One Energy Place
Pensacola, Florida 32520

850.444.6111

ORIGINAL
SCANNED

March 30, 2000

GULF POWER
A SOUTHERN COMPANY

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Tallahassee, Florida 32399-0870

Dear Ms. Bayo:

Re: Docket No. 990068-EI, Order Number PSC-99-0746-FOF-EI
Application of Gulf Power Company for authority to receive common equity contributions and to issue and sell securities

An original and three copies of the Consummation Report dated March 30, 2000, and four copies of the exhibits are enclosed with this letter for filing in the above referenced dockets.

Sincerely,

Linda G. Malone

Linda G. Malone
Assistant Secretary and
Assistant Treasurer

ck

Enclosures

AFA Samaca
APP
CAF
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cc: E. W. Boston, Southern Company Services
S. D. Ritenour, Gulf Power Company
J. A. Stone, Beggs & Lane

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Application of Gulf Power Company for authority to receive common equity contributions and to issue and sell securities.	)	Docket No.: 990068-EI Filed: March 30, 2000

TO THE HONORABLE FLORIDA PUBLIC SERVICE COMMISSION:

CONSUMMATION REPORT

GULF POWER COMPANY ("Gulf Power", "Gulf", or "the Company"), by and through its undersigned representative, and pursuant to Rule 25-8.009, Florida Administrative Code, and the reporting requirements of Order No. PSC-99-0746-FOF-EI entered in Docket No. 990068-EI on April 19, 1999, hereby reports for the fiscal year ending December 31, 1999:

A. 1. After negotiated arrangements, on August 17, 1999, Gulf Power Company the"Company") entered into an Underwriting Agreement with Bear, Stearns & Co. Inc., (the "Underwriter"), as Representative of the underwriters, for the purchase of an aggregate of $50,000,000 (denominations and multiples of $1,000 each) principal amount of Series B 7.05% Senior Notes (the "Notes") due August 15, 2004. The Depository Trust Company ("DTC") will act as the initial securities depositary for the notes. The notes will be issued only as fully registered securities in the name of Cede & Co., DTC's nominee. On August 24, 1999, the Company delivered such notes to the Underwriter. On August 24, 1999, the

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Company received $49,854,000 representing payment in full of the purchase price, which constitutes the purchase price for the notes at 99.935% of the principal amount less $113,500 (0.227%) underwriting discount and commissions of the underwriters for their services.

2. The proceeds from the sale of the new notes were used to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $72,500,000 as of August 17, 1999.
3. Interest on the new notes will be payable at the rate of 7.05% per annum and payable semi-annually in arrears on February 15 and August 15 of each year, commencing February 15, 2000.
4. The notes will be direct, unsecured and unsubordinated obligations of the Company ranking pari passu (equal in priority) with all other unsecured and unsubordinated obligations of the Company.

Pursuant to Rule 25-8.009, F.A.C., Gulf Power Company submits the following documents relative to the issuance of the above referenced Senior Notes:

B. Exhibits for $50,000,000 7.05% Senior Notes:

1. Underwriting Agreement dated August 17, 1999, between Gulf Power Company and Bear, Stearns & Co. Inc.
2. Senior Note Indenture dated as of January 1, 1998, between Gulf Power Company and The Chase Manhattan Bank, Trustee.
3. First Supplemental Indenture, dated June 24, 1998, to the Senior Note Indenture, between Gulf Power Company and The Chase Manhattan Bank, Trustee.
4. Second Supplemental Indenture, dated August 24, 1999, to the Note Indenture, between Gulf Power Company and The Chase Manhattan Bank, Trustee.
5. Prospectus supplement dated August 17, 1999 and prospectus dated December 30, 1997.
6. Opinion dated August 24, 1999 of Beggs & Lane, general counsel for the Company.
7. Opinion dated August 24, 1999 of Troutman Sanders LLP, counsel for the Company.
8. Opinion dated August 24, 1999 of Cravath, Swaine & Moore, counsel for the Trustee.
9. Form S-3 Registration Statement Nos. 333-42033, 333-42033-01, and 333-42033-02 as filed with the Securities Exchange Commission on December 11, 1997 under the Securities Act of 1933.

10. Statement on Form U-1 dated February 6, 1998, and amended on April 14 and May 12, 1998; and Certificate of Notification dated August 19, 1999, relating to among other things, the 7.05% Senior Notes, and Finance Statements made a part thereof filed with Securities and Exchange Commission File No. 70-9171 under the Public Utility Holding Company Act of 1935.

11. 10-K for the year ended December 31, 1998, filed with the Securities and Exchange Commission, File No. 0-2429, and 10-Q for the quarter ended September 30, 1999, filed with the Securities and Exchange Commission File No. 0-2429. On page 46 of the 10-Q is shown the Pro Forma Capitalization and Pretax Interest Coverage Statements. On page 43 of the 10-Q is shown the debt interest and preferred stock dividend requirements.

12. Description of Underwriters.

13. Report of Expenses.

Respectfully submitted,

Linda G. Malone

Linda G. Malone
Assistant Secretary and
Assistant Treasurer

Dated March 30, 2000

$50,000,000 Series B 7.05% Senior Notes

due August 15, 2004

GULF POWER COMPANY

UNDERWRITING AGREEMENT

August 17, 1999

Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167
as Representative of the Underwriters

Ladies and Gentlemen:

Gulf Power Company, a Maine corporation (the "Company"), confirms its agreement (the "Agreement") with the Underwriters named in Schedule I hereto (the "Underwriters", which term shall include any underwriter substituted as hereinafter provided in Section 10 hereof) for whom you are acting as representative (the "Representative"), with respect to the sale by the Company and the purchase by the Underwriters, acting severally but not jointly, of $50,000,000 principal amount of the Series B 7.05% Senior Notes due August 15, 2004 (the "Senior Notes") as set forth in Schedule I hereto.

The Company understands that the Underwriters propose to make a public offering of the Senior Notes as soon as the Underwriters deem advisable after this Agreement has been executed and delivered. The Senior Notes will be issued pursuant to an indenture, dated as of January 1, 1998, as heretofore supplemented (the "Base Indenture"), between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as supplemented by a second supplemental indenture to the Base Indenture relating to the Senior Notes (the "Supplemental Indenture," and together with the Base Indenture and any other amendments or supplements thereto, the "Indenture"), between the Company and the Trustee.

SECTION 1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to the Underwriters as follows:

(a) A registration statement on Form S-3, as amended (File Nos. 333-42033, 333-42033-01 and 333-42033-02), in respect of the Senior Notes and certain other securities has been prepared and filed in accordance with the provisions of the Securities Act of 1933, as amended (the "1933 Act"), with the Securities and Exchange Commission (the "Commission"); such registration statement, as amended, and any post-effective amendment thereto, each in the form heretofore delivered or to be delivered to the Underwriters, has been declared effective by the Commission in such form (except that copies of the registration statement, as

amended, and any post-effective amendment delivered to the Underwriters need not include exhibits but shall include all documents incorporated by reference therein); and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission (any preliminary prospectus, as supplemented by a preliminary prospectus supplement, included in such registration statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the 1933 Act, being hereinafter called a "Preliminary Prospectus"); such registration statement, as it became effective, including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 at the time such registration statement became effective, being hereinafter called the "Registration Statement"; the prospectus relating to the Senior Notes, in the form in which it was included in the Registration Statement at the time it became effective, being hereinafter called the "Prospectus"; any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the 1933 Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "1934 Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the 1934 Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and the Prospectus as amended or supplemented in final form by a prospectus supplement relating to the Senior Notes in the form in which it is filed with the Commission, pursuant to Rule 424(b) under the 1933 Act in accordance with Section 3(f) hereof, including any documents incorporated by reference therein as of the date of such filing, being hereinafter called the "Final Supplemented Prospectus".

(b) The documents incorporated by reference in the Registration Statement or Prospectus, when they were filed with the Commission, complied in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder, and as of such time of filing, when read together with the Prospectus, none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, will comply in all material respects with the applicable provisions of the 1934 Act and the rules and regulations of the Commission thereunder and, when read together with the Prospectus as it otherwise may be amended or

supplemented, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the Company makes no warranty or representation to the Underwriters with respect to: (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Representative expressly for use in the Final Supplemented Prospectus; or (B) any information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes - Book-Entry Only Issuance -- The Depository Trust Company."

(c) The Registration Statement and the Prospectus, as of the effective date of the Registration Statement, complied, and the Final Supplemented Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus, when any such post-effective amendments are declared effective or supplements are filed with the Commission, as the case may be, will comply, in all material respects with the applicable provisions of the 1933 Act, the 1934 Act, the 1939 Act (hereinafter defined) and the General Rules and Regulations of the Commission thereunder and did not and will not, (i) as of the applicable effective date as to the Registration Statement and any amendment thereto and (ii) as of the applicable filing date as to the Final Supplemented Prospectus and any Prospectus as further amended or supplemented, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the Company makes no warranties or representations with respect to (A) that part of the Registration Statement which shall constitute the Statements of Eligibility (Form T-1) (collectively, the "Form T-1") under the Trust Indenture Act of 1939, as amended (the "1939 Act"), (B) statements or omissions made in the Registration Statement or the Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Representative expressly for use therein or (C) any information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes - Book-Entry Only Issuance -- The Depository Trust Company."

(d) With respect to the Registration Statement, the conditions for use of Form S-3, as set forth in the General Instructions thereof, have been satisfied.

(e) Since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, except as otherwise stated therein, there has been no material adverse change in the business, properties or financial condition of the Company.

(f) The Company is a corporation duly organized and existing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is

engaged and to own and operate the properties used by it in such business, to enter into and perform its obligations under this Agreement and the Indenture and to issue and sell the Senior Notes to the Underwriters.

(g) This Agreement has been duly authorized, executed and delivered by the Company.

(h) The Indenture has been duly authorized by the Company and, on the Closing Date, will have been duly executed and delivered by the Company, and, assuming due authorization, execution and delivery of the Indenture by the Trustee, the Indenture will, on the Closing Date, constitute a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, receivership, liquidation, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally or (2) general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity) (the "Enforceability Exceptions"); the Indenture will conform in all material respects to all statements relating thereto contained in the Final Supplemented Prospectus; and, on the Closing Date, the Indenture will have been duly qualified under the 1939 Act.

(i) The issuance and delivery of the Senior Notes have been duly authorized by the Company and, on the Closing Date, the Senior Notes will have been duly executed by the Company and, when authenticated in the manner provided for in the Indenture and delivered against payment therefor as described in the Final Supplemented Prospectus, will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except to the extent that enforcement thereof may be limited by the Enforceability Exceptions, will be in the form contemplated by, and entitled to the benefits of, the Indenture and will conform in all material respects to all statements relating thereto in the Final Supplemented Prospectus.

(j) The execution, delivery and performance by the Company of this Agreement, the Indenture and the Senior Notes and the consummation by the Company of the transactions contemplated herein and therein and compliance by the Company with its obligations hereunder and thereunder shall have been duly authorized by all necessary corporate action on the part of the Company and do not and will not result in any violation of the charter or bylaws of the Company, and do not and will not conflict with, or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company under (A) any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument to which the Company is a party or by which it may be bound or to which any of its properties may be subject (except for conflicts, breaches or defaults which would not, individually or in the aggregate, be materially adverse to the Company or materially adverse to the transactions contemplated by this Agreement), or (B) any existing applicable law, rule, regulation, judgment, order

or decree of any government, governmental instrumentality or court, domestic or foreign, or any regulatory body or administrative agency or other governmental body having jurisdiction over the Company, or any of its properties.

(k) No authorization, approval, consent or order of any court or governmental authority or agency is necessary in connection with the issuance and sale by the Company of the Senior Notes or the transactions by the Company contemplated in this Agreement, except (A) such as may be required under the 1933 Act or the rules and regulations thereunder; (B) such as may be required under the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"); (C) the qualification of the Indenture under the 1939 Act; (D) the approval of the Florida Public Service Commission (the "Florida Commission"); and (E) such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws.

SECTION 2. SALE AND DELIVERY TO THE UNDERWRITERS; CLOSING.

(a) On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter, severally and not jointly, agrees to purchase from the Company, the principal amount of Senior Notes set forth in Schedule I to this Agreement opposite the name of such Underwriter (plus any additional amount that such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof) at a price equal to 99.708% of the principal amount thereof.

(b) Payment for and delivery of certificates for the Senior Notes shall be made at the offices of Troutman Sanders LLP, 600 Peachtree Street, N.E., Suite 5200, Atlanta, Georgia at 10:00 A.M., Atlanta time, on August 24, 1999 (unless postponed in accordance with the provisions of Section 10) or such other time, place or date as shall be agreed upon by the Underwriters and the Company (such time and date of payment and delivery being herein called the "Closing Date"). Payment shall be made to the Company by wire transfer in federal funds at the Closing Date against delivery of the Senior Notes to the Underwriters.

The delivery of the Senior Notes shall be made in fully registered form, registered in the name of CEDE & CO., to the offices of The Depository Trust Company in New York, New York or its designee, and the Representative shall accept such delivery.

The certificate(s) for the Senior Notes will be made available for examination by the Representative not later than 12:00 Noon, New York time, on the last business day prior to the Closing Date.

SECTION 3. COVENANTS OF THE COMPANY. The Company covenants with the Underwriters as follows:

(a) The Company, on or prior to the Closing Date, will deliver to the Underwriters conformed copies of the Registration Statement as originally filed and of all amendments thereto, heretofore or hereafter made, including any post-effective amendment (in each case including all exhibits filed therewith, and including unsigned copies of each consent and certificate included therein or filed as an exhibit thereto, except exhibits incorporated by reference, unless specifically requested). As soon as the Company is advised thereof, it will advise the Representative orally of the issuance of any stop order under the 1933 Act with respect to the Registration Statement, or the institution of any proceedings therefor, of which the Company shall have received notice, and will use its best efforts to prevent the issuance of any such stop order and to secure the prompt removal thereof, if issued. The Company will deliver to the Representative sufficient conformed copies of the Registration Statement, the Prospectus and the Final Supplemented Prospectus and of all supplements and amendments thereto (in each case without exhibits) for distribution to the Underwriters and, from time to time, as many copies of the Prospectus and the Final Supplemented Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act or the 1934 Act.

(b) The Company will furnish the Underwriters with copies of each amendment and supplement to the Final Supplemented Prospectus relating to the offering of the Senior Notes in such quantities as the Underwriters may from time to time reasonably request. If, during the period (not exceeding nine months) when the delivery of a prospectus shall be required by law in connection with the sale of any Senior Notes by an Underwriter, any event relating to or affecting the Company, or of which the Company shall be advised in writing by the Representative, shall occur, which in the opinion of the Company or of Underwriters' counsel should be set forth in a supplement to or an amendment of the Final Supplemented Prospectus in order to make the Final Supplemented Prospectus not misleading in the light of the circumstances when it is delivered, or if for any other reason it shall be necessary during such period to amend or supplement the Final Supplemented Prospectus or to file under the 1934 Act any document incorporated by reference in the Preliminary Prospectus or Prospectus in order to comply with the 1933 Act or the 1934 Act, the Company forthwith will (i) notify the Underwriters to suspend solicitation of purchases of the Senior Notes and (ii) at its expense, make any such filing or prepare and furnish to the Underwriters a reasonable number of copies of a supplement or supplements or an amendment or amendments to the Final Supplemented Prospectus which will supplement or amend the Final Supplemented Prospectus so that, as supplemented or amended, it will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances when the Final Supplemented Prospectus is delivered, not misleading or which will effect any other necessary compliance. In case any Underwriter is required to deliver a prospectus in connection with the sale of any Senior Notes after the expiration of the period specified in the preceding sentence, the Company, upon the request of such Underwriter, will furnish to such Underwriter, at the expense of such Underwriter, a reasonable quantity of a

supplemented or amended prospectus, or supplements or amendments to the Final Supplemented Prospectus, complying with Section 10(a) of the 1933 Act. During the period specified in the second sentence of this subsection, the Company will continue to prepare and file with the Commission on a timely basis all documents or amendments required under the 1934 Act and the rules and regulations thereunder; provided, that the Company shall not file such documents or amendments without also furnishing copies thereof prior to such filing to the Representative and Dewey Ballantine LLP.

