in millions)</i>	Earnings Per Share <i>(cents)</i>
2001	\$17	2.4
2000	8	1.3
1999	5	0.7

NOTES (CONTINUED)

Diluted Earnings Per Share

For Southern Company, the only difference in computing basic and diluted earnings per share is attributable to outstanding options under the stock option plan. The effect of the stock options was determined using the treasury stock method. Shares used to compute diluted earnings per share are as follows:

<i>(in thousands)</i>	Average Common Stock Shares		
	2001	2000	1999
As reported shares	689,352	653,087	685,163
Effect of options	4,191	1,018	530
Diluted shares	693,543	654,105	685,693

Common Stock Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 2001, consolidated retained earnings included \$3.4 billion of undistributed retained earnings of the subsidiaries. Of this amount, \$2.1 billion was restricted against the payment by the subsidiary companies of cash dividends on common stock under terms of bond indentures. However, Georgia Power expects to discharge its first mortgage bond indenture in early 2002 and to be released from all indenture requirements. The \$2.1 billion restriction includes \$1.0 billion for Georgia Power under the current indenture requirements.

[NOTE EIGHT]**FINANCING****Capital and Preferred Securities**

Company or subsidiary obligated mandatorily redeemable capital and preferred securities have been issued by special purpose financing entities of Southern Company and its subsidiaries. Substantially all the assets of these special financing entities are junior subordinated notes issued by the related company seeking financing. Each of these companies considers that the mechanisms and obligations relating to the capital or preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective special financing entities' payment obligations with respect to the capital or preferred securities. At December 31, 2001, capital securities of \$950 million and preferred securities of \$1.3 billion were outstanding and recognized in the Consolidated Balance Sheets. Southern Company guarantees the notes related to \$950 million of capital or preferred securities issued on its behalf.

Long-Term Debt Due Within One Year

A summary of the improvement fund requirements and scheduled maturities and redemptions of long-term debt due within one year at December 31 is as follows:

<i>(In millions)</i>	2001	2000
Bond improvement fund requirements	\$ 5	\$11
Less:		
Portion to be satisfied by certifying property additions	1	11
Cash requirements	4	—
First mortgage bond maturities and redemptions	3	—
Other long-term debt maturities	422	67
Total	\$429	\$67

The first mortgage bond improvement fund requirements amount to 1 percent of each outstanding series of bonds authenticated under the indentures prior to January 1 of each year, other than those issued to collateralize pollution control revenue bonds and other obligations. The requirements may be satisfied by depositing cash or reacquiring bonds, or by pledging additional property equal to 1662/3 percent of such requirements.

With respect to the collateralized pollution control revenue bonds, the operating companies have authenticated and delivered to trustees a like principal amount of first mortgage bonds as security for obligations under installment sale or loan agreements. The principal and interest on the first mortgage bonds will be payable only in the event of default under the agreements.

Improvement fund requirements and/or serial maturities through 2006 applicable to total long-term debt are as follows: \$429 million in 2002; \$1.1 billion in 2003; \$894 million in 2004; \$399 million in 2005; and \$226 million in 2006.

Assets Subject to Lien

Each of Southern Company's subsidiaries is organized as a legal entity, separate and apart from Southern Company and its other subsidiaries. The subsidiary companies' mortgages, which secure the first mortgage bonds issued by the companies, constitute a direct first lien on substantially all of the companies' respective fixed property and franchises. Georgia Power expects to discharge its mortgage in early 2002 and that the lien will be removed. There are no agreements or other arrangements among the subsidiary companies under which the assets of one company have been pledged or otherwise made available to satisfy obligations of Southern Company or any of its other subsidiaries.

NOTES (CONTINUED)

Bank Credit Arrangements

At the beginning of 2002, unused credit arrangements with banks totaled \$5.1 billion, of which \$3.7 billion expires during 2002, \$500 million expires during 2003, and \$900 million expires during 2004. The following table outlines the credit arrangements by company:

<i>(in millions)</i>	Amount of Credit			
	Total	Unused	Expires	
			2002	2003 & beyond
COMPANY				
Alabama Power	\$ 964	\$ 964	\$ 574	\$ 390
Georgia Power	1,765	1,765	1,265	500
Gulf Power	103	103	103	—
Mississippi Power	115	115	110	5
Savannah Electric	66	66	46	20
Southern Company	1,500	1,500	1,500	—
Southern Power	850	557	—	557
Other	60	60	60	—
Total	\$5,423	\$5,130	\$3,658	\$1,472

Approximately \$2.9 billion of the credit facilities expiring in 2002 allows for term loans ranging from one to three years. Most of the agreements include stated borrowing rates but also allow for competitive bid loans.

All of the credit arrangements require payment of commitment fees based on the unused portion of the commitments or the maintenance of compensating balances with the banks. These balances are not legally restricted from withdrawal. Included in the \$5.1 billion of unused credit arrangements is \$4.8 billion of syndicated credit arrangements that require the payment of agent fees.

A portion of the \$5.1 billion unused credit with banks is allocated to provide liquidity support to the companies' variable rate pollution control bonds. The amount of variable rate pollution control bonds requiring liquidity support as of December 31, 2001 was \$1.6 billion.

Southern Company and the operating companies borrow through commercial paper programs that have the liquidity support of committed bank credit arrangements. In addition, the companies from time to time borrow under uncommitted lines of credit with banks. The amount of commercial paper outstanding at December 31, 2001 was \$1.8 billion.

[NOTE NINE]**COMMITMENTS****Construction Program**

Southern Company is engaged in continuous construction programs, currently estimated to total \$2.8 billion in 2002, \$2.1 billion in 2003, and \$2.3 billion in 2004. The construction programs are subject to periodic review and revision, and actual construction costs may vary from the above estimates because of numerous factors. These factors include: changes in business conditions; acquisition of additional generating assets; revised load growth estimates; changes in environmental regulations; changes in existing nuclear plants to meet new regulatory requirements; increasing costs of labor, equipment, and materials; and cost of capital. At December 31, 2001, significant purchase commitments were outstanding in connection with the construction program. Southern Company has approximately 4,500 megawatts of additional generating capacity scheduled to be placed in service by 2003, of which 3,900 megawatts will be competitive generation assets.

See Management's Discussion and Analysis under "Environmental Matters" for information on the impact of the Clean Air Act Amendments of 1990 and other environmental matters.

Fuel and Purchased Power Commitments

To supply a portion of the fuel requirements of the generating plants, Southern Company has entered into various long-term commitments for the procurement of fossil and nuclear fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Natural gas purchases are based on various indices at the time of delivery; therefore, only the volume commitments are firm and disclosed in the following chart. Also, Southern Company has entered into various long-term commitments for the purchase of electricity. Total estimated minimum long-term obligations at December 31, 2001, were as follows:

<i>(in millions)</i>	Natural Gas MMBtu	Fuel	Purchased Power
YEAR			
2002	163,595	\$ 2,399	\$ 97
2003	188,245	2,185	100
2004	118,245	1,541	95
2005	66,390	1,218	95
2006	49,085	1,155	95
2007 and thereafter	18,120	3,627	879
Total commitments	603,680	\$12,125	\$1,361

NOTES (CONTINUED)

Operating Leases

In May 2001, Mississippi Power began the initial 10-year term of a lease agreement signed in 1999 for a combined cycle generating facility built at Plant Daniel. The facility cost approximately \$370 million. The lease provides for a residual value guarantee—approximately 71 percent of the completion cost—by Mississippi Power that is due upon termination of the lease in certain circumstances. The lease also includes purchase and renewal options. Upon termination of the lease, Mississippi Power may either exercise its purchase option of the facility or allow it to be sold to a third party. Mississippi Power expects the fair market value of the leased facility to substantially reduce or eliminate its payment under the residual value guarantee. The amount of future minimum operating lease payments exclusive of any payment related to this guarantee will be approximately \$25 million annually during the initial term.

Southern Company has other operating lease agreements with various terms and expiration dates. Total operating lease expenses were \$64 million, \$42 million, and \$35 million for 2001, 2000, and 1999, respectively. At December 31, 2001, estimated minimum rental commitments for noncancelable operating leases were as follows:

<i>(in millions)</i>	Amounts
YEAR	
2002	\$ 74
2003	71
2004	70
2005	66
2006	58
2007 and thereafter	317
Total minimum payments	\$656

In addition to the above rental commitments, Alabama Power and Georgia Power have obligations upon expiration of certain rail car leases with respect to the residual value of the leased property. These leases expire in 2004, 2006, and 2010, and the maximum obligations are \$39 million, \$66 million, and \$40 million, respectively. At the termination of the leases, the lessee may either exercise its purchase option or the property can be sold to a third party. Alabama Power and Georgia Power expect that the fair market value of the leased property would substantially reduce or eliminate the payments under the residual value obligations.

Guarantees

Southern Company has made separate guarantees to certain counterparties regarding performance of contractual commitments by Mirant's trading and marketing subsidiaries. At December 31, 2001, the total original notional amount of guarantees was \$53 million, all of which will expire by 2007. Estimated fair value of these net contractual commitments outstanding was approximately \$25 million. Under the terms of the separation agreement, Mirant may not enter into any new commitments under these guarantees after the spin off date. Based upon a statistical analysis of credit risk, Southern Company's potential exposure under these contractual commitments would not materially differ from the estimated fair value.