(c) The Company will endeavor, in cooperation with the Underwriters, to qualify the Senior Notes for offering and sale under the applicable securities laws of such states and the other jurisdictions of the United States as the Representative may designate; provided, however, that the Company shall not be obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to file a consent to service of process or to file annual reports or to comply with any other requirements in connection with such qualification deemed by the Company to be unduly burdensome.

(d) The Company will make generally available to its security holders as soon as practicable but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company (in form complying with the provisions of Rule 158 of the rules and regulations under the 1933 Act) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158) of the Registration Statement.

(e) During a period of 15 days from the date of this Agreement, the Company will not, without the Representative's prior written consent, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Senior Notes or any security convertible into or exchangeable into or exercisable for the Senior Notes or any debt securities substantially similar to the Senior Notes (except for the Senior Notes issued pursuant to this Agreement).

(f) As soon as practicable after the date of this Agreement, and in any event within the time prescribed by Rule 424 under the 1933 Act, to file the Final Supplemented Prospectus with the Commission and to advise the Representative of such filing and to confirm such advice in writing.

SECTION 4. PAYMENT OF EXPENSES. The Company will pay all expenses incidental to the performance of its obligations under this Agreement, including but not limited to, the expenses of (i) the printing and filing of the Registration Statement as originally filed and of each amendment thereto, (ii) the preparation, issuance and delivery of the certificate(s) for the Senior Notes, (iii) the fees and disbursements of the Company's counsel and accountants, (iv) the qualification of the Senior Notes under securities laws in accordance with the provisions of Section 3(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any blue sky survey (such

fees and disbursements of counsel shall not exceed $3,500), (v) the printing and delivery to the Underwriters of copies of the Registration Statement as originally filed and of each amendment thereto and of the Prospectus, the Final Supplemented Prospectus, and any amendments or supplements thereto, (vi) the printing and delivery to the Underwriters of copies of any blue sky survey, (vii) the fee of the National Association of Securities Dealers, Inc. in connection with its review of the offering contemplated by this Agreement, if applicable, (viii) the fees and expenses of the Trustee, including the fees and disbursements of counsel for the Trustee in connection with the Indenture and the Senior Notes, (ix) any fees payable in connection with the rating of the Senior Notes, (x) the cost and charges of any transfer agent or registrar and (xi) the cost of qualifying the Senior Notes with The Depository Trust Company.

Except as otherwise provided in Section 9 hereof, the Underwriters shall pay all other expenses incurred by it in connection with its offering of the Senior Notes including fees and disbursements of its counsel, Dewey Ballantine LLP.

SECTION 5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Senior Notes are subject to the following conditions:

(a) No stop order suspending the effectiveness of the Registration Statement shall be in effect on the Closing Date and no proceedings for that purpose shall be pending before, or to the knowledge of the Company threatened by, the Commission on such date. If filing of the Final Supplemented Prospectus, or any supplement thereto, is required pursuant to Rule 424, the Final Supplemented Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424.

(b) Any required orders of the Commission permitting the transactions contemplated hereby substantially in accordance with the terms and conditions hereof shall be in full force and effect and shall contain no provision unacceptable to the Underwriters or the Company (but all provisions of such order or orders heretofore entered, copies of which have heretofore been delivered to the Representative, are deemed acceptable to the Underwriters and the Company and all provisions of such order or orders hereafter entered shall be deemed acceptable to the Underwriters and the Company unless within 24 hours after receiving a copy of any such order any party to this Agreement shall give notice to the other parties to the effect that such order contains an unacceptable provision).

(c) On the Closing Date the Representative shall have received:

(1) The opinion, dated the Closing Date, of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), general counsel for the Company, substantially in the form attached hereto as Schedule II-A.

(2) The opinion, dated the Closing Date, of Troutman Sanders LLP, counsel for the Company, substantially in the form attached hereto as Schedule II-B.

(3) The opinion, dated the Closing Date, of Cravath, Swaine & Moore, counsel to the Trustee, substantially in the form attached hereto as Schedule III.

(4) The opinion, dated as of the Closing Date, of Dewey Ballantine LLP, counsel for the Underwriters, substantially in the form attached hereto as Schedule IV.

(5) At the Closing Date, there shall not have been, since the date hereof or since the respective dates as of which information is given in the Registration Statement and the Final Supplemented Prospectus, any material adverse change in the business, properties or financial condition of the Company, whether or not arising in the ordinary course of business, and the Underwriters shall have received a certificate of the President or any Vice President of the Company, and dated as of the Closing Date, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties in Section 1 hereof are true and correct with the same force and effect as though expressly made at and as of the Closing Date, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied on or prior to the Closing Date, and (iv) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been initiated or, to the knowledge of the Company, threatened by the Commission.

(6) On the Closing Date, the Underwriters shall have received from Arthur Andersen LLP a letter dated the Closing Date to the effect that: (A) they are independent public accountants with respect to the Company within the meaning of the 1933 Act and the rules and regulations under the 1933 Act; (B) in their opinion, the financial statements and schedules audited by them and incorporated by reference in the Final Supplemented Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the 1934 Act and the rules and regulations under the 1933 Act and the 1934 Act; (C) they have performed certain limited procedures through a specified date not more than five business days prior to the date of such letter, namely (i) reading the minute books of the Company; (ii) reading the unaudited financial statements, if any, of the Company incorporated in the Final Supplemented Prospectus and agreeing the amounts therein with the Company's accounting records; (iii) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited financial statements, if any, incorporated in the Final Supplemented Prospectus (a) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements incorporated in the Final Supplemented Prospectus and (b) comply as to form in all material respects with the applicable accounting requirements of the

1934 Act and the rules and regulations under the 1934 Act; (iv) reading the unaudited amounts for Operating Revenues, Income Before Interest Charges and Net Income After Dividends on Preferred Stock and the unaudited Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis), which amounts shall include such amounts for the latest period subsequent to that covered by the financial statements incorporated by reference in the Final Supplemented Prospectus for which such amounts are available at the time this agreement becomes effective; (v) reading the unaudited financial statements from which the amounts and ratios described in (iv) were derived and agreeing the amounts therein to the Company's accounting records; (vi) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) the unaudited amounts and ratios referred to in (iv) above and the unaudited and the unaudited financial statements referred to in (v) above are stated on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Final Supplemented Prospectus and (b) as of a specified date not more than five business days prior to the date of delivery of such letter, there has been any change in the capital stock or long-term debt of the Company or any decrease in net assets as compared with amounts shown in the latest audited balance sheet incorporated in the Prospectus, except in each case for changes or decreases which (I) the Final Supplemented Prospectus discloses have occurred or may occur, (II) are occasioned by the declaration of dividends, (III) are occasioned by draw-downs under existing pollution control financing arrangements, (IV) are occasioned by draw-downs and regularly scheduled payments of capitalized lease obligations, (V) are occasioned by the purchase or redemption of bonds or stock to satisfy mandatory or optional redemption provisions relating thereto, or (VI) are disclosed in such letter; (vii) reading the unaudited amounts for Operating Revenues, Income Before Interest Charges and Net Income After Dividends on Preferred Stock and the unaudited Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis) for the latest calendar quarter subsequent to those set forth in (iv) above, which if available shall be set forth in such letter; (viii) reading the unaudited financial statements from which the amounts and ratios described in (vii) above were derived and which will be attached to such letter and agreeing the amounts therein to the Company's accounting records; and (ix) making inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited amounts and ratios referred to in (vii) above and the unaudited financial statements referred to in (viii) above are stated on a basis substantially consistent with that of the corresponding audited amounts or ratios included or incorporated by reference in the Final Supplemented Prospectus; and (D) reporting their findings as a result of performing the limited procedures set forth in (C) above. It is understood that the foregoing procedures do not constitute an audit performed in accordance with generally accepted auditing standards and they would not necessarily reveal matters of significance with respect to the comments made in such letter, and accordingly that Arthur Andersen LLP make

no representations as to the sufficiency of such procedures for the Underwriters' purposes.

(7) On the Closing Date, counsel for the Underwriters shall have been furnished with such documents and opinions as it may reasonably require for the purpose of enabling it to pass upon the issuance and sale of the Senior Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of the Senior Notes as herein contemplated shall be satisfactory in form and substance to the Representative and Dewey Ballantine LLP, counsel for the Underwriters.

(8) That no amendment or supplement to the Registration Statement or the Final Supplemented Prospectus filed subsequent to the date of this Agreement (including any filing made by the Company pursuant to Section 13 or 14 of the 1934 Act) shall be unsatisfactory in form to Dewey Ballantine LLP or shall contain information (other than with respect to an amendment or supplement relating solely to the activity of any Underwriter) which, in the reasonable judgment of the Representative, shall materially impair the marketability of the Senior Notes.

(9) The Company shall have performed its obligations when and as provided under this Agreement.

If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the Underwriters by notice to the Company at any time prior to the Closing Date, and such termination shall be without liability of any party to any other party except as provided in Sections 4, 7 and 9(b) hereof.

SECTION 6. CONDITIONS OF THE OBLIGATIONS OF THE COMPANY.

The obligations of the Company shall be subject to the conditions set forth in the first sentence of Section 5(a) and in Section 5(b). In case such conditions shall not have been fulfilled, this Agreement may be terminated by the Company by mailing or delivering written notice thereof to the Representative. Any such termination shall be without liability of any party to any other party except as otherwise provided in Sections 4, 7 and 9(b) hereof.

SECTION 7. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each of the Underwriters and each person, if any, who controls any such Underwriter within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act, against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the 1933 Act, 1934 Act or otherwise, and to reimburse any

such Underwriter and such controlling person or persons, if any, for any legal or other expenses incurred by them in connection with defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus or, if the Company shall furnish to the Underwriters any amendments or any supplements thereto, or shall make any filings pursuant to Section 13 or 14 of the 1934 Act which are incorporated therein by reference, in any Preliminary Prospectus, the Registration Statement, the Prospectus or the Final Supplemented Prospectus as so amended or supplemented, or arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any such untrue statement or alleged untrue statement or omission or alleged omission which was made in such Registration Statement, Preliminary Prospectus, Prospectus or Final Supplemented Prospectus in reliance upon and in conformity with information furnished in writing to the Company by the Representative for use therein and except that this indemnity with respect to the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, if the Company shall have furnished any amendment or supplement thereto, shall not inure to the benefit of any Underwriter (or of any person controlling such Underwriter) on account of any losses, claims, damages, liabilities or actions arising from the sale of the Senior Notes to any person if a copy of the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus (exclusive of documents incorporated therein by reference pursuant to Item 12 of Form S-3), as the same may then be amended or supplemented, shall not have been sent or given by or on behalf of such Underwriter to such person with or prior to the written confirmation of the sale involved and the untrue statement or alleged untrue statement or omission or alleged omission was corrected in the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus as supplemented or amended at the time of such confirmation. Each Underwriter agrees, within ten days after the receipt by it of notice of the commencement of any action in respect of which indemnity may be sought by it, or by any person controlling it, from the Company on account of its agreement contained in this Section 7, to notify the Company in writing of the commencement thereof but the omission of such Underwriter so to notify the Company of any such action shall not release the Company from any liability which it may have to such Underwriter or to such controlling person otherwise than on account of the indemnity agreement contained in this Section 7. In case any such action shall be brought against an Underwriter or any such person controlling such Underwriter and such Underwriter shall notify the Company of the commencement thereof as above provided, the Company shall be entitled to participate in (and, to the extent that it shall wish, including the selection of counsel, to direct) the defense thereof, at its own expense. In case the Company elects to direct such defense and select such counsel, any Underwriter or controlling person shall have the right to employ its own counsel, but, in any such case, the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel has been authorized in writing by the Company in connection with defending such action. No indemnifying party shall, without the written consent of the indemnified party, effect the

settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include any statement as to, or an admission of, fault, culpability or a failure to act, by or on behalf of any indemnified party. In no event shall any indemnifying party have any liability or responsibility in respect of the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim effected without its prior written consent.

(b) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors and such of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20(a) of the 1934 Act to the same extent and upon the same terms as the indemnity agreement of the Company set forth in Section 7(a) hereof, but only with respect to alleged untrue statements or omissions made in the Registration Statement, the Preliminary Prospectus, the Prospectus or the Final Supplemented Prospectus, or such documents as amended or supplemented, in reliance upon and in conformity with information furnished in writing to the Company by the Representative for use therein.

SECTION 8. REPRESENTATIONS, WARRANTIES AND AGREEMENTS TO SURVIVE DELIVERY.

All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by, or on behalf of the Company and shall survive delivery of the Senior Notes to the Underwriters.

SECTION 9. TERMINATION OF AGREEMENT.

(a) The Representative may terminate this Agreement, by notice to the Company, at any time at or prior to the Closing Date if (i) trading in securities on the New York Stock Exchange shall have been generally suspended, (ii) minimum or maximum ranges for prices shall have been generally established on the New York Stock Exchange by the Commission or by the New York Stock Exchange, (iii) a general banking moratorium shall have been declared by federal or New York State authorities, or (iv) there shall have occurred any outbreak or escalation of major hostilities in which the United States is involved, any declaration of war by the United States Congress or any other substantial national or international calamity or emergency affecting the United States, in any such case provided for in clauses (i) through (iv) with the result that, in the reasonable judgement of the Representative, the marketability of the Senior Notes shall have been materially impaired.

(b) If this Agreement shall be terminated by the Representative pursuant to subsection (a) above or because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, then in any such case, the Company will reimburse the Underwriters for the reasonable fees and disbursements of Dewey Ballantine LLP and for the out of pocket expenses (in an amount not exceeding $10,000) reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Senior Notes and, upon such reimbursement, the Company shall be absolved from any further liability hereunder, except as provided in Sections 4 and 7.

SECTION 10. DEFAULT BY AN UNDERWRITER

If an Underwriter shall fail on the Closing Date to purchase the Senior Notes that it is obligated to purchase under this Agreement (the "Defaulted Securities"), the Representative shall have the right, within 24 hours thereafter, to make arrangements for the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth. If, however, the Representative shall not have completed such arrangements within such 24-hour period, then:

(a) if the principal amount of Defaulted Securities does not exceed 10% of the Senior Notes, the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all such non-defaulting Underwriters (or in such other proportions as the Representative may specify), or

(b) if the principal amount of Defaulted Securities exceeds 10% of the Senior Notes, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement, either the Representative or the Company shall have the right to postpone the Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Final Supplemented Prospectus or in any other documents or arrangements.

SECTION 11. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to the Representative at Bear, Stearns & Co. Inc., Fixed Income Capital Markets, 245 Park Avenue, 4th Floor, New York, New York 10167; notices to the Company shall be mailed to One Energy Place, Pensacola, Florida 32520-0102,

Attention: Corporate Secretary, with a copy to Southern Company Services, Inc., 270 Peachtree Street, N.W., Atlanta, Georgia 30303, Attention: Charles N. Eldred.