Mirant will pay Southern Company a fee of 1 percent annually on the average aggregate maximum principal amount of all guarantees outstanding until they are replaced or expire. Mirant must use reasonable efforts to release Southern Company from all such support arrangements and will indemnify Southern Company for any obligations incurred.

[NOTE TEN]**NUCLEAR INSURANCE**

Under the Price-Anderson Amendments Act of 1988, Alabama Power and Georgia Power maintain agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the companies' nuclear power plants. The act provides funds up to \$9.5 billion for public liability claims that could arise from a single nuclear incident. Each nuclear plant is insured against this liability to a maximum of \$200 million by American Nuclear Insurers (ANI), with the remaining coverage provided by a mandatory program of deferred premiums that could be assessed, after a nuclear incident, against all owners of nuclear reactors. A company could be assessed up to \$88 million per incident for each licensed reactor it operates, but not more than an aggregate of \$10 million per incident to be paid in a calendar year for each reactor. Such maximum assessment, excluding any applicable state premium taxes, for Alabama Power and Georgia Power—based on its ownership and buy-back interests—is \$176 million and \$178 million, respectively, per incident, but not more than an aggregate of \$20 million per company to be paid for each incident in any one year.

Alabama Power and Georgia Power are members of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established

NOTES (CONTINUED)

to provide property damage insurance in an amount up to \$500 million for members' nuclear generating facilities.

Additionally, both companies have policies that currently provide decontamination, excess property insurance, and premature decommissioning coverage up to \$2.25 billion for losses in excess of the \$500 million primary coverage. This excess insurance is also provided by NEIL.

NEIL also covers the additional costs that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can purchase this coverage, subject to a deductible waiting period of between 8 to 26 weeks, with a maximum per occurrence per unit limit of \$490 million. After this deductible period, weekly indemnity payments would be received until either the unit is operational or until the limit is exhausted in approximately three years.

Under each of the NEIL policies, members are subject to assessments if losses each year exceed the accumulated funds available to the insurer under that policy. The current maximum annual assessments for Alabama Power and Georgia Power under the three NEIL policies would be \$35 million and \$39 million, respectively.

Following the terrorist attacks of September 2001, both ANI and NEIL confirmed that terrorist acts against commercial nuclear power plants would be covered under their insurance. However, both companies revised their policy terms on a prospective basis to include an industry aggregate for all terrorist acts. The NEIL aggregate, which applies to all claims stemming from terrorism within a 12-month duration, is \$3.24 billion plus any amounts that would be available through reinsurance or indemnity from an outside source. The ANI cap is \$200 million in a policy year.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies shall be dedicated first for the sole purpose of placing the reactor in a safe and stable condition after an accident. Any remaining proceeds are to be applied next toward the costs of decontamination and debris removal operations ordered by the NRC, and any further remaining proceeds are to be paid either to the company or to its bond trustees as may be appropriate under the policies and applicable trust indentures.

All retrospective assessments—whether generated for liability, property, or replacement power—may be subject to applicable state premium taxes.

[NOTE ELEVEN]

DISCONTINUED OPERATIONS

In April 2000, Southern Company announced an initial public offering of up to 19.9 percent of Mirant and its intentions to spin off the remaining ownership of Mirant to Southern Company stockholders within 12 months of the initial stock offering. On October 2, 2000, Mirant completed its initial public offering of 66.7 million shares of common stock priced at \$22 per share. This represented 19.7 percent of the 338.7 million shares outstanding. As a result of the stock offering, Southern Company recorded a \$560 million increase in paid-in capital with no gain or loss being recognized.

On February 19, 2001, the Southern Company Board of Directors approved the spin off of its remaining ownership of 272 million Mirant shares. On April 2, 2001, the tax-free distribution of Mirant shares was completed at a ratio of approximately 0.4 for every share of Southern Company common stock held at record date.

The distribution resulted in charges of approximately \$3.2 billion and \$0.4 billion to Southern Company's paid-in capital and retained earnings, respectively. The distribution was treated as a non-cash transaction for purposes of the statement of cash flows.

As a result of the spin off, Southern Company's financial statements reflect Mirant's results of operations, balance sheets, and cash flows as discontinued operations. Certain amounts in the cash flows related to intercompany eliminations for 2000 and 1999 have been reclassified from cash provided from operating activities to cash used for discontinued operations.

Summarized financial information for the discontinued operations is as follows at December 31:

<i>(in millions)</i>	2001	2000	1999
Revenues	\$8,182	\$13,315	\$2,265
Income taxes	93	86	127
Net income	142	319	361

<i>(in millions)</i>	2000
Current assets	\$ 9,057
Total assets	22,377
Current liabilities	9,726
Total liabilities	17,585
Minority and other interests	1,472
Net assets of discontinued operations	3,320

NOTES (CONTINUED)

[NOTE TWELVE]**SEGMENT AND RELATED INFORMATION**

Southern Company's reportable business segment is the sale of electricity in the Southeast by the five operating companies and Southern Power. Net income and total assets for discontinued operations are included in the reconciling eliminations column. The all other category includes parent Southern

Company, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include telecommunications, energy products and services, and leasing and financing services. Intersegment revenues are not material. Financial data for business segments and products and services are as follows:

Business Segments

<i>(in millions)</i>	Electric Utilities	All Other	Reconciling Eliminations	Consolidated
YEAR				
2001				
Operating revenues	\$ 9,906	\$ 267	\$ (18)	\$10,155
Depreciation and amortization	1,144	29	-	1,173
Interest income	21	8	(2)	27
Interest expense	591	137	(2)	726
Income taxes	702	(144)	-	558
Segment net income (loss)	1,149	(30)	143	1,262
Total assets	29,389	2,420	(1,985)	29,824
Gross property additions	2,565	52	-	2,617

<i>(in millions)</i>	Electric Utilities	All Other	Reconciling Eliminations	Consolidated
YEAR				
2000				
Operating revenues	\$ 9,860	\$ 246	\$ (40)	\$10,066
Depreciation and amortization	1,135	36	-	1,171
Interest income	21	7	1	29
Interest expense	615	197	-	812
Income taxes	703	(115)	-	588
Segment net income (loss)	1,109	(115)	319	1,313
Total assets	26,820	2,200	2,240	31,260
Gross property additions	2,199	26	-	2,225

<i>(in millions)</i>	Electric Utilities	All Other	Reconciling Eliminations	Consolidated
YEAR				
1999				
Operating revenues	\$ 9,125	\$ 221	\$ (29)	\$ 9,317
Depreciation and amortization	1,046	93	-	1,139
Interest income	23	5	2	30
Interest expense	585	155	(38)	702
Income taxes	675	(76)	-	599
Segment net income (loss)	1,073	(158)	361	1,276
Total assets	25,336	2,127	1,828	29,291
Gross property additions	1,854	27	-	1,881

NOTES (CONTINUED)

Products and Services

<i>(in millions)</i>	Electric Utilities Revenues			
	Retail	Wholesale	Other	Total
YEAR				
2001	\$8,440	\$1,174	\$292	\$9,906
2000	8,600	977	283	9,860
1999	8,090	823	212	9,125

[NOTE THIRTEEN]

QUARTERLY FINANCIAL INFORMATION FOR CONTINUING OPERATIONS (UNAUDITED)

Summarized quarterly financial data for 2001 and 2000 are as follows:

<i>(in millions)</i>	Operating Revenues	Operating Income	Consolidated Net Income	Per Common Share (Note)			
				Basic Earnings	Dividends	Price Range	
						High	Low
QUARTER ENDED							
March 2001	\$2,270	\$475	\$180	\$0.26	\$0.335	\$21.650	\$16.152
June 2001	2,561	585	270	0.40	0.335	23.880	20.890
September 2001	3,165	998	554	0.80	0.335	26.000	22.050
December 2001	2,159	333	116	0.16	0.335	25.980	22.300
March 2000	\$2,052	\$ 428	\$151	\$0.23	\$0.335	\$25.875	\$20.375
June 2000	2,522	598	256	0.39	0.335	27.875	21.688
September 2000	3,198	1,039	523	0.81	0.335	35.000	23.406
December 2000	2,294	340	64	0.09	0.335	33.880	27.500

Southern Company's business is influenced by seasonal weather conditions.

Note: Market price data in 2001 declined as a result of the Mirant spin off.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 1997-2001