SECTION 12. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters and the Company and their respective successors and the controlling persons and officers and directors referred to in Section 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters and the Company and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Senior Notes from any of the Underwriters shall be deemed to be a successor by reason merely of such purchase.

SECTION 13. GOVERNING LAW AND TIME. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State. Except as otherwise set forth herein, specified times of day refer to New York City time.

SECTION 14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriters and the Company in accordance with its terms.

Very truly yours,

GULF POWER COMPANY

By: _____
Name: _____
Title: Asst Secretary

CONFIRMED AND ACCEPTED,
as of the date first above written

BEAR, STEARNS & CO. INC.
as Representative of the Underwriters named in Schedule I hereto

By: _____
Name: Tim O'Neill
Title: Senior Managing Director

SCHEDULE I

NAME OF UNDERWRITER	Principal Amount of Senior Notes
Bear, Stearns & Co. Inc.	$25,000,000
Banc One Capital Markets, Inc.	$25,000,000
TOTAL	$50,000,000

Schedule II-A

[Letterhead of Beggs & Lane]

_____ __, 199_

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

GULF POWER COMPANY
Series B 7.05% Senior Notes
Due August 15, 2004

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $_____ aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Second Supplemental Indenture dated as of _____ __, 199_ (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated _____, 1999, among the Company and you (the "Underwriters") (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(1) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-42033, 333-42033-01 and 333-42033-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated _____, 199_ as supplemented by a final prospectus supplement dated _____, 199_ (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended _____, 199_, the Quarterly Reports on Form 10-Q of the Company for the quarters ended _____ and the Current Reports on Form 8-K of the Company dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

We have also examined the opinion of Troutman Sanders LLP to you of even date with respect to matters relating to the Securities Act of 1933, as amended; the Securities Exchange Act of 1934, as amended; the Trust Indenture Act of 1939, as amended and to the applicable rules and regulations of the Commission under said Acts and in expressing the opinions stated herein, with respect to such matters, we are relying on such opinion.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP, and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly organized and is validly existing and in good standing as a corporation under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and the sale of the Notes; the issuance and the sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by

bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity; and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above and in the Final Supplemented Prospectus in the second paragraph under the caption "Experts". In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company and with representatives of Arthur Andersen LLP. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of _____, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue

statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contains any untrue statement therein of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes – Book-Entry Only Issuance – The Depository Trust Company."

We are members of the State Bar of Florida and we do not express any opinion herein concerning any law other than the law of the States of Florida and Mississippi and, to the extent set forth herein, the laws of the States of Maine, Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Florida and Mississippi law.

Yours very truly,

BEGGS & LANE

Schedule II-B

[Letterhead of TROUTMAN SANDERS LLP]

_____ __, 199_

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

GULF POWER COMPANY
Series B 7.05% SENIOR NOTES
Due August 15, 2004

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance of $_____ aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Second Supplemental Indenture dated as of _____ __, 199_ (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated __, 1999, among the Company and you (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(2) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-42033, 333-42033-01 and 333-42033-02) pertaining to the Notes (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated _____, 199_ as supplemented by a final prospectus supplement dated _____, 199_ (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended _____, 199_, the Quarterly Reports on Form 10-Q of the Company for the quarters ended _____ and the Current Reports on Form 8-K of the Company dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificates representing the

Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation under the laws of the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the

Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Arthur Andersen LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of _____, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contains any

untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes - Book-Entry Only Issuance - The Depository Trust Company."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Maine, Florida, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose, or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving their opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving their opinion pursuant to the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Yours very truly,

TROUTMAN SANDERS LLP

Schedule III

[Letterhead of Cravath, Swaine & Moore]

_____ __, 199_

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Gulf Power Company
Series B 7.05% Senior Notes due August 15, 2004

Ladies and Gentlemen:

We have acted as counsel to The Chase Manhattan Bank (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998 as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Second Supplemental Indenture dated as of _____ (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of the opinion that:

i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank,

enforceable against the Bank in accordance with its terms subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

CRAVATH, SWAINE & MOORE

Schedule IV

[Letterhead of DEWEY BALLANTINE LLP]

_____ __, 199_

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

GULF POWER COMPANY
Series B 7.05% Senior Notes
due August 15, 2004

Ladies and Gentlemen:

We have represented you (the "Underwriters") in connection with (i) the issuance by Gulf Power Company (the "Company") of $_____ of its Series B 7.05% Senior Notes (the "Notes") pursuant to a Senior Note Indenture dated as of January 1, 1998, by and between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as heretofore supplemented and as further supplemented by the Second Supplemental Indenture dated as of _____ __, 199_ (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated _____, 1999, among the Company and the Underwriters (the "Underwriting Agreement"). This opinion is being delivered to you pursuant to Section 5(c)(4) thereof.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-42033, 333-42033-01 and 333-42033-02) pertaining to the Notes (the "Registration Statement"), filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus dated _____, 199_, as supplemented by a final prospectus supplement dated _____, which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended _____, 199_, the Quarterly Reports on Form 10-Q of the Company for the quarters ended _____ the Current Reports on Form 8-K of the

Company, dated _____ (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to as the "Agreements".

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as aforesaid and as to all matters covered hereby which are governed by or dependent upon the laws of the States of Florida and Mississippi upon the opinion of Beggs & Lane, a Registered Limited Liability Partnership ("Beggs & Lane"), dated the date hereof and addressed to you and as to all matters covered hereby which are governed by or dependent upon the laws of the State of Georgia upon the opinion of Troutman Sanders LLP dated the date hereof and addressed to you, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi, and has due corporate authority to carry on the public utility business in which it is engaged and to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents, or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the

Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by the Underwriters pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with representatives of Arthur Andersen LLP and with counsel to the Company. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement and the Final Supplemented Prospectus and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of _____, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Company's Annual

EXHIBIT B. 2

GULF POWER COMPANY

TO

THE CHASE MANHATTAN BANK,
TRUSTEE.

SENIOR NOTE INDENTURE

DATED AS OF JANUARY 1, 1998

GULF POWER COMPANY
RECONCILIATION AND TIE BETWEEN TRUST INDENTURE ACT OF 1939 AND SENIOR NOTE INDENTURE, DATED AS OF JANUARY 1, 1998

	TRUST INDENTURE ACT SECTION	INDENTURE SECTION
(S)	310(a)(1)	609
	(a)(2)	609
	(a)(3)	Not Applicable
	(a)(4)	Not Applicable
	(b)	608 610
(S)	311(a)	613
	311(b)(4)	613(a)
	(b)(6)	613(b)
(S)	312(a)	701 702(a)
	(c)	702(b)
(S)	313(a)	703(a)
	313(b)	703(b)
	313(c)	703(c) 704
	(d)	703(c)
(S)	314(a)	704, 1005
	(b)	Not Applicable
	(c)(1)	102
	(c)(2)	102
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	102
(S)	315(a)	601(a)
	(b)	602
	(c)	601(b)
	(d)	601(c)
	(d)(1)	601(a)(1)
	(d)(2)	601(c)(2)
	(d)(3)	601(c)(3)
	(e)	514
(S)	316(a)	101
	(a)(1)(A)	502 512
	(a)(1)(B)	513
	(a)(2)	Not Applicable
	(b)	508
(S)	317(a)(1)	503
	(a)(2)	504
	(b)	1003

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SENIOR NOTE INDENTURE

THIS SENIOR NOTE INDENTURE is made as of January 1, 1998, between GULF POWER COMPANY, a corporation duly organized and existing under the laws of the State of Maine (herein called the "Company"), having its principal office at 500 Bayfront Partkway, Pensacola, Florida 32501, and THE CHASE MANHATTAN BANK, a banking corporation duly organized and existing under the laws of the State of New York, having its principal corporate trust office at 450 West 33rd Street, New York, New York 10001, as Trustee (herein called the "Trustee").

W I T N E S S E T H:

WHEREAS, the Company has duly authorized the execution and delivery of this Senior Note Indenture to provide for the issuance from time to time of its unsecured senior debentures, notes or other evidences of indebtedness (herein called the "Senior Notes"), to be issued in one or more series as in this Senior Note Indenture provided; and

WHEREAS, all things necessary to make this Senior Note Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Senior Notes by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Senior Notes or of series thereof, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 101. DEFINITIONS.

For all purposes of this Senior Note Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States of America, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States of America at the date of such computation; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Senior Note Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Six, are defined in that Article.

"Act" when used with respect to any Holder of a Senior Note, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person or Persons authorized by the Trustee to authenticate one or more series of Senior Notes.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of the officers and/or directors of the Company appointed by that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means a day other than (i) a Saturday or a Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed, or (iii) a day on which the Trustee's Corporate Trust Office is closed for business.

"Certificate of a Firm of Independent Public Accountants" means a certificate signed by an independent public accountant or a firm of independent public accountants who may be the independent public accountants regularly retained by the Company or who may be other independent public accountants. Such accountant or firm shall be entitled to rely upon an Opinion of Counsel as to the interpretation of any legal matters relating to such certificate.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor corporation shall have become such pursuant to the applicable provisions of this Senior Note Indenture, and thereafter "Company" shall mean such successor corporation.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee in the Borough of Manhattan, New York City, at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution of this Senior Note Indenture is located at 450 West 33rd Street, New York, New York 10001.

"Corporation" includes corporations, partnerships, limited liability companies, associations, companies and business trusts.

"Defaulted Interest" has the meaning specified in Section 305.

"Depositary" means, unless otherwise specified by the Company pursuant to either Section 203 or 301, with respect to Senior Notes of any series issuable or issued as a Global Security, The Depository Trust Company, New York, New York, or any successor thereto registered as a clearing agency under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation.

"Event of Default" has the meaning specified in Section 501.

"Global Security" means, with respect to any series of Senior Notes issued hereunder, a Senior Note that is executed by the Company and authenticated and delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction, all in accordance with Section 203 of this Indenture and any indenture supplemental hereto.

"Holder," when used with respect to any Senior Note, means the Person in whose name the Senior Note is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of the particular series of Senior Notes established as contemplated by Section 301.

"Interest Payment Date," when used with respect to any series of Senior Notes, means the dates established for the payment of interest thereon, as provided in the supplemental indenture for such series.

"Maturity," when used with respect to any Senior Note, means the date on which the principal of such Senior Note or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, and who shall be acceptable to the Trustee.

"Outstanding," when used with respect to Senior Notes, means, as of the date of determination, all Senior Notes theretofore authenticated and delivered under this Indenture, except:

(i) Senior Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Senior Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Senior Notes; provided that if such Senior Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Senior Notes that have been paid or in exchange for or in lieu of which other Senior Notes have been authenticated and delivered pursuant to this Indenture, other than any such Senior Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Senior Notes are held by a bona fide purchaser in whose hands such Senior Notes are valid obligations of the Company; and

(iv) Senior Notes, or portions thereof, converted into or exchanged for another security if the terms of such Senior Notes provide for such conversion or exchange;

provided, however, that in determining, during any period in which any Senior Notes of a series are owned by any Person other than the Company or any Affiliate thereof, whether the Holders of the requisite principal amount of Outstanding Senior Notes of such series have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Senior Notes of such series owned by the Company or any Affiliate thereof shall be disregarded and deemed not to be Outstanding. In determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Senior Notes that the Trustee knows to be so owned by the Company or an Affiliate of the Company in the above circumstances shall be so disregarded. Senior Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Senior Notes and that the pledgee is not the Company or any Affiliate of the Company.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Senior Notes on behalf of the Company.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Senior Note means every previous Senior Note evidencing all or a portion of the same debt as that evidenced by such particular Senior Note; and, for the purposes of this definition, any Senior Note authenticated and delivered under Section 304 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Senior Note shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Senior Note.

"Redemption Date," when used with respect to any Senior Note to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price," when used with respect to any Senior Note to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Senior Notes of any series means the date specified for that purpose as contemplated by Section 301, whether or not a Business Day.

"Responsible Officer," when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any senior trust officer, any trust officer or assistant trust officer, the controller

or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject

"Security Register" and "Security Registrar" have the respective meanings specified in Section 303.

"Senior Note" has the meaning stated in the first recital of this Indenture and more particularly means any Senior Notes authenticated and delivered under this Indenture.

"Special Record Date" for the payment of any Defaulted Interest on the Senior Notes of any series means a date fixed by the Trustee pursuant to Section 305.

"Stated Maturity," when used with respect to any Senior Note or any installment of principal thereof or interest thereon, means the date specified in such Senior Note as the fixed date on which the principal of such Senior Note or such installment of principal or interest is due and payable.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended, and any reference herein to the Trust Indenture Act or a particular provision thereof shall mean such Trust Indenture Act or provision, as the case may be, as amended or replaced from time to time.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such with respect to one or more series of Senior Notes pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Senior Notes of any series shall mean the Trustee with respect to Senior Notes of that series.

"Vice President," when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president."

SECTION 102. COMPLIANCE CERTIFICATES AND OPINIONS

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically

required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include

(i) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. ACTS OF HOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority.

(c) The principal amount and serial numbers of Senior Notes held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, election, waiver or other Act of the Holder of any Senior Note shall bind every future Holder of the same Senior Note and the Holder of every Senior Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Senior Note.

(e) The fact and date of execution of any such instrument or writing and the authority of the Person executing the same may also be proved in any other manner which the Trustee deems sufficient; and the Trustee may in any instance require further proof with respect to any of the matters referred to in this Section.

(f) If the Company shall solicit from the Holders of Senior Notes of any series any Act, the Company may, at its option, by Board Resolution, fix in advance a record date for the determination of Holders of Senior Notes entitled to take such Act, but the Company shall have no obligation to do so. Any such record date shall be fixed at the Company's discretion. If such a record date is fixed, such Act may be sought or given before or after the record date, but only the

Holders of record at the close of business on such record date shall be deemed to be Holders of Senior Notes for the purpose of determining whether Holders of the requisite proportion of Senior Notes of such series Outstanding have authorized or agreed or consented to such Act, and for that purpose the Senior Notes of such series Outstanding shall be computed as of such record date.

SECTION 105. NOTICES, ETC., TO TRUSTEE AND COMPANY.

Any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder of a Senior Note or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trustee Administration Department, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to the attention of its Treasurer at One Energy Place, Pensacola, Florida 32520, or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 106. NOTICE TO HOLDERS OF SENIOR NOTES; WAIVER.

Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of Senior Notes of any event, such notice shall be sufficiently given if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such Notice.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Senior Notes shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 107. CONFLICT WITH TRUST INDENTURE ACT.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act that is required to be a part of and govern this Indenture, such required provision shall control.

SECTION 108. EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. SEPARABILITY CLAUSE.

In case any provision in this Indenture or the Senior Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. BENEFITS OF INDENTURE.

Nothing in this Indenture or the Senior Notes, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder and the Holders of Senior Notes any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. GOVERNING LAW.

This Indenture and the Senior Notes shall be governed by, and construed in accordance with, the internal laws of the State of New York.

SECTION 113. LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Senior Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Senior Notes) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day, except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, provided that no interest shall

accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

SECTION 114. APPOINTMENT OF AGENT FOR SERVICE.