	2001	2000	1999	1998	1997
Operating Revenues (in millions)	\$10,155	\$10,066	\$9,317	\$9,499	\$8,774
Total Assets (in millions)	\$29,824	\$31,260	\$29,291	\$28,723	\$27,898
Gross Property Additions (in millions)	\$2,617	\$2,225	\$1,881	\$1,356	\$1,138
Return on Average Common Equity (percent)	13.51	13.20	13.43	10.04	10.30
Cash Dividends Paid Per Share of Common Stock	\$1.34	\$1.34	\$1.34	\$1.34	\$1.30
Consolidated Net Income (in millions):					
Continuing operations	\$1,120	\$ 994	\$ 915	\$986	\$990
Discontinued operations	142	319	361	(9)	(18)
Total	\$1,262	\$1,313	\$1,276	\$977	\$972
Earnings Per Share From Continuing Operations—					
Basic	\$1.62	\$1.52	\$1.33	\$1.41	\$1.45
Diluted	1.61	1.52	1.33	1.41	1.45
Earnings Per Share Including Discontinued Operations—					
Basic	\$1.83	\$2.01	\$1.86	\$1.40	\$1.42
Diluted	1.82	2.01	1.86	1.40	1.42
Capitalization (in millions):					
Common stock equity	\$ 7,984	\$10,690	\$ 9,204	\$ 9,797	\$ 9,647
Preferred stock and securities	2,644	2,614	2,615	2,465	2,155
Long-term debt	8,297	7,843	7,251	6,505	6,347
Total excluding amounts due within one year	\$18,925	\$21,147	\$19,070	\$18,767	\$18,149
Capitalization Ratios (percent):					
Common stock equity	42.2	50.6	48.3	52.2	53.2
Preferred stock and securities	13.9	12.3	13.7	13.1	11.9
Long-term debt	43.9	37.1	38.0	34.7	34.9
Total excluding amounts due within one year	100.0	100.0	100.0	100.0	100.0
Other Common Stock Data (Note):					
Book value per share (year-end)	\$11.43	\$15.69	\$13.82	\$14.04	\$13.91
Market price per share (dollars):					
High	26.000	35.000	29.625	31.563	26.250
Low	16.152	20.375	22.063	23.938	19.875
Close	25.350	33.250	23.500	29.063	25.875
Market-to-book ratio (year-end) (percent)	221.8	211.9	170.0	207.0	186.0
Price-earnings ratio (year-end) (times)	15.6	16.5	12.6	20.8	18.2
Dividends paid (in millions)	\$922	\$873	\$921	\$933	\$889
Dividend yield (year-end) (percent)	5.3	4.0	5.7	4.6	5.0
Dividend payout ratio (percent)	82.4	66.5	72.2	95.6	91.5
Shares outstanding (in thousands):					
Average	689,352	653,087	685,163	696,944	685,033
Year-end	698,344	681,158	665,796	697,747	693,423
Stockholders of record (year-end)	150,242	160,116	174,179	187,053	200,508
Customers (year-end) (in thousands):					
Residential	3,441	3,398	3,339	3,277	3,220
Commercial	539	527	513	497	479
Industrial	14	14	15	15	16
Other	4	5	4	5	5
Total	3,998	3,944	3,871	3,794	3,720
Employees (year-end)	26,122	26,021	26,269	25,206	24,682

Note: Common stock data in 2001 declined as a result of the Mirant spin off.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 1997-2001 (CONTINUED)

	2001	2000	1999	1998	1997
Operating Revenues (in millions):					
Residential	\$ 3,247	\$ 3,361	\$3,107	\$3,167	\$2,836
Commercial	2,966	2,918	2,745	2,766	2,594
Industrial	2,144	2,289	2,238	2,268	2,138
Other	83	32	—	79	77
Total retail	8,440	8,600	8,090	8,280	7,645
Sales for resale within service area	338	377	350	374	376
Sales for resale outside service area	836	600	473	522	510
Total revenues from sales of electricity	9,614	9,577	8,913	9,176	8,531
Other revenues	541	489	404	323	243
Total	\$10,155	\$10,066	\$9,317	\$9,499	\$8,774
Kilowatt-Hour Sales (in millions):					
Residential	44,538	46,213	43,402	43,503	39,217
Commercial	46,939	46,249	43,387	41,737	38,926
Industrial	52,891	56,746	56,210	55,331	54,196
Other	977	970	945	929	903
Total retail	145,345	150,178	143,944	141,500	133,242
Sales for resale within service area	9,388	9,579	9,440	9,847	9,884
Sales for resale outside service area	21,380	17,190	12,929	12,988	13,761
Total	176,113	176,947	166,313	164,335	156,887
Average Revenue Per Kilowatt-Hour (cents):					
Residential	7.29	7.27	7.16	7.28	7.23
Commercial	6.32	6.31	6.33	6.63	6.66
Industrial	4.05	4.03	3.98	4.10	3.95
Total retail	5.81	5.73	5.62	5.85	5.74
Sales for resale	3.82	3.65	3.68	3.92	3.75
Total sales	5.46	5.41	5.36	5.58	5.44
Average Annual Kilowatt-Hour Use Per Residential Customer	13,014	13,702	13,107	13,379	12,296
Average Annual Revenue Per Residential Customer	\$948.83	\$996.44	\$938.39	\$973.94	\$889.29
Plant Nameplate Capacity Owned (year-end) (megawatts)	34,579	32,807	31,425	31,161	31,146
Maximum Peak-Hour Demand (megawatts):					
Winter	26,272	26,370	25,203	21,108	22,969
Summer	29,700	31,359	30,578	28,934	27,334
System Reserve Margin (at peak) (percent)	19.3	8.1	8.5	12.8	15.0
Annual Load Factor (percent)	62.0	60.2	59.2	60.0	59.4
Plant Availability (percent):					
Fossil-steam	88.1	86.8	83.3	85.2	88.2
Nuclear	90.8	90.5	89.9	87.8	88.8
Source of Energy Supply (percent):					
Coal	67.5	72.3	73.1	72.8	74.7
Nuclear	15.2	15.1	15.7	15.4	16.5
Hydro	2.6	1.5	2.3	3.9	4.3
Oil and gas	8.4	4.0	2.8	3.3	1.7
Purchased power	6.3	7.1	6.1	4.6	2.8
Total	100.0	100.0	100.0	100.0	100.0

BOARD OF DIRECTORS



Daniel P. Amos
Chairman and Chief Executive Officer
 AFLAC Incorporated
 (insurance)
 Columbus, Georgia
 Age 50; elected 2000



Dorrit J. Bern
Chairman, President, and Chief Executive Officer
 Charming Shoppes Inc.
 (retail)
 Bensalem, Pennsylvania
 Age 51; elected 1999



Thomas F. Chapman
Chairman and Chief Executive Officer
 Equifax Inc.
 (information services and transaction processing)
 Atlanta, Georgia
 Age 58; elected 1999



Allen Franklin
Chairman, President, and Chief Executive Officer
 Southern Company
 Atlanta, Georgia
 Age 57; elected 1988



Bruce S. Gordon
President-Retail Markets Group
 Verizon Communications
 (telecommunications)
 New York, New York
 Age 56; elected 1994

The Southern Company board of directors met six times in 2001.

At its Oct. 15, 2001, meeting, the board approved a regular quarterly dividend of 33 1/2 cents per share on the company's common stock, marking the 216th consecutive quarter—dating back to 1948—that Southern Company would pay a dividend to its shareholders.

The Audit Committee, which consists of four outside directors, met nine times in 2001 to oversee the company's auditing, accounting, financial reporting, legal compliance, and internal control functions. The committee also reviewed independent public accountant's reports on the company's financial statements, significant changes in accounting principles and practices, and significant proposed adjustments. The Audit Committee recommends the independent public accountants to the board and reviews their services, fees, and the scope and timing of audits.

The Compensation and Management Succession Committee, consisting of four outside directors, held four meetings in 2001 to

approve goals and to evaluate the performance of executive officers and recommend their compensation. The committee also administered the executive compensation plans and reviewed management succession plans.

The Governance Committee, consisting of four outside directors, met three times in 2001. The committee reviewed corporate governance issues, considered and recommended to the board the nominees for election as directors and committee memberships, and reviewed director compensation.

In six meetings in 2001, the Finance Committee, consisting of three outside directors, reviewed financial matters, including dividend philosophy and capital expenditures.

The Nuclear Oversight Committee, of which Dr. Zack T. Pate is sole member, reviewed nuclear operations activities.

Elmer B. Harris, a member of the Southern Company board and Alabama Power's chairman of the board, retired in January 2002 after 44 years with the company.



L.G. Hardman III
Chairman
 nBank Corp.
 (banking)
 Commerce, Georgia
 Age 62; elected 1986



Donald M. James
*Chairman and Chief
 Executive Officer*
 Vulcan Materials Company
 (construction materials,
 industrial chemicals)
 Birmingham, Alabama
 Age 52; elected 1999



Zack T. Pate
Chairman Emeritus
 Institute of Nuclear Power
 Operations
 (nuclear power industry)
 Atlanta, Georgia
 Age 65; elected 1998



Jerry St. Pe'
*Co-Founder, Co-Owner
 and Managing Partner*
 Delta Health Group Inc.
 (health care)
 Pensacola, Florida
 Age 62; elected 1995

2001 COMMITTEES OF THE BOARD

Audit Committee

L.G. Hardman III, *Chairman*
 Dorrit J. Bern
 Zack T. Pate
 Jerry St. Pe'

Compensation and Management Succession Committee

Jerry St. Pe', *Chairman*
 Daniel P. Amos
 Thomas F. Chapman
 L.G. Hardman III

Governance Committee

Bruce S. Gordon, *Chairman*
 Dorrit J. Bern
 Thomas F. Chapman
 Donald M. James

Finance Committee

Donald M. James, *Chairman*
 Daniel P. Amos
 Bruce S. Gordon

Nuclear Oversight Committee

Zack T. Pate, *Chairman*

OFFICERS



Allen Franklin
Chairman, President, and Chief Executive Officer
 Previously Chief Operating Officer and President, Southern Company; President and Chief Executive Officer, Georgia Power; President and Chief Executive Officer, Southern Company Services; held executive and management positions in engineering, fuel, operations, and environmental affairs ... age 57 ... joined Southern Company in 1970.