By the execution and delivery of this Indenture, the Company hereby appoints the Trustee as its agent upon which process may be served in any legal action or proceeding which may be instituted in any Federal or State court in the Borough of Manhattan, New York City, arising out of or relating to the Senior Notes or this Indenture. Service of process upon such agent at the office of such agent at 450 West 33rd Street, New York, New York 10001, Attention: Corporate Trustee Administration Department (or such other address in the Borough of Manhattan, New York City, as may be the Corporate Trust Office of the Trustee), and written notice of such service to the Company by the Person serving the same addressed as provided in Section 105, shall be deemed in every respect effective service of process upon the Company in any such legal action or proceeding, and the Company hereby submits to the jurisdiction of any such court in which any such legal action or proceeding is so instituted. Such appointment shall be irrevocable so long as the Holders of Senior Notes shall have any rights pursuant to the terms thereof or of this Indenture until the appointment of a successor by the Company with the consent of the Trustee and such successor's acceptance of such appointment. The Company further agrees to take any and all action, including the execution and filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment of such agent or successor.

By the execution and delivery of this Indenture, the Trustee hereby agrees to act as such agent and undertakes promptly to notify the Company of receipt by it of service of process in accordance with this Section.

ARTICLE TWO

SECTION 201. FORMS GENERALLY.

The Senior Notes of each series shall be in substantially the form appended to the supplemental indenture authorizing such series, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Senior Notes, as evidenced by their execution of the Senior Notes.

The Senior Notes of each series shall be issuable in registered form without coupons.

The definitive Senior Notes may be printed, typewritten, lithographed or engraved on steel

engraved borders or may be produced in any other manner, all as determined by the officers executing such Senior Notes, as evidenced by their execution of such Senior Notes.

SECTION 202. FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

The form of the Trustee's Certificate of Authentication for a series of Senior Notes shall be in substantially the form appended to the Supplemental Indenture authorizing such series.

SECTION 203. SENIOR NOTES ISSUABLE IN THE FORM OF A GLOBAL SECURITY.

(a) If the Company shall establish pursuant to Section 301 that the Senior Notes of a particular series are to be issued in whole or in part in the form of one or more Global Securities, then the Company shall execute and the Trustee shall, in accordance with Section 302 and the Company Order delivered to the Trustee thereunder, authenticate and deliver such Global Security or Securities, which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of the Outstanding Senior Notes of such series to be represented by such Global Security or Securities, (ii) may provide that the aggregate amount of Outstanding Senior Notes represented thereby may from time to time be increased or reduced to reflect exchanges, (iii) shall be registered in the name of the Depositary for such Global Security or Securities or its nominee, (iv) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction and (v) shall bear a legend in accordance with the requirements of the Depositary.

(b) Notwithstanding any other provision of this Section 203 or of Section 303, subject to the provisions of paragraph (c) below, unless the terms of a Global Security expressly permit such Global Security to be exchanged in whole or in part for individual Senior Notes, a Global Security may be transferred, in whole but not in part and in the manner provided in Section 303, only to a nominee of the Depositary for such Global Security, or to the Depositary, or to a successor Depositary for such Global Security selected or approved by the Company, or to a nominee of such successor Depositary.

(c) (1) If at any time the Depositary for a Global Security notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or if at any time the Depositary for the Senior Notes for such series shall no longer be eligible or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, the Company shall appoint a successor Depositary with respect to such Global Security. If a successor Depositary for such Global Security is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such ineligibility, the Company will execute, and the Trustee, upon receipt of a Company Order for the authentication and delivery of individual Senior Notes of such series in exchange for such Global Security, will authenticate and deliver individual Senior Notes of such series of

like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security.

(2) The Company may at any time and in its sole discretion determine that the Senior Notes of any series issued or issuable in the form of one or more Global Securities shall no longer be represented by such Global Security or Securities. In such event the Company will execute, and the Trustee, upon receipt of a Company Request for the authentication and delivery of individual Senior Notes of such series in exchange in whole or in part for such Global Security, will authenticate and deliver individual Senior Notes of such series of like tenor and terms in definitive form in an aggregate principal amount equal to the principal amount of such Global Security or Securities representing such series in exchange for such Global Security or Securities.

(3) If specified by the Company pursuant to Section 301 with respect to Senior Notes issued or issuable in the form of a Global Security, the Depositary for such Global Security may surrender such Global Security in exchange in whole or in part for individual Senior Notes of such series of like tenor and terms in definitive form on such terms as are acceptable to the Company and such Depositary. Thereupon the Company shall execute, and the Trustee shall authenticate and deliver, without service charge, (A) to each Person specified by such Depositary a new Senior Note or Notes of the same series of like tenor and terms and of any authorized denomination as requested by such Person in aggregate principal amount equal to and in exchange for such Person's beneficial interest in the Global Security; and (B) to such Depositary a new Global Security of like tenor and terms and in an authorized denomination equal to the difference, if any, between the principal amount of the surrendered Global Security and the aggregate principal amount of Senior Notes delivered to Holders thereof.

(4) In any exchange provided for in any of the preceding three paragraphs, the Company will execute and the Trustee will authenticate and deliver individual Senior Notes in definitive form in authorized denominations. Upon the exchange of the entire principal amount of a Global Security for individual Senior Notes, such Global Security shall be cancelled by the Trustee. Except as provided in the preceding paragraph, Senior Notes issued in exchange for a Global Security pursuant to this Section shall be registered in such names and in such authorized denominations as the Depositary for such Global Security, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Provided that the Company and the Trustee have so agreed, the Trustee shall deliver such Senior Notes to the Persons in whose names the Senior Notes are registered.

(5) Any endorsement of a Global Security to reflect the amount, or any increase or decrease in the amount, or changes in the rights of Holders, of Outstanding Senior Notes represented thereby shall be made in such manner and by such Person or Persons as shall be specified therein or in the Company Order to be delivered pursuant to Section 302 with

respect thereto. Subject to the provisions of Section 302, the Trustee shall deliver and redeliver any such Global Security in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Company Order. If a Company Order pursuant to Section 302 has been, or simultaneously is, delivered, any instructions by the Company with respect to such Global Security shall be in writing but need not be accompanied by or contained in an Officers' Certificate and need not be accompanied by an Opinion of Counsel.

ARTICLE THREE

THE SENIOR NOTES

SECTION 301. AMOUNT UNLIMITED; ISSUABLE IN SERIES.

The aggregate principal amount of Senior Notes which may be authenticated and delivered under this Indenture is unlimited.

The Senior Notes may be issued in one or more series. There may be established, pursuant to one or more indentures supplemental hereto, prior to the issuance of Senior Notes of any series,

(1) the title of the Senior Notes of the series (which shall distinguish the Senior Notes of the series from Senior Notes of all other series);

(2) any limit upon the aggregate principal amount of the Senior Notes of the series which may be authenticated and delivered under this Indenture (except for Senior Notes authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Senior Notes of the series pursuant to Sections 203, 303, 304, 907 or 1107);

(3) the Person to whom interest on a Senior Note of the series shall be payable if other than the Person in whose name that Senior Note (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of the Senior Notes of the series is payable;

(5) the rate or rates at which the Senior Notes of the series shall bear interest, if any, or any method by which such rate or rates shall be determined, the date or dates from which such interest shall accrue, the Interest Payment Dates on which such interest shall be payable, the Regular Record Date for the interest payable on Senior Notes on any Interest Payment Date and the basis upon which interest shall be calculated if other than that of a

360-day year consisting of twelve 30-day months;

(6) the place or places where the principal of (and premium, if any) and interest, if any, on Senior Notes of the series shall be payable;

(7) the period or periods within which, the price or prices at which and the terms and conditions upon which Senior Notes of the series may be redeemed, in whole or in part, at the option of the Company;

(8) the obligation, if any, of the Company to redeem or purchase Senior Notes of the series pursuant to any sinking fund or analogous provision or at the option of a Holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Senior Notes of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(9) the denominations in which Senior Notes of the series shall be issuable;

(10) if the amount of payments of principal of (and premium, if any) or interest on the Senior Notes of the series may be determined with reference to an index or formula, the manner in which such amounts shall be determined;

(11) if other than the principal amount thereof, the portion of the principal amount of Senior Notes of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(12) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided herein pertaining to the Senior Notes of the series, and any change in the rights of the Trustee or Holders of such series pursuant to Section 901 or 902;

(13) any additions to the definitions currently set forth in this Indenture with respect to such series;

(14) whether the Senior Notes of the series shall be issued in whole or in part in the form of a Global Security or Securities; the terms and conditions, if any, upon which such Global Security or Securities may be exchanged in whole or in part for certificated Senior Notes of such series and of like tenor of any authorized denomination and the circumstances under which such exchange may occur, if other than in the manner provided for in Section 203; the Depositary for such Global Security or Securities; and the form of any legend or legends to be borne by any such Global Security in addition to or in lieu of the legend referred to in Section 203;

(15) any restriction or condition on the transferability of such Senior Notes; and

(16) any other terms of the series.

All Senior Notes of any one series shall be substantially identical except as to the date or dates from which interest, if any, shall accrue and denomination and except as may otherwise be provided in the terms of such Senior Notes determined or established as provided above. All Senior Notes of any one series need not be issued at the same time and, unless otherwise provided, a series may be reopened for issuances of additional Senior Notes of such series.

SECTION 302. EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

The Senior Notes shall be executed on behalf of the Company by its Chairman of the Board, its President, one of its Vice Presidents or its Treasurer, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Senior Notes may be manual or facsimile.

Senior Notes bearing the manual or facsimile signatures of individuals who were at the time relevant to the authorization thereof the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Senior Notes or did not hold such offices at the date of such Senior Notes.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Senior Notes of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Senior Notes, and the Trustee, in accordance with the Company Order, shall authenticate and deliver such Senior Notes. If all of the Senior Notes of any series are not to be issued at one time and if the supplemental indenture establishing such series shall so permit, such Company Order may set forth procedures acceptable to the Trustee for the issuance of such Senior Notes and determining the terms of particular Senior Notes of such series, such as interest rate, maturity date, date of issuance and date from which interest shall accrue. In authenticating Senior Notes hereunder, and accepting the additional responsibilities under this Indenture in relation to such Senior Notes, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon:

(1) an Opinion of Counsel, to the effect that:

(a) the form and terms of such Senior Notes or the manner of determining such terms have been established in conformity with the provisions of this Indenture; and

(b) such Senior Notes, when authenticated and delivered by the

Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting the enforcement of creditors' rights and to general equity principles; and

(2) an Officers' Certificate stating, to the best knowledge of each signer of such certificate, that no event which is, or after notice or lapse of time would become, an Event of Default with respect to any of the Senior Notes shall have occurred and be continuing.

The Trustee shall not be required to authenticate such Senior Notes if the issue of such Senior Notes pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Senior Notes and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

If all the Senior Notes of any series are not to be issued at one time, it shall not be necessary to deliver an Opinion of Counsel and Officers' Certificate at the time of issuance of each such Senior Note, but such opinion and certificate shall be delivered at or before the time of issuance of the first Senior Note of such series to be issued.

Each Senior Note shall be dated the date of its authentication.

No Senior Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Senior Note a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Senior Note shall be conclusive evidence, and the only evidence, that such Senior Note has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

SECTION 303. REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE.

The Company shall cause to be kept at the office of the Security Registrar designated pursuant to this Section 303 or Section 1002 a register (referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Senior Notes and of transfers of Senior Notes. The Trustee is hereby initially appointed as Security Registrar for the purpose of registering Senior Notes and transfers of Senior Notes as herein provided.

Subject to Section 203, upon surrender for registration of transfer of any Senior Note of any series at the office or agency maintained for such purpose for such series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or

transferees, one or more new Senior Notes of the same series, Stated Maturity and original issue date, of any authorized denominations and of like tenor and aggregate principal amount.

Subject to Section 203, Senior Notes of any series may be exchanged, at the option of the Holder, for Senior Notes of the same series, Stated Maturity and original issue date, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Senior Notes to be exchanged at any such office or agency.

Whenever any Senior Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Senior Notes that the Holder making the exchange is entitled to receive.

All Senior Notes issued upon any registration of transfer or exchange of Senior Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Senior Notes surrendered upon such registration of transfer or exchange.

Every Senior Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Senior Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Senior Notes, other than exchanges pursuant to Section 304, 907 or 1107 not involving any transfer.

The Company shall not be required (i) to issue, to register the transfer of or to exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the serial numbers of the Senior Notes of that series called for redemption, or (ii) to issue, to register the transfer of or to exchange any Senior Notes so selected for redemption in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

None of the Company, the Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

SECTION 304. MUTILATED, DESTROYED, LOST AND STOLEN SENIOR NOTES.

If any mutilated Senior Note is surrendered to the Trustee, the Company shall execute and

the Trustee shall authenticate and deliver in exchange therefor a new Senior Note of the same series, Stated Maturity and original issue date, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Senior Note and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Senior Note has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Senior Note, a new Senior Note of the same series, Stated Maturity and original issue date, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Senior Note has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Senior Note, pay such Senior Note.

Upon the issuance of any new Senior Note under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Senior Note of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Senior Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Senior Note shall be at any time enforceable by anyone, and any such new Senior Note shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Senior Notes of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Senior Notes.

SECTION 305. PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Senior Notes, interest on any Senior Note that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Senior Note (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Senior Note of any series that is payable, but is not punctually paid or

duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Senior Notes of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Senior Note of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Senior Notes of such series at the address of such Holder as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Senior Notes of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Senior Notes of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Senior Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Senior Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Senior Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Senior Note.

SECTION 306. PERSONS DEEMED OWNERS.

Prior to due presentment of a Senior Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Senior Note is registered as the absolute owner of such Senior Note for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 305) interest on such Senior Note and for all other purposes whatsoever, whether or not such Senior Note be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 307. CANCELLATION.

All Senior Notes surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by the Trustee. The Company may at any time deliver to the Trustee for cancellation any Senior Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Senior Notes so delivered shall be canceled by the Trustee. No Senior Notes shall be authenticated in lieu of or in exchange for any Senior Notes canceled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Senior Notes held by the Trustee shall be disposed of in accordance with a Company Order and the Trustee shall promptly deliver a certificate of disposition to the Company.

SECTION 308. COMPUTATION OF INTEREST.

Except as otherwise specified as contemplated by Section 301 for Senior Notes of any series, interest on the Senior Notes of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall, upon Company Request, cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Senior Notes herein expressly provided for) and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Senior Notes theretofore authenticated and delivered (other than (i) Senior Notes that have been destroyed, lost or stolen and that have been replaced as provided for in Section 304 and (ii) Senior Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Senior Notes not theretofore delivered to the Trustee for cancellation have become due and payable, or have been called for redemption,

and the Company, in the case of (B) above, has deposited or caused to be deposited with the Trustee as funds in trust for the purpose described above an amount sufficient to pay and discharge the entire indebtedness on such Senior Notes not theretofore delivered to the Trustee for cancellation, for principal (and premium, if any) and interest to the date of the Stated Maturity or Redemption Date, as the case may be, or if later, the date of payment;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

In the event there are Senior Notes of two or more series hereunder, the Trustee shall be required to execute an instrument acknowledging satisfaction and discharge of this Indenture only if requested to do so with respect to Senior Notes of all series as to which it is Trustee and if the other conditions thereto are met. In the event there are two or more Trustees hereunder, then the effectiveness of any such instrument shall be conditioned upon receipt of such instruments from all Trustees hereunder.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. APPLICATION OF TRUST.

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Senior Notes, and this Indenture, to the payment, either directly or through any

Paying Agent (including the Company or an Affiliate acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee.

ARTICLE FIVE

REMEDIES

SECTION 501. EVENTS OF DEFAULT.

"Event of Default", wherever used herein with respect to Senior Notes of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Senior Note of that series when it becomes due and payable on an Interest Payment Date other than at Maturity and continuance of such default for a period of ten (10) days; or

(2) default in the payment of the principal of, (or premium, if any) or interest on any Senior Note of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Senior Note of that series and continuance of such default for a period of 3 Business Days; or

(4) default in the performance or breach of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of one or more series of Senior Notes other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Senior Notes of that series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly

filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Company or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in a case or proceeding under any applicable federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(7) any other Event of Default provided with respect to Senior Notes of that series in the supplemental indenture authorizing such series.

SECTION 502. ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default with respect to Senior Notes of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Senior Notes of that series may declare the principal amount (or such portion of the principal amount as may be specified in the terms of that series) of all of the Senior Notes of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of not less than a majority in principal amount of the Outstanding Senior Notes of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Senior Notes of that series,

(B) the principal of (and premium, if any) any Senior Notes of that series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Senior Notes,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Senior Notes, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607; and

(2) all Events of Default with respect to Senior Notes of that series, other than the non-payment of the principal of Senior Notes of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 503. COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

The Company covenants that if an Event of Default occurs under Section 501(1), (2) or (3) with respect to any Senior Notes the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Senior Notes, the whole amount then due and payable on such Senior Notes for principal (and premium, if any) and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any) and on any overdue interest, at the rate or rates prescribed therefor in such Senior Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Senior Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Senior Notes, wherever situated.

If an Event of Default with respect to Senior Notes of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Senior Notes of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Senior Notes or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Senior Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Senior Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due to the Trustee under Section 607) and of the Holders of Senior Notes allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder of Senior Notes to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders of Senior Notes, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Senior Note any plan of reorganization, arrangement, adjustment or composition affecting the Senior Notes or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder of a Senior Note in any such proceeding.

SECTION 505. TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SENIOR NOTES.

All rights of action and claims under this Indenture or the Senior Notes may be prosecuted and enforced by the Trustee without the possession of any of the Senior Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Senior Notes in respect of which such judgment has been recovered.

SECTION 506. APPLICATION OF MONEY COLLECTED.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Senior Notes, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 607; and

Second: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Senior Notes in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Senior Notes for principal (and premium, if any) and interest, respectively; and

Third: The balance, if any, to the Person or Persons entitled thereto.

SECTION 507. LIMITATION ON SUITS.

No Holder of any Senior Note of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Senior Notes of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Senior Notes of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Senior Notes of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 508. UNCONDITIONAL RIGHT OF HOLDERS TO RECEIVE PRINCIPAL, PREMIUM AND INTEREST.

Notwithstanding any other provision in this Indenture, the Holder of any Senior Notes shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 305) interest on such Senior Note on the due dates expressed in such Senior Note (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder of a Senior Note has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders of Senior Notes shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Senior Notes in the last paragraph of Section 304, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders of Senior Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by

law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder of any Senior Note to exercise any right or remedy upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders of Senior Notes may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of Senior Notes.

SECTION 512. CONTROL BY HOLDERS OF SENIOR NOTES.

The Holders of not less than a majority in principal amount of the Outstanding Senior Notes of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Senior Notes of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and could not involve the Trustee in personal liability in circumstances where reasonable indemnity would not be adequate, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 513. WAIVER OF PAST DEFAULTS.

The Holders of not less than a majority in principal amount of the Outstanding Senior Notes of any series may, on behalf of the Holders of all the Senior Notes of such series, waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of (or premium, if any) or interest on any Senior Note of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Senior Note of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising

therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. UNDERTAKING FOR COSTS.

All parties to this Indenture agree, and each Holder of any Senior Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Senior Notes of any series, or to any suit instituted by any Holder of any Senior Note for the enforcement of the payment of the principal of (or premium, if any) or interest on any Senior Note on or after the Stated Maturity or Maturities expressed in such Senior Note (or, in the case of redemption, on or after the Redemption Date).

SECTION 515. WAIVER OF STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

SECTION 601. CERTAIN DUTIES AND RESPONSIBILITIES.

(a) Except during the continuance of an Event of Default with respect to Senior Notes of any series,

(1) the Trustee undertakes to perform, with respect to Senior Notes of such series, such duties and only such duties as are specifically set forth in this Indenture, and no

implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may, with respect to Senior Notes of such series, conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, the Trustee shall exercise, with respect to Senior Notes of such series, such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, except that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Senior Notes of any series relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Senior Notes of such series; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be

subject to the provisions of this Section.

SECTION 602. NOTICE OF DEFAULTS.

Within 90 days after the occurrence of any default hereunder with respect to the Senior Notes of any series, the Trustee shall transmit by mail to all Holders of Senior Notes of such series entitled to receive reports pursuant to Section 313(c) of the Trust Indenture Act, notice of all defaults hereunder known to the Trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Senior Note of such series or in the payment of any sinking fund installment with respect to Senior Notes of such series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Holders of Senior Notes of such series; and provided, further, that in the case of any default of the character specified in Section 501(4) with respect to Senior Notes of such series, no such notice to Holders shall be given until at least 45 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Senior Notes of such series.

SECTION 603. CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of Section 601:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and a resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance

thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders of Senior Notes of any series pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be charged with knowledge of any Event of Default with respect to the Senior Notes of any series for which it is acting as Trustee unless either (1) a Responsible Officer of the Trustee assigned to the Corporate Trustee Administration Department and agency group of the Trustee (or any successor division or department of the Trustee) shall have actual knowledge of the Event of Default or (2) written notice of such Event of Default shall have been given to the Trustee by the Company, any other obligor on such Senior Notes or by any Holder of such Senior Notes.

SECTION 604. NOT RESPONSIBLE FOR RECITALS OR ISSUANCE OF SENIOR NOTES.

The recitals contained herein and in the Senior Notes (except the Trustee's certificates of authentication) shall be taken as the statements of the Company, and the Trustee or any Authenticating Agent assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Senior Notes. The Trustee or any Authenticating Agent shall not be accountable for the use or application by the Company of Senior Notes or the proceeds thereof.

SECTION 605. MAY HOLD SENIOR NOTES.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Senior Notes and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. MONEY HELD IN TRUST.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 607. COMPENSATION AND REIMBURSEMENT.

The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence, willful misconduct or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

As security for the performance of the obligations of the Company under this Section the Trustee shall have a lien prior to the Senior Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of, premium, if any, or interest, if any, on particular Senior Notes.

SECTION 608. DISQUALIFICATION; CONFLICTING INTERESTS.

If the Trustee has or shall acquire any conflicting interest, within the meaning of the Trust

Indenture Act, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

SECTION 609. CORPORATE TRUSTEE REQUIRED; ELIGIBILITY.

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000, subject to supervision or examination by federal or state authority and qualified and eligible under this Article and otherwise permitted by the Trust Indenture Act to act as Trustee under an Indenture qualified under the Trust Indenture Act. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

(b) The Trustee may resign at any time with respect to the Senior Notes of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Senior Notes of such series.

(c) The Trustee may be removed at any time with respect to the Senior Notes of any series by Act of the Holders of a majority in principal amount of the Outstanding Senior Notes of such series delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder of a Senior Note who has been a Holder of a Senior Note for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company, by a Board Resolution, may remove the Trustee with respect to all Senior Notes, or (ii) subject to Section 514, any Holder of a Senior Note who has been a bona fide Holder of a Senior Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Senior Notes and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Senior Notes of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Senior Notes of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Senior Notes of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Senior Notes of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Senior Notes of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Senior Notes of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Senior Notes of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Senior Notes of any series shall have been so appointed by the Company or the Holders of Senior Notes and accepted appointment in the manner required by Section 611, any Holder of a Senior Note who has been a bona fide Holder of a Senior Note of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Senior Notes of such series.

(f) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Senior Notes of any series and each appointment of a successor Trustee with respect to the Senior Notes of any series by mailing written notice of such event by first-class mail, postage prepaid, to all Holders of such series of Senior Notes as their names and addresses appear in the Security Register.

SECTION 611. ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

(a) In case of the appointment hereunder of a successor Trustee with respect to all Senior Notes, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Senior Notes of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Senior Notes of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Senior Notes of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Senior Notes, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Senior Notes of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Senior Notes of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Senior Notes of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Senior Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Senior Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such Senior Notes.

SECTION 613. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Senior Notes), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). For purposes of Section 311(b)(4) and (6) of the Trust Indenture Act:

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company (or any such obligor) for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company (or any such obligor) arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

SECTION 614. APPOINTMENT OF AUTHENTICATING AGENT.

At any time when any of the Senior Notes remain Outstanding the Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Senior Notes that shall be

authorized to act on behalf of the Trustee to authenticate Senior Notes of such series issued upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 304, and Senior Notes so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Senior Notes by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by federal or state authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Senior Notes, if any, of the series with respect to which such Authenticating Agent will serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

The provisions of Sections 306, 604 and 605 shall be applicable to each Authenticating Agent.

If an appointment with respect to one or more series is made pursuant to this Section, the Senior Notes of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

This is one of the Senior Notes of the series designated therein referred to in the within-mentioned Indenture.

_____

As Trustee

By: _____

As Authenticating Agent

By: _____

Authorized Signatory

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. COMPANY TO FURNISH TRUSTEE NAMES AND ADDRESSES OF HOLDERS.

The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not later than June 1 and December 1, in each year, a list, in such form as the Trustee may reasonably require, containing all the information in the possession or control of the Company, or any of its Paying Agents other than the Trustee, as to the names and addresses of the Holders of Senior Notes as of the preceding May 15 or November 15, as the case may be, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of the most recent Regular Record Date;

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

SECTION 702. PRESERVATION OF INFORMATION; COMMUNICATIONS TO HOLDERS.

(a) The Trustee shall comply with the obligations imposed on it pursuant to Section 312 of the Trust Indenture Act.

(b) Every Holder of Senior Notes, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders of Senior Notes in accordance with Section 312(b) of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

SECTION 703. REPORTS BY TRUSTEE.

(a) Within 60 days after May 15 of each year commencing with the first May 15 after the first issuance of Senior Notes pursuant to this Indenture, if required by Section 313(a) of the Trust Indenture Act, the Trustee shall transmit a brief report dated as of such May 15 with respect to any of the events specified in such Section 313(a) that may have occurred since the later of the immediately preceding May 15 and the date of this Indenture.

(b) The Trustee shall transmit the reports required by Section 313(b) of the Trust Indenture Act at the times specified therein.

(c) Reports pursuant to this Section shall be transmitted in the manner and to the Persons required by Sections 313(c) and (d) of the Trust Indenture Act.

SECTION 704. REPORTS BY COMPANY.

The Company, pursuant to Section 314(a) of the Trust Indenture Act, shall:

(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) that the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file

information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations;

(3) transmit, within 30 days after the filing thereof with the Trustee, to the Holders of Senior Notes, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of this Section 704 as may be required by rules and regulations prescribed from time to time by the Commission; and

(4) notify the Trustee when and as the Senior Notes of any series become admitted to trading on any national securities exchange.

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801. COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless

(1) in case the Company shall consolidate with or merge into another corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and

punctual payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease complies with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. SUCCESSOR CORPORATION SUBSTITUTED.

Upon any consolidation by the Company with or merger by the Company into any corporation or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor corporation had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Senior Notes.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 901. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders of Senior Notes, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants of the Company herein and in the Senior Notes; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Senior Notes (and if such covenants are to be for the benefit of less than all series of Senior Notes, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default; or

(4) to add to or change any of the provisions of this Indenture, to change or eliminate any restrictions on the payment of principal (or premium, if any) on Senior Notes or to permit the issuance of Senior Notes in uncertificated form, provided any such action shall not adversely affect the interests of the Holders of Senior Notes of any series in any material respect; or

(5) to change or eliminate any of the provisions of this Indenture with respect to any series of Senior Notes theretofore unissued; or

(6) to secure the Senior Notes; or

(7) to establish the form or terms of Senior Notes of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Senior Notes of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611(b); or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make provisions with respect to matters or questions arising under this indenture, provided such action shall not adversely affect the interests of the Holders of Senior Notes of any series in any material respect; or

(10) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act or under any similar federal statute hereafter enacted, and to add to this Indenture such other provisions as may be expressly required by the Trust Indenture Act.

SECTION 902. SUPPLEMENTAL INDENTURES WITH CONSENT OF HOLDERS.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Senior Notes of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Senior Notes of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Senior Note affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Senior Notes of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section 902, Section 513 or Section 1006, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Senior Note affected thereby, provided, however, that this clause shall not be deemed to require the consent of any Holder of a Senior Note with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1006, or the deletion of this proviso, in accordance with the requirements of Sections 611(b) and 901(8).

SECTION 903. GENERAL PROVISIONS REGARDING SUPPLEMENTAL INDENTURE.

(a) A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Senior Notes, or which modifies the rights of the Holders of Senior Notes of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Senior Notes of any other series.

(b) It shall not be necessary for any Act of Holders of Senior Notes under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act or action shall approve the substance thereof.

SECTION 904. EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise.

SECTION 905. EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Senior Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 906. CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

SECTION 907. REFERENCE IN SENIOR NOTES TO SUPPLEMENTAL INDENTURES.

Senior Notes of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Senior Notes of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Senior Notes of such series.

ARTICLE TEN

COVENANTS

SECTION 1001. PAYMENT OF PRINCIPAL AND INTEREST.

The Company covenants and agrees for the benefit of each series of Senior Notes that it will duly and punctually pay the principal of (and premium, if any) and interest on the Senior Notes of that series in accordance with the terms of the Senior Notes and this Indenture.

SECTION 1002. MAINTENANCE OF OFFICE OR AGENCY.

The Company or its Affiliate will maintain an office or agency where Senior Notes of each series may be presented or surrendered for payment, where Senior Notes of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Senior Notes of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency in respect of any series of Senior Notes or shall fail to furnish the Trustee with the address thereof, such presentations and surrenders of Senior Notes of that series may be made and notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive such respective presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Senior Notes of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 1003. MONEY FOR SENIOR NOTES PAYMENTS TO BE HELD IN TRUST.

If the Company or one of its Affiliates shall at any time act as its own Paying Agent with respect to any series of Senior Notes, it will, on or before each due date of the principal of (and premium, if any) or interest on any of the Senior Notes of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Senior Notes, it will, prior to each due date of the principal of (and premium, if any) or interest on any Senior Notes of that series, deposit with a Paying Agent a sum sufficient to pay the principal (and

premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Senior Notes other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any) or interest on Senior Notes of that series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Senior Notes of that series) in the making of any payment of principal of (and premium, if any) or interest on the Senior Notes of that series; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Senior Note of any series and remaining unclaimed for two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Senior Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper of general circulation in New York City notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. CORPORATE EXISTENCE

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the rights (charter and statutory) and franchises of the Company; provided, however, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company, and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1005. STATEMENT AS TO COMPLIANCE

(a) The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year, a written statement, which need not comply with Section 102, signed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company, as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture. For purposes of this Section 1005, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture.

(b) The Company shall deliver to the Trustee, within five days after the occurrence thereof, written notice of any event which after notice or lapse of time or both would become an Event of Default pursuant to Section 501.

SECTION 1006. WAIVER OF CERTAIN COVENANTS

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Section 1004 with respect to the Senior Notes of any series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Senior Notes of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE ELEVEN

REDEMPTION OF SENIOR NOTES

SECTION 1101. APPLICABILITY OF ARTICLE.

Senior Notes of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Senior Notes of any series) in accordance with this Article.

SECTION 1102. ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Senior Notes shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of all of the Senior Notes of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date. In case of any redemption at the election of the Company of less than all the Senior Notes of any series, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Senior Notes of such series to be redeemed. In the case of any redemption of Senior Notes (i) prior to the expiration of any restriction on such redemption provided in the terms of such Senior Notes or elsewhere in this Indenture, or (ii) pursuant to an election of the Company which is subject to a condition specified in the terms of such Senior Notes, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction or condition.