David M. Ratcliffe
Executive Vice President
 Also, President and Chief Executive Officer, Georgia Power ... Previously President and Chief Executive Officer, Mississippi Power; held executive and management positions in environmental affairs, external affairs, finance, fuel services, marketing and research, operations, and planning ... age 53 ... joined Southern Company in 1971.



Gale E. Kiappa
Executive Vice President and Chief Financial Officer
 Also, responsible for corporate strategy ... Previously Chief Strategic Officer and Chief Marketing Officer, Southern Company; President of North America Group, Mirant; President and Chief Executive Officer, SWEB; held executive and management positions in competitive generation, forecasting, marketing and pricing, consumer research, and external affairs ... age 51 ... joined Southern Company in 1974.



Dwight H. Evans
Executive Vice President
 Also, President of External Affairs Group, Southern Company, responsible for directing environmental policy, regulatory and legislative affairs, corporate communication, and procurement ... Previously President and Chief Executive Officer, Mississippi Power; held executive positions in external affairs and governmental affairs ... age 53 ... joined Southern Company in 1970.



W. Dean Hudson
Comptroller
 Also, Chief Accounting Officer. Responsible for accounting, tax, and Securities and Exchange Commission filings ... Previously held executive and management positions in accounting and tax ... age 55 ... joined Southern Company in 1973.



Tommy Chisholm
Secretary and Assistant Treasurer
 Also, associate general counsel. Responsible for corporate governance activities, government contract compliance, stock transfer, and stockholder relations functions ... Previously held management positions in engineering, rates, administrative services, legislative and regulatory affairs ... age 60 ... joined Southern Company in 1964.



Timothy L. Fallaw
Assistant Comptroller
 Responsible for tax filings and planning ... Previously held management positions in tax research and planning ... age 50 ... joined Southern Company in 1980.



Leonard J. Haynes

Executive Vice President

Also, Chief Marketing Officer, Southern Company... Previously Senior Vice President of Retail Marketing, Georgia Power, with additional responsibility for Savannah Electric and Southern Company National Accounts; Vice President of Retail Sales and Services, Georgia Power; Vice President of Marketing, Georgia Power; held executive and management positions in power delivery, marketing, and strategic planning... age 51... joined Southern Company in 1977.



G. Edison Holland

Executive Vice President and General Counsel

Also, responsible for human resources, information resources, transmission, compliance, and corporate security... Previously President and Chief Executive Officer, Savannah Electric; Vice President of Power Generation/Transmission and Corporate Counsel, Gulf Power; held executive and corporate counsel positions with Gulf Power and Southern Company... age 49... joined Southern Company in 1992.



Charles D. McCrary

Executive Vice President

Also, President and Chief Executive Officer, Alabama Power... Previously Chief Production Officer, Southern Company; President, Southern Company Generation and Energy Marketing; President, Southern Power; held executive and management positions in external affairs, nuclear operations, and environmental affairs... age 50... joined Southern Company in 1973.



Patricia L. Roberts

Assistant Secretary

Responsible for government contract compliance and other various legal services... Previously held management positions in corporate compliance... age 47... joined Southern Company in 1986.



David R. Altman

Vice President

Responsible for advertising, media relations, stockholder communication, and other corporate communication... Previously held executive and management positions in corporate communication... age 49... joined Southern Company in 1978.



Joseph A. Miller

Vice President

Responsible for governmental relations... Previously held executive and management positions in governmental relations and nuclear generation... age 40... joined Southern Company in 1986.

SHAREHOLDER INFORMATION

Transfer Agent

SCS Stockholder Services is Southern Company's transfer agent, dividend paying agent, investment plan administrator, and registrar. If you have questions concerning your Southern Company stockholder account, please contact:

SCS Stockholder Services
P.O. Box 54250
Atlanta, GA 30308-0250

Stockholder Services' Internet site www.southerncompany.com provides transfer instructions, service request forms, and frequently asked questions and answers.

You may also call the Stockholder Information Line at (800) 554-7626. Representatives are available Monday through Friday, 9 a.m. to 5 p.m. Eastern Time.