SECTION 1103. SELECTION BY TRUSTEE OF SENIOR NOTES TO BE REDEEMED.

If the Senior Notes are registered in the name of only one Holder, any partial redemptions shall be pro rata. If the Senior Notes are held in definitive form by more than one Holder and if less than all the Senior Notes of any series are to be redeemed, the particular Senior Notes to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Senior Notes of such series not previously called for redemption, by lot or other such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Senior Notes of that series or any integral multiple thereof) of the principal amount of Senior Notes of such series of a denomination larger than the minimum authorized denomination for Senior Notes of that series.

The Trustee shall promptly notify the Company in writing of the Senior Notes selected for redemption and, in the case of any Senior Notes selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Senior Notes shall relate, in the case of any Senior Notes redeemed or to be redeemed only in part, to the portion of the principal amount of such Senior Notes which has been or is to be redeemed.

SECTION 1104. NOTICE OF REDEMPTION.

Notice of redemption shall be given in the manner provided in Section 106 to the Holders of Senior Notes to be redeemed not less than 30 nor more than 60 days prior to the Redemption Date.

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all the Outstanding Senior Notes of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Senior Notes to be redeemed,

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Senior Note to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(5) the place or places where such Senior Notes are to be surrendered for payment of the Redemption Price, and

(6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Senior Notes to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1105. DEPOSIT OF REDEMPTION PRICE.

Except as otherwise provided in a supplemental indenture pursuant to Section 301, prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company or its Affiliate is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of and accrued interest, if any, on all the Senior Notes which are to be redeemed on that date.

SECTION 1106. SENIOR NOTES PAYABLE ON REDEMPTION DATE

Notice of redemption having been given as aforesaid, the Senior Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified together with any accrued interest thereon, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Senior Notes shall cease to bear interest. Upon surrender of any such Senior Note for redemption in accordance with such notice, such Senior Note shall be paid by the Company at the Redemption Price, together with accrued interest, if any; provided, however, that, except as otherwise provided in a supplemental indenture pursuant to Section 301, installments of interest on Senior Notes whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Senior Notes, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 305.

If any Senior Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Senior Note.

SECTION 1107. SENIOR NOTES REDEEMED IN PART.

Any Senior Note that is to be redeemed only in part shall be surrendered at an office or agency of the Company therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Senior Note without service charge, a new Senior Note of the same series, Stated Maturity and original issue date of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Senior Note so surrendered.

ARTICLE TWELVE

SINKING FUNDS

SECTION 1201. APPLICABILITY OF ARTICLE.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Senior Notes of a series except as otherwise specified as contemplated by Section 301 for Senior Notes of such series.

The minimum amount of any sinking fund payment provided for by the terms of Senior

Notes of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Senior Notes of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Senior Notes of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Senior Notes of any series as provided for by the terms of Senior Notes of such series.

SECTION 1202. SATISFACTION OF SINKING FUND PAYMENTS WITH SENIOR NOTES.

The Company (1) may deliver Outstanding Senior Notes of a series (other than any previously called for redemption), and (2) may apply as a credit Senior Notes of a series which have been redeemed either at the election of the Company pursuant to the terms of such Senior Notes or through the application of permitted optional sinking fund payments pursuant to the terms of such Senior Notes, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Senior Notes of such series required to be made pursuant to the terms of such Senior Notes as provided for by the terms of such series; provided that such Senior Notes have not been previously so credited. Such Senior Notes shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Senior Notes for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. REDEMPTION OF SENIOR NOTES FOR SINKING FUND.

Not less than 60 days prior to each sinking fund payment date for any series of Senior Notes, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Senior Notes of that series pursuant to Section 1202 and stating the basis for such credit and that such Senior Notes have not previously been so credited and will also deliver to the Trustee any Senior Notes to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Senior Notes to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Senior Notes shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

MISCELLANEOUS PROVISIONS

SECTION 1301. NO RECOURSE AGAINST OTHERS

An incorporator or any past, present or future director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Senior Notes or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Senior Note, each Holder shall waive and release all such liability. Such waiver and release shall be part of the consideration for the issue of the Senior Notes.

SECTION 1302. ASSIGNMENT; BINDING EFFECT

The Company shall have the right at all times to assign any of its rights or obligations under this Indenture to a direct or indirect wholly-owned subsidiary of the Company, provided that, in the event of any such assignment, the Company shall remain primarily liable for the performance of all such obligations. This Indenture may also be assigned by the Company in connection with a transaction described in Article Eight. This Indenture shall be binding upon and inure to the benefit of the Company, the Trustee, the Holders, any Security Registrar, Paying Agent, and Authenticating Agent and their respective successors and assigns.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

GULF POWER COMPANY

By _____
A. E. Scarbrough
Vice President

Attest:

_____
Susan Cranmer
Assistant Secretary

THE CHASE MANHATTAN BANK
Trustee

By _____
R. Lorenzen
Senior Trust Officer

Attest:

_____
L. O'Brien
Senior Trust Officer

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

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THE CHASE MANHATTAN BANK
Trustee

By _____
R. Lorenzen
Senior Trust Officer

Attest:

_____
L. O'Brien
Senior Trust Officer

EXHIBIT B. 3

GULF POWER COMPANY

TO

THE CHASE MANHATTTAN BANK,
TRUSTEE.

FIRST SUPPLEMENTAL INDENTURE

DATED AS OF JUNE 24, 1998

$50,000,000

SERIES A 6.70% SENIOR INSURED QUARTERLY NOTES

DUE JUNE 30, 2038

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[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS FIRST SUPPLEMENTAL INDENTURE is made as of the 24th day of June, 1998, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0102 (the "Company"), and THE CHASE MANHATTAN BANK, a New York banking corporation, 450 West 33rd Street, New York, New York 10001 (the "Trustee").

WITNESSETH:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with The Chase Manhattan Bank;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as supplemented by this First Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this First Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1

Series A Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038 (the "Series A Notes").

There are to be authenticated and delivered $50,000,000 principal amount of Series A Notes, and no further Series A Notes shall be authenticated and delivered except as provided by

Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series A Notes shall be issued in definitive fully registered form.

The Series A Notes shall be issued in the form of one Global Security in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series A Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series A Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series A Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Insurance Paying Agent" means State Street Bank and Trust Company, N.A., New York, New York, or any successor thereto, as the Fiscal Agent under the Policy.

"Insurer" means MBIA Insurance Corporation, a New York-domiciled stock insurance corporation.

"Interest Payment Dates" means March 31, June 30, September 30, and December 31 of each year.

"Original Issue Date" means June 24, 1998.

"Policy" means the financial guaranty insurance policy issued by the Insurer with respect to regularly scheduled payments due for principal of and interest on the Series A Notes as provided in such policy.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the 15th calendar day preceding such Interest Payment Date.

"Stated Maturity" means June 30, 2038.

SECTION 103. Payment of Principal and Interest. The principal of the Series A Notes shall be due at Stated Maturity (unless earlier redeemed). The unpaid principal amount of the Series A Notes shall bear interest at the rate of 6.70% per annum until paid or duly provided for. Interest shall be paid quarterly in arrears on each Interest Payment Date to the Person in whose name the Series A Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal or on a Redemption Date as provided herein will be paid to the Person to whom principal is payable. Any such interest that is

not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series A Notes are registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series A Notes not less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series A Notes shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series A Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series A Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series A Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day, except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity or earlier redemption of the Series A Notes shall be made upon surrender of the Series A Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series A Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series A Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 105. Global Securities. The Series A Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series A Notes represented by the Global Security will not be exchangeable for, and will not otherwise be issuable as, Series A Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series A Note shall be exchangeable, except for another Global Security of like denomination and tenor to be

registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series A Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series A Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series A Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series A Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

The Company shall not be required (a) to issue, transfer or exchange any Series A Notes except to the Insurer during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice pursuant to Section 1104 of the Original Indenture identifying the serial numbers of the Series A Notes to be called for redemption, and ending at the close of business on the day of the mailing, or (b) to transfer or exchange any Series A Notes theretofore selected for redemption in whole or in part, except the unredeemed portion of any Series A Note redeemed in part.

SECTION 107. Redemption at the Company's Option. The Series A Notes shall be subject to redemption at the option of the Company, in whole or in part, without premium or penalty, at any time or from time to time on or after June 30, 2003, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In the event of redemption of the Series A Notes in part only, a new Series A Note or Notes for the unredeemed portion will be issued in the name or names of the Holders thereof upon the surrender thereof.

The Series A Notes will not have a sinking fund.

Notice of redemption shall be given as provided in Section 1104 of the Original Indenture.

Any redemption of less than all of the Series A Notes shall, with respect to the principal thereof, be divisible by $1,000.

SECTION 108. Redemption at the Holder's Option. For purposes of this Section 108, a "Beneficial Owner" means the Person who has the right to sell, transfer or otherwise dispose of an interest in a Series A Note and the right to receive the proceeds therefrom, as well as the interest and principal payable to the Holder thereof. In general, a determination of beneficial ownership in the Series A Notes will be subject to the rules, regulations and procedures governing the Depositary and institutions that have accounts with the Depositary or a nominee thereof ("Participants").

Unless the Series A Notes have been declared due and payable prior to their maturity by reason of an Event of Default, the Representative (as hereinafter defined) of a deceased Beneficial Owner has the right to request redemption prior to Stated Maturity of all or part of his interest, expressed in integral multiples of $1,000 principal amount, in the Series A Notes, and the Company will redeem the same subject to the limitations that the Company will not be obligated to redeem, during the period from the Original Issue Date through and including July 1, 1999 (the "Initial Period"), and during any twelve-month period which ends on and includes each July 1 thereafter (each such twelve-month period being hereinafter referred to as a "Subsequent Period"), (i) on behalf of a deceased Beneficial Owner any interest in the Series A Notes which exceeds an aggregate principal amount of $25,000 or (ii) interests in the Series A Notes in an aggregate principal amount exceeding $1,000,000. A request for redemption may be initiated by the Representative of a deceased Beneficial Owner at any time and in any principal amount in integral multiples of $1,000. If the Company, although not obligated to do so, chooses to redeem interests of any deceased Beneficial Owner in the Series A Notes in the Initial Period or any Subsequent Period in excess of the $25,000 limitation, such redemption, to the extent that it exceeds the $25,000 limitation for any deceased Beneficial Owner, shall not be included in the computation of the $1,000,000 limitation for such Initial Period or such Subsequent Period, as the case may be, or for any succeeding Subsequent Period.

Subject to the $25,000 and $1,000,000 limitations, the Company will, after the death of any Beneficial Owner, redeem the interest of such Beneficial Owner in the Series A Notes within 60 days following receipt by the Trustee of a Redemption Request (as herein defined). If Redemption Requests exceed the aggregate principal amount of interests in Series A Notes required to be redeemed during the Initial Period or during any Subsequent Period, then such excess Redemption Requests will be applied in the order received by the Trustee to successive Subsequent Periods, regardless of the number of Subsequent Periods required to redeem such interests.

A request for redemption of an interest in the Series A Notes may be initiated by the personal representative or other Person authorized to represent the estate of the deceased Beneficial Owner or from a surviving joint tenant(s) or tenant(s) by the entirety (each, a "Representative"). The Representative shall deliver a request to the Participant through whom the deceased Beneficial Owner owned such interest, in form satisfactory to the Participant, together with evidence of the death of the Beneficial Owner, evidence of the authority of the Representative satisfactory to the Participant, such waivers, notices or certificates as may be required under applicable state or federal law and such other evidence of the right to such redemption as the Participant shall require. The request shall specify the principal amount of the interest in the Series A Notes to be redeemed. The Participant shall thereupon deliver to the Depositary a request for redemption substantially in the form attached as Exhibit C hereto (a "Redemption Request"), accompanied by the documents

submitted to the Participant as above provided, and the Depositary will forward the same to the Trustee. Documents accompanying Redemption Requests shall be in form satisfactory to the Company. The Trustee may conclusively assume, without independent investigation, that the statements contained in each Redemption Request are true and correct and shall have no responsibility for reviewing any documents accompanying a Redemption Request or for determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series A Note to be redeemed or is in fact deceased and whether the Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner.

The price to be paid by the Company for interests in the Series A Notes to be redeemed pursuant to a Redemption Request is 100% of the principal amount thereof plus accrued but unpaid interest to the date of payment. Subject to arrangements with the Depositary, payment for interests in the Series A Notes which are to be redeemed shall be made to the Depositary upon presentation of Series A Notes to the Trustee for redemption in the aggregate principal amount specified in the Redemption Requests submitted to the Trustee by the Depositary which are to be fulfilled in connection with such payment. The principal amount of any Series A Notes acquired or redeemed by the Company other than by redemption at the option of any Representative of a deceased Beneficial Owner pursuant to this Section 108 shall not be included in the computation of either the $25,000 or the $1,000,000 limitation for the Initial Period or for any Subsequent Period.

For purposes of this Section 108, an interest in a Series A Note held in tenancy by the entirety, joint tenancy or by tenants in common will be deemed to be held by a single Beneficial Owner and the death of a tenant by the entirety, joint tenant or tenant in common will be deemed the death of a Beneficial Owner. The death of a Person who, during his lifetime, was entitled to substantially all of the rights of a Beneficial Owner of an interest in the Series A Notes will be deemed the death of the Beneficial Owner, regardless of the recordation of such interest on the records of the Participant, if such rights can be established to the satisfaction of the Participant and the Company. Such interests shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act, community property or other similar joint ownership arrangements, including individual retirement accounts or Keogh [H.R. 10] plans maintained solely by or for the decedent or by or for the decedent and any spouse, and trust and certain other arrangements where one Person has substantially all of the rights of a Beneficial Owner during such Person's lifetime.

In the case of any Redemption Request which is presented pursuant to this Section 108 and which has not been fulfilled at the time the Company gives notice of its election to redeem Series A Notes pursuant to Section 107 hereof, such interest or portion thereof shall not be subject to redemption pursuant to such Section 107, but shall remain subject to redemption pursuant to this Section 108.

Subject to the provisions of the immediately preceding sentence, any Redemption Request may be withdrawn by the Person(s) presenting the same upon delivery of a written request for such withdrawal given by the Depositary to the Trustee prior to payment of such Redemption Request.

During such time or times as, in accordance with Section 105 hereof, the Series A Notes are not represented by a Global Security and are issued in definitive form, all references in this Section 108 to Participants and the Depositary, including the Depositary's governing rules, regulations and procedures shall be deemed deleted, all determinations which under this Section 108 the Participants are required to make shall be made by the Company (including, without limitation, determining whether the applicable decedent is in fact the Beneficial Owner of the interest in the Series A Note to be redeemed or is in fact deceased and whether the Representative is duly authorized to request redemption on behalf of the applicable Beneficial Owner), all redemption requests, to be effective, shall be delivered by the Representative to the Trustee, with a copy to the Company, and shall be in the form of a Redemption Request (with appropriate changes to reflect the fact that such Redemption Request is being executed by a Representative) and, in addition to all documents that are otherwise required to accompany a Redemption Request, shall be accompanied by the Series A Note that is the subject of such request.

ARTICLE 2

Special Insurance Provisions

SECTION 201. Supplemental Indentures. The consent of the Insurer shall be required with respect to any indenture or indentures supplemental to the Original Indenture requiring the consent of the Holders of the Series A Notes pursuant to Section 902 of the Original Indenture.

SECTION 202. Events of Default and Remedies. Subject to Section 107 of the Original Indenture and to the Trust Indenture Act, including, without limitation, Sections 316(a)(1) and 317(a) thereof, if an Event of Default with respect to the Series A Notes occurs and is continuing, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series A Notes or the Trustee for the benefit of the Holders of the Series A Notes under the Indenture, including, without limitation, (i) the right to accelerate the principal of the Series A Notes as provided in Section 502 of the Original Indenture, and (ii) the right to annul any such declaration of acceleration, and the Insurer shall also be entitled to approve any waiver of an Event of Default with respect to the Series A Notes, the obligation of the Trustee to comply with any such direction to be subject to compliance with the conditions set forth in Sections 512 and 603(e) of the Original Indenture (as if references in those Sections to Holders were references to the Insurer) and the protections provided to the Trustee by Section 601(c)(3) of the Original Indenture shall be applicable with respect to any direction from the Insurer given pursuant hereto (as if references in said Section to Holders were references to the Insurer).

SECTION 203. Insurance Policy Payment Procedures. (a) If the Trustee does not have sufficient funds for any payment of principal or interest on the due date or if the Trustee has notice that any Holder has been required to disgorge payments of principal or interest on the Series A Notes to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Holder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the

Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(b) The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Series A Notes as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Series A Notes, the Trustee shall (a) execute and deliver to the Insurance Paying Agent, in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Series A Notes, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holders in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Series A Notes surrendered to the Insurance Paying Agent to the extent of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

(c) Payments with respect to claims for interest on and principal of Series A Notes disbursed by the Trustee from proceeds of the Policy shall not be considered to discharge the obligation of the Company with respect to such Series A Notes, and the Insurer shall become the owner of such unpaid Series A Note and claims for the interest thereon in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(d) Irrespective of whether any such assignment is executed and delivered, the Company and the Trustee hereby agree for the benefit of the Insurer that,

1. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Series A Notes, the Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Company, with interest thereon as provided and solely from the sources stated in the Indenture and the Series A Notes; and

2. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first

paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the Series A Note, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Series A Notes to Holders, and will otherwise treat the Insurer as the owner of such rights to the extent of the amount of such principal and interest.

SECTION 204. Application of Term "Outstanding" to Series A Notes. In the event that the principal and/or interest due on the Series A Notes shall be paid by the Insurer pursuant to the Policy, the Series A Notes shall remain Outstanding for all purposes of the Indenture, not be considered defeased or otherwise satisfied and not be considered paid by the Company, and the Indenture and all covenants, agreements and other obligations of the Company to the Holders of the Series A Notes shall continue to exist and such covenants, agreements and other obligations shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders to the extent of each such payment.

SECTION 205. Insurer as Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

SECTION 206. Notices. Any notice that is required to be given to a Holder of the Series A Note or to the Trustee pursuant to the Indenture shall also be provided to the Insurer. All notices required to be given to the Insurer under the Indenture shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504, Attention: Surveillance.

SECTION 207. Concerning the Special Insurance Provisions. The provisions of this Article 2 shall apply notwithstanding anything in the Indenture to the contrary, but only so long as the Policy shall be in full force and effect and the Insurer is not in default thereunder.

ARTICLE 3

Miscellaneous Provisions

SECTION 301. Recitals by Company. The recitals in this First Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of Series A Notes and of this First Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 302. Ratification and Incorporation of Original Indenture. As supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture

and this First Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 303. Executed in Counterparts. This First Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By: Susan D. Cranmer
Susan Cranmer
Assistant Secretary

GULF POWER COMPANY

By: _____
A. E. Scarbrough
Vice President

ATTEST:

By: _____
L. O'Brien
Senior Trust Officer

THE CHASE MANHATTAN BANK, as Trustee

By: _____
R. Lorenzen
Senior Trust Officer

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

GULF POWER COMPANY

By:_____
Susan Cranmer
Assistant Secretary

By:_____
A. E. Scarbrough
Vice President

ATTEST:

THE CHASE MANHATTAN BANK, as Trustee

By:_____
L. O'Brien
Senior Trust Officer

By:_____
R. Lorenzen
Senior Trust Officer

EXHIBIT A

FORM OF SERIES A NOTE

NO. __ CUSIP NO. 402479BH1

GULF POWER COMPANY
SERIES A 6.70% SENIOR INSURED QUARTERLY NOTE
DUE JUNE 30, 2038

Principal Amount:	$_____
Regular Record Date:	15th calendar day prior to Interest Payment Date
Original Issue Date:	June 24, 1998
Stated Maturity:	June 30, 2038
Interest Payment Dates:	March 31, June 30, September 30 and December 31
Interest Rate:	6.70% per annum
Authorized Denomination:	$1,000
Initial Redemption Date:	June 30, 2003

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS ($_____) on the Stated Maturity shown above (or upon earlier redemption), and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on each Interest Payment Date as specified above, commencing on September 30, 1998, and on the Stated Maturity (or upon earlier redemption) at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity or on a Redemption Date) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity or on any Redemption Date will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee,

notice whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes of this series shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day, except that, if such Business Day is in the next succeeding calendar year, payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity or earlier redemption of the Series A Notes shall be made upon surrender of the Series A Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series A Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Vice President

Attest:

_____
Assistant Secretary

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and The Chase Manhattan Bank, Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038 (the "Series A Notes") in the aggregate principal amount of up to $50,000,000. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Company shall have the right, subject to the terms and conditions of the Indenture, to redeem this Note at any time on or after June 30, 2003 at the option of the Company, without premium or penalty, in whole or in part, at a Redemption Price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest to the Redemption Date.

In addition, at the option of any deceased Beneficial Owner's Representative, interests in the Series A Notes are redeemable at 100% of their principal amount, plus accrued interest, subject to certain limitations provided in the Indenture.

In the event of redemption of this Note in part only, a new Note or Notes of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the surrender hereof. The Notes will not have a sinking fund.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a financial guaranty insurance policy (the "Policy") containing the following provisions, such policy being on file at The Chase Manhattan Bank, 450 West 33rd Street, New York, New York 10001.

The Insurer, in consideration of the payment of the premium and subject to the terms of the Policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Company to The Chase Manhattan Bank or its successor (the "Paying Agent") of an amount equal to (i) the principal of (at the stated maturity) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

$50,000,000
GULF POWER COMPANY
SERIES A 6.70% SENIOR INSURED QUARTERLY NOTES
DUE JUNE 30, 2038

Upon receipt of telephonic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one Business Day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instrument being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Company or any designee of the Company for such purpose. The term owner shall not include the Company or any party whose agreement with the Company constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

The insurance provided by the Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Insurance Corporation

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM-	as tenants in common	UNIF GIFT MIN ACT-	_____ Custodian _____ (Cust) (Minor)
TEN ENT-	as tenants by the entireties		under Uniform Gifts to Minors Act
JT TEN-	as joint tenants with right of survivorship and not as tenants in common		_____ (State)

Additional abbreviations may also be used though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____

_____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

0268171.02

EXHIBIT B

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
as Trustee

By:_____
Authorized Officer

EXHIBIT C

FORM OF REQUEST FOR REDEMPTION

Gulf Power Company
6.70% Senior Insured Quarterly Notes
due June 30, 2038
CUSIP No. 402479BH1

The undersigned Participant does hereby certify, pursuant to Section 108 of the First Supplemental Indenture dated as of June 24, 1998 to the Indenture dated as of January 1, 1998 between Gulf Power Company (the "Company") and The Chase Manhattan Bank, as trustee (the "Trustee"), to the Company and the Trustee that:

1. [Name of deceased Beneficial Owner] is deceased.

2. [Name of deceased Beneficial Owner] had a $_____ interest in the Company's Series A 6.70% Senior Insured Quarterly Notes due June 30, 2038 (the "Series A Senior Notes").

3. [Name of Representative] is [Beneficial Owner's personal representative/ other person authorized to represent the estate of the Beneficial Owner/surviving joint tenant/ surviving tenant by the entirety] of [Name of deceased Beneficial Owner] and has delivered to the undersigned a request for redemption in form satisfactory to the undersigned, requesting that $_____ [$1,000 or an integral multiple thereof] be redeemed pursuant to said Section 108. Such request and the documents accompanying such request, all of which are satisfactory to the undersigned, are delivered herewith.

4. [Name of Participant] holds the interest in the Series A Senior Notes with respect to which this Request for Redemption is being made on behalf of [Name of deceased Beneficial Owner].

IN WITNESS WHEREOF, the undersigned has executed this Request for Redemption as of _____, _____.

[Name of Participant]

By:_____
Name:
Title:

EXHIBIT B. 4

GULF POWER COMPANY

TO

THE CHASE MANHATTTAN BANK,
TRUSTEE.

SECOND SUPPLEMENTAL INDENTURE

DATED AS OF AUGUST 24, 1999

$50,000,000

SERIES B 7.05% SENIOR NOTES

DUE AUGUST 15, 2004

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[1]This Table of Contents does not constitute part of the Indenture or have any bearing upon the interpretation of any of its terms and provisions.

THIS SECOND SUPPLEMENTAL INDENTURE is made as of the 24th day of August, 1999, by and between GULF POWER COMPANY, a Maine corporation, One Energy Place, Pensacola, Florida 32520-0102 (the "Company"), and THE CHASE MANHATTAN BANK, a New York banking corporation, 450 West 33rd Street, New York, New York 10001 (the "Trustee").

WITNESSETH:

WHEREAS, the Company has heretofore entered into a Senior Note Indenture, dated as of January 1, 1998 (the "Original Indenture"), with The Chase Manhattan Bank, as supplemented by a First Supplemental Indenture, dated as of June 24, 1998 (the "First Supplemental Indenture"), with The Chase Manhattan Bank;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as supplemented by the First Supplemental Indenture and this Second Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, a new series of Senior Notes may at any time be established pursuant to a supplemental indenture executed by the Company and the Trustee;

WHEREAS, the Company proposes to create under the Indenture a new series of Senior Notes;

WHEREAS, additional Senior Notes of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all conditions necessary to authorize the execution and delivery of this Second Supplemental Indenture and to make it a valid and binding obligation of the Company have been done or performed.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1

Series B Senior Notes

SECTION 101. Establishment. There is hereby established a new series of Senior Notes to be issued under the Indenture, to be designated as the Company's Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Notes").

There are to be authenticated and delivered $50,000,000 principal amount of Series B Notes, and no further Series B Notes shall be authenticated and delivered except as provided by Sections 203, 303, 304, 907 or 1107 of the Original Indenture. The Series B Notes shall be issued in definitive fully registered form.

The Series B Notes shall be issued in the form of one Global Security in substantially the form set out in Exhibit A hereto. The Depositary with respect to the Series B Notes shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series B Notes shall be in substantially the form set forth in Exhibit B hereto.

Each Series B Note shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Interest Payment Date to which interest has been paid or duly provided for.

The Series B Notes will not be redeemable at the option of the Company prior to maturity and will not have a sinking fund.

SECTION 102. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Interest Payment Dates" means February 15 and August 15 of each year.

"Original Issue Date" means August 24, 1999.

"Regular Record Date" means, with respect to each Interest Payment Date, the close of business on the February 1 or August 1, as the case may be, immediately preceding such Interest Payment Date.

"Stated Maturity" means August 15, 2004.

SECTION 103. Payment of Principal and Interest. The principal of the Series B Notes shall be due at Stated Maturity. The unpaid principal amount of the Series B Notes shall bear interest at the rate of 7.05% per annum until paid or duly provided for. Interest shall be paid semiannually in arrears on each Interest Payment Date to the Person in whose name the Series B Notes are registered on the Regular Record Date for such Interest Payment Date, *provided* that interest payable at the Stated Maturity of principal as provided herein will be paid to the Person to whom principal is payable. Any such interest that is not so punctually paid or duly provided for will forthwith cease to be payable to the Holders on such Regular Record Date and may either be paid to the Person or Persons in whose name the Series B Notes are registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Series B Notes not less than ten (10) days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Series B Notes

shall be listed, and upon such notice as may be required by any such exchange, all as more fully provided in the Original Indenture.

Payments of interest on the Series B Notes will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for the Series B Notes shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series B Notes is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day that is a Business Day, with the same force and effect as if made on the date the payment was originally payable.

Payment of the principal and interest due at the Stated Maturity of the Series B Notes shall be made upon surrender of the Series B Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series B Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payments of interest (including interest on any Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least sixteen (16) days prior to the date for payment by the Person entitled thereto.

SECTION 104. Denominations. The Series B Notes may be issued in the denominations of $1,000, or any integral multiple thereof.

SECTION 105. Global Securities. The Series B Notes will be issued in the form of one or more Global Securities registered in the name of the Depositary (which shall be The Depository Trust Company) or its nominee. Except under the limited circumstances described below, Series B Notes represented by the Global Security will not be exchangeable for, and will not otherwise be issuable as, Series B Notes in definitive form. The Global Securities described above may not be transferred except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or to a successor Depositary or its nominee.

Owners of beneficial interests in such a Global Security will not be considered the Holders thereof for any purpose under the Indenture, and no Global Security representing a Series B Note shall be exchangeable, except for another Global Security of like denomination and tenor to be registered in the name of the Depositary or its nominee or to a successor Depositary or its nominee. The rights of Holders of such Global Security shall be exercised only through the Depositary.

A Global Security shall be exchangeable for Series B Notes registered in the names of persons other than the Depositary or its nominee only if (i) the Depositary notifies the Company that it is unwilling or unable to continue as a Depositary for such Global Security and no successor Depositary shall have been appointed by the Company, or if at any time the Depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when the Depositary is required to be so registered to act as such Depositary and no successor Depositary shall have been appointed by the Company, in each case within 90 days after the

Company receives such notice or becomes aware of such cessation, (ii) the Company in its sole discretion determines that such Global Security shall be so exchangeable, or (iii) there shall have occurred an Event of Default with respect to the Series B Notes. Any Global Security that is exchangeable pursuant to the preceding sentence shall be exchangeable for Series B Notes registered in such names as the Depositary shall direct.

SECTION 106. Transfer. No service charge will be made for any transfer or exchange of Series B Notes, but payment will be required of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

ARTICLE 2

Miscellaneous Provisions

SECTION 201. Recitals by Company. The recitals in this Second Supplemental Indenture are made by the Company only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of Series B Notes and of this Second Supplemental Indenture as fully and with like effect as if set forth herein in full.

SECTION 202. Ratification and Incorporation of Original Indenture. As heretofore supplemented and as supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture, the First Supplemental Indenture and this Second Supplemental Indenture shall be read, taken and construed as one and the same instrument.

SECTION 203. Executed in Counterparts. This Second Supplemental Indenture may be simultaneously executed in several counterparts, each of which shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, each party hereto has caused this instrument to be signed in its name and behalf by its duly authorized officers, all as of the day and year first above written.