Southern Investment Plan

Southern Investment Plan (SIP) provides current Southern Company shareholders with a convenient and economical way to increase their holdings. SIP also enables investors who are not currently shareholders to purchase common stock directly through the plan. Access www.southerncompany.com to review the Prospectus and New Investor Enrollment Form.

Dividend Payments

The entire amount of dividends paid during 2001 is taxable as ordinary income.

The board of directors sets the record and payment dates for quarterly dividends. A dividend of 33 1/2 cents was paid in March 2002.

For the remainder of 2002, projected record dates are May 6, Aug. 5, and Nov. 4. Projected payment dates for dividends declared during the remainder of 2002 are June 6, Sept. 6, and Dec. 6

Internet Account Access

Registered stockholders can access their account information on the Internet at <http://investor.southerncompany.com>. Click on Stockholder Services.

Stockholders can securely view detailed account information – including share balance, market value, and dividend payment details – as well as change their account mailing address.

Annual Meeting

The 2002 Annual Meeting of Stockholders will be held on Wednesday, May 22, at 10 a.m. EDT at the Ritz-Carlton Lodge in Greensboro, Georgia.

2001 Auditors

Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, GA 30303

Investor Information Line

For recorded information about earnings and dividends, stock quotes, and current news releases, call toll-free (866) 762-6411.

Institutional Investor Inquiries

Southern Company maintains an investor relations office in Atlanta, (404) 506-5195, to meet the information needs of institutional investors and security analysts.

Eliminate Duplicate Mailings

If you are a stockholder of record and receive multiple copies of the annual report and proxy statement, or wish to access these documents electronically in the future, you may authorize Southern Company to suspend future mailings of these documents to a specific account. To do so, consent when you vote your proxy or check the box on the dividend check stub or investment plan statement and mail it to SCS Stockholder Services.

Environmental Information

Southern Company's 2001 Environmental Progress Report and more information about what the company is doing to improve the environment are available at our environmental Internet site www.southerncompany.com/site/planetpower. For printed copies of the Progress Report or to request other environmental information, write to:

Dr. Charles H. Goodman
Senior Vice President, Research and Environmental Affairs
600 North 18th Street
P.O. Box 2641
Birmingham, AL 35203-2206

GLOSSARY

Competitive generation business—linking assets with trading and marketing to provide energy to wholesale customers who can choose their suppliers based on price, reliability, capacity, and other market needs.

Earnings per share—net income divided by the average number of shares of common stock outstanding.

Energy trading and marketing—the buying and selling of energy according to market needs without the restriction of defined service areas.

Federal Energy Regulatory Commission (FERC)—an independent agency within the U.S. Department of Energy that, among other things, regulates wholesale sales of electricity and transmission in interstate commerce.

Generating capacity—the amount of energy we can produce using all of our power generation facilities.

Independent power producer—an entity that builds and/or owns and operates generating facilities without any geographic or service area restrictions or relationships to traditional regulated facilities.

Payout ratio—the percentage of earnings that is paid to shareholders in the form of dividends.

Regional Transmission Organization (RTO)—a mechanism under which public utility transmission facilities in a geographic region are put under common control of an independent, incentive-driven, third-party operator that manages—but does not own—the assets.

Regulated business—the part of our business that generates, transmits, and distributes electricity to commercial, industrial, and residential customers in most of Alabama and Georgia, the Florida panhandle, and southeastern Mississippi.

Retail markets—markets in which energy is directly sold and delivered to the ultimate end-users of that energy.

Super Southeast—the vibrant region and energy market that includes the four states of our traditional Southeastern service area as well as surrounding states. The region we know best.

Total shareholder return—return on investment, including stock price appreciation plus dividends.

Wholesale customers—energy marketers, electric and gas utilities, municipal utilities, rural electric cooperatives, and other entities that buy power for resale to retail customers.

Wholesale markets—markets in which relatively large amounts of energy are sold to customers who may then sell it in retail markets or—in the case of large industrial customers—use it.

Subsidiaries, Affiliates and Business Units

Alabama Power, Georgia Power, Gulf Power, Mississippi Power, Savannah Electric, Southern Nuclear, Southern Company Generation and Energy Marketing, Southern Power, Southern Company Energy Solutions, Southern LINC, Southern Telecom

Southern Company

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Internet

Current information about Southern Company is available on the Internet at www.southerncompany.com.

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SO 2001

Southern Company is the premier super-regional energy company in the Southeast, where we serve 4 million customers with nearly 35,000 megawatts of generating capacity, high reliability, excellent customer service, and low prices. We are committed to creating shareholder value by focusing on the business we know best.



Energy to Serve Your World