ATTEST:

By: _____
Susan Ritenour
Assistant Secretary

GULF POWER COMPANY

By: _____
A. E. Scarbrough
Vice President

ATTEST:

By: _____
N. Rodriguez
Trust Officer

THE CHASE MANHATTAN BANK, as Trustee

By: _____
R. Lorenzen
Assistant Vice President

EXHIBIT A

FORM OF SERIES B NOTE

NO. __ CUSIP NO. 402479BJ7

GULF POWER COMPANY
SERIES B 7.05% SENIOR NOTE
DUE AUGUST 15, 2004

Principal Amount:	$_____
Regular Record Date:	February 1 or August 1, as the case may be, immediately preceding an Interest Payment Date
Original Issue Date:	August 24, 1999
Stated Maturity:	August 15, 2004
Interest Payment Dates:	February 15 and August 15
Interest Rate:	7.05% per annum
Authorized Denomination:	$1,000

Gulf Power Company, a Maine corporation (the "Company", which term includes any successor corporation under the Indenture referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ DOLLARS ($_____) on the Stated Maturity shown above, and to pay interest thereon from the Original Issue Date shown above, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually in arrears on each Interest Payment Date as specified above, commencing on February 15, 2000, and on the Stated Maturity at the rate per annum shown above until the principal hereof is paid or made available for payment and on any overdue principal and on any overdue installment of interest. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than an Interest Payment Date that is the Stated Maturity) will, as provided in such Indenture, be paid to the Person in whose name this Note (the "Note") is registered at the close of business on the Regular Record Date as specified above next preceding such Interest Payment Date, provided that any interest payable at Stated Maturity will be paid to the Person to whom principal is payable. Except as otherwise provided in the Indenture, any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Note is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which the Notes of this series shall be listed,

and upon such notice as may be required by any such exchange, all as more fully provided in the Indenture.

Payments of interest on this Note will include interest accrued to but excluding the respective Interest Payment Dates. Interest payments for this Note shall be computed and paid on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Note is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day that is a Business Day, with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean any day other than a Saturday or a Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

Payment of the principal of and interest due at the Stated Maturity of the Series B Notes shall be made upon surrender of the Series B Notes at the Corporate Trust Office of the Trustee. The principal of and interest on the Series B Notes shall be paid in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including interest on an Interest Payment Date) will be made, subject to such surrender where applicable, at the option of the Company, (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer at such place and to such account at a banking institution in the United States as may be designated in writing to the Trustee at least 16 days prior to the date for payment by the Person entitled thereto.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated:

GULF POWER COMPANY

By:_____
Vice President

Attest:

_____
Assistant Secretary

{Seal of GULF POWER COMPANY appears here}

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
as Trustee

By:_____
Authorized Officer

(Reverse Side of Note)

This Note is one of a duly authorized issue of Senior Notes of the Company (the "Notes"), issued and issuable in one or more series under a Senior Note Indenture, dated as of January 1, 1998, as supplemented (the "Indenture"), between the Company and The Chase Manhattan Bank, Trustee (the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures incidental thereto reference is hereby made for a statement of the respective rights, limitation of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes issued thereunder and of the terms upon which said Notes are, and are to be, authenticated and delivered. This Note is one of the series designated on the face hereof as Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Notes") in the aggregate principal amount of up to $50,000,000. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Indenture.

The Series B Notes will not have a sinking fund.

The Series B Notes will not be redeemable at the option of the Company prior to the Stated Maturity.

If an Event of Default with respect to the Notes of this series shall occur and be continuing, the principal of the Notes of this series may be declared due and payable in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Notes at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes of each series at the time Outstanding, on behalf of the Holders of all Notes of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the

Security Registrar and duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series, of authorized denominations and of like tenor and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Notes of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Notes of this series are exchangeable for a like aggregate principal amount of Notes of this series of a different authorized denomination, as requested by the Holder surrendering the same upon surrender of the Note or Notes to be exchanged at the office or agency of the Company.

This Note shall be governed by, and construed in accordance with, the internal laws of the State of New York.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this instrument, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM-	as tenants in common	UNIF GIFT MIN ACT- _____ Custodian _____ (Cust) (Minor)	
TEN ENT-	as tenants by the entireties	under Uniform Gifts to Minors Act	
JT TEN-	as joint tenants with right of survivorship and not as tenants in common	_____ (State)	

Additional abbreviations may also be used
though not on the above list.

FOR VALUE RECEIVED, the undersigned hereby sell(s) and transfer(s) unto

_____

(please insert Social Security or other identifying number of assignee)

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE OF ASSIGNEE

_____

_____

the within Note and all rights thereunder, hereby irrevocably constituting and appointing

_____

_____

agent to transfer said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____ _____

_____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within instrument in every particular without alteration or enlargement, or any change whatever.

0453933.02

EXHIBIT B

CERTIFICATE OF AUTHENTICATION

This is one of the Senior Notes referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
as Trustee

By:_____
Authorized Officer

EXHIBIT B. 5

Prospectus Supplement to Prospectus dated December 30, 1997

$50,000,000

GULF POWER
A SOUTHERN COMPANY

Series B 7.05% Senior Notes due August 15, 2004

Gulf Power Company will pay interest on the Series B Senior Notes on February 15 and August 15 of each year. The first payment will be made on February 15, 2000. The Series B Senior Notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Series B Senior Note	Total
Initial Public Offering Price*	99.935%	$49,967,500
Underwriting Discounts and Commissions	0.227%	$ 113,500
Net Proceeds, before expenses, to Gulf Power Company	99.708%	$49,854,000

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* The initial public offering price set forth above does not include accrued interest, if any. Interest on the Series B Senior Notes will accrue from the date the Series B Senior Notes are issued.

The underwriters expect to deliver the Series B Senior Notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on August 24, 1999.

Bear, Stearns & Co. Inc. **Banc One Capital Markets, Inc.**

The date of this Prospectus Supplement is August 17, 1999

THE COMPANY

Gulf Power Company (the "Company") is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The mailing address of the Company's principal executive offices is One Energy Place, Pensacola, Florida 32520-0102, and the telephone number is (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1999, and as adjusted to reflect the issuance of the Series B Senior Notes. The following data is qualified in its entirety by reference to and, therefore, should be read together with the detailed information and financial statements appearing in the documents incorporated herein by reference. See also "Selected Information" in the accompanying Prospectus.

	As of June 30, 1999		
	Actual	As Adjusted	
	(Thousands, except percentages)		
Common Stock Equity	$415,578	$415,578	47.6%
Cumulative Preferred Stock	4,236	4,236	0.5
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes	85,000	85,000	9.7
Senior Notes	50,000	100,000	11.5
Other Long-Term Debt	267,497	267,497	30.7
Total, excluding amounts due within one year	$822,311	$872,311	100.0%

USE OF PROCEEDS

The proceeds from the sale of the Series B Senior Notes will be applied by the Company to repay a portion of its outstanding short-term indebtedness, which aggregated approximately $72,500,000 as of August 17, 1999.

RECENT RESULTS OF OPERATIONS

For the twelve months ended June 30, 1999, "Operating Revenues," "Income Before Interest Charges" and "Net Income After Dividends on Preferred Stock" were $633,759,000, $84,728,000 and $54,329,000, respectively. In the opinion of the management of the Company, the above amounts for the twelve months ended June 30, 1999 reflect all adjustments (which were only normal recurring adjustments) necessary to present fairly the results of operations for such period. The "Ratio of Earnings to Fixed Charges" and the "Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)" for the twelve months ended June 30, 1999 were 3.79 and 3.73, respectively. The "Ratio of Earnings to Fixed Charges" and the "Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)" for the year ended December 31, 1997 were 4.18 and 3.53, respectively. The "Ratio of Earnings to Fixed Charges" and the "Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)" for the year ended December 31, 1998 were 3.83 and 3.72, respectively.

DESCRIPTION OF THE SERIES B SENIOR NOTES

Set forth below is a description of the specific terms of the Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Senior Notes"). This description supplements, and should be read together with, the description of the general terms and provisions of the Senior Notes set forth in the accompanying Prospectus under the caption "Description of the Senior Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture dated as of January 1, 1998 (the "Senior Note Indenture") between the Company and The Chase Manhattan Bank, as trustee (the "Senior Note Indenture Trustee").

General

The Series B Senior Notes will be issued as a series of Senior Notes under the Senior Note Indenture. The Series B Senior Notes will be limited in aggregate principal amount to $50,000,000.

The entire principal amount of the Series B Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on August 15, 2004. The Series B Senior Notes are not subject to any sinking fund provision. The Series B Senior Notes are available for purchase in denominations of $1,000 and any integral multiple thereof.

Interest

Each Series B Senior Note shall bear interest at the rate of 7.05% per annum (the "Securities Rate") from the date of original issuance, payable semiannually in arrears on February 15 and August 15 of each year to the person in whose name such Series B Senior Note is registered at the close of business on the February 1 or August 1, as the case may be, immediately preceding such payment date. The initial Interest Payment Date is February 15, 2000. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series B Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date.

Ranking

The Series B Senior Notes will be direct, unsecured and unsubordinated obligations of the Company ranking *pari passu* with all other unsecured and unsubordinated obligations of the Company. The Series B Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $281,700,000 outstanding at June 30, 1999. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Redemption

The Series B Senior Notes will not be redeemable at the option of the Company prior to maturity.

Book-Entry Only Issuance—The Depository Trust Company

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Series B Senior Notes. The Series B Senior Notes will be issued only as fully registered securities registered in the name of Cede & Co., DTC's nominee. One or more fully registered global Series B Senior Notes certificates will be issued, representing in the aggregate the total principal amount of Series B Senior Notes, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a

"clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series B Senior Notes within the DTC system must be made by or through Direct Participants, which will receive a credit for the Series B Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series B Senior Notes ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners purchased Series B Senior Notes. Transfers of ownership interests in the Series B Senior Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series B Senior Notes, except in the event that use of the book-entry system for the Series B Senior Notes is discontinued.

DTC has no knowledge of the actual Beneficial Owners of the Series B Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series B Senior Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series B Senior Notes are being redeemed, DTC will reduce the amount of the interest of each Direct Participant in the Series B Senior Notes in accordance with its procedures.

Although voting with respect to the Series B Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. will itself consent or vote with respect to Series B Senior Notes. Under its usual procedures, DTC would mail an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series B Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series B Senior Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Except as provided herein, a Beneficial Owner of a global Series B Senior Note will not be entitled to receive physical delivery of Series B Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series B Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series B Senior Note.

DTC may discontinue providing its services as securities depositary with respect to the Series B Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depositary is not obtained, Series B Senior Notes certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Series B Senior Notes. In that event, certificates for the Series B Senior Notes will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof. The Company has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

EXPERTS

The financial statements and schedules of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998, incorporated by reference herein, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

Statements as to matters of law and legal conclusions in the Company's Annual Report on Form 10-K for the year ended December 31, 1998, relating to titles to property of the Company under "Item 2—Properties—Titles to Property," and relating to the Company under "Item 1—Business—Regulation," "Item 1—Business—Rate Matters" and "Item 1—Business—Competition," have been reviewed by Beggs & Lane, A Registered Limited Liability Partnership, general counsel for the Company, and such statements are made upon the authority of such firm as experts.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated the date hereof, the Company has agreed to sell to each of the Underwriters named below and each of the Underwriters severally has agreed to purchase the principal amount of Series B Senior Notes set forth opposite its name below:

Name	Principal Amount of Series B Senior Notes
Bear, Stearns & Co. Inc.	$25,000,000
Banc One Capital Markets, Inc.	25,000,000
Total	$50,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series B Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. The Underwriters are obligated to take and pay for all the Series B Senior Notes if any are taken.

The Underwriters propose initially to offer all or part of the Series B Senior Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of 0.125% of the principal amount of the Series B Senior Notes. The Underwriters may allow, and such dealers may reallow, a discount not in excess of 0.100% of the principal amount of the Series B Senior Notes to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The underwriting discounts and commissions to be paid to the Underwriters by the Company with this offering will be 0.227% per Series B Senior Note, for a total of $113,500. In addition, the Company estimates that it will incur other offering expenses of approximately $145,000.

In order to facilitate the offering of the Series B Senior Notes, the Underwriters or their affiliates may engage in transactions that stabilize, maintain or otherwise affect the price of the Series B Senior Notes. Specifically, the Underwriters or their affiliates may over-allot in connection with this offering, creating short positions in the Series B Senior Notes for their own account. In addition, to cover over-allotments or to stabilize the price of the Series B Senior Notes, the Underwriters or their affiliates may bid for, and purchase Series B Senior Notes in the open market. Finally, the Underwriters or their affiliates may reclaim selling concessions allowed to an underwriter or dealer for distributing Series B Senior Notes in this offering, if the Underwriters or their affiliates repurchase previously distributed Series B Senior Notes in transactions that cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Series B Senior Notes above independent market levels. The Underwriters or their affiliates are not required to engage in these activities, and may end any of these activities at any time.

Neither the Company nor either of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series B Senior Notes. In addition, neither the Company nor either of the Underwriters makes any representation that such transactions will be engaged in or that such transactions, once commenced, will not be discontinued without notice.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Underwriters and their affiliates engage in transactions with and perform services for the Company in the ordinary course of business and have engaged, and may in the future engage, in commercial banking and/or investment banking transactions with the Company or its affiliates.

The Series B Senior Notes will not have an established trading market when issued. There can be no assurance of a secondary market for the Series B Senior Notes or the continued liquidity of such market if one develops. It is not anticipated that the Series B Senior Notes will be listed on any securities exchange.

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PROSPECTUS

$190,000,000
Gulf Power Company
Senior Notes
Junior Subordinated Notes

Gulf Power Capital Trust II
Gulf Power Capital Trust III
Trust Preferred Securities
Fully and unconditionally guaranteed, as set forth herein, by
Gulf Power Company
a subsidiary of The Southern Company

Gulf Power Company, a Maine corporation (the "Company"), may offer, from time to time, (i) its senior notes (the "Senior Notes") in one or more series or (ii) its junior subordinated notes (the "Junior Subordinated Notes") in one or more series. The Senior Notes will be unsecured obligations of the Company and will rank *pari passu* (equal in priority) with all other unsecured and unsubordinated debt of the Company. The Junior Subordinated Notes will be unsecured obligations of the Company and will be subordinate and junior in right of payment to Senior Indebtedness (as defined herein) of the Company.

Gulf Power Capital Trust II and Gulf Power Capital Trust III, each a statutory business trust created under the laws of the State of Delaware (individually, a "Trust" and collectively, the "Trusts"), may offer, from time to time, trust preferred securities (collectively, the "Preferred Securities") representing preferred undivided beneficial interests in the assets of the respective Trusts. The Company will own all the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") representing common undivided beneficial interests in the assets of the respective Trusts. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation or redemption with respect to such Preferred Securities, in each case to the extent such Trust has funds legally and immediately available therefor, will be guaranteed by the Company as described herein (individually, a "Guarantee" and collectively, the "Guarantees"). See "Description of Guarantees." The Company's obligations under each Guarantee will be subordinate and junior in right of payment to all of its other liabilities and will rank *pari passu* with the most senior preferred stock of the Company. Concurrently with the issuance by a Trust of its Preferred Securities, such Trust will invest the proceeds thereof and of the Company's purchase of the Common Securities of such Trust in a related series of Junior Subordinated Notes of the Company with terms corresponding to the terms of such Trust's Preferred Securities. Junior Subordinated Notes may subsequently be distributed pro rata to holders of the Trust Securities of a Trust in connection with the termination of such Trust upon the occurrence of certain events as may be described in an accompanying Prospectus Supplement.

As described herein, the Company will, through each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, fully and unconditionally guarantee all of each Trust's obligations with respect to its Preferred Securities.

Specific terms of the Senior Notes or the Junior Subordinated Notes of any series or the Preferred Securities of any Trust in respect of which this Prospectus is being delivered will be set forth in an accompanying Prospectus Supplement with respect to such securities, which will describe, without limitation and where applicable, the following: (a) in the case of Senior Notes or Junior Subordinated Notes, the specific designation, aggregate principal amount, denominations, maturity, interest payment dates, interest rate (or the method of determining such rate), any redemption, exchange or sinking fund provisions, and any other specific terms of the offering, and (b) in the case of Preferred Securities, the specific designation, number of Preferred Securities, liquidation amount per security, distribution rate (or the method of determining such rate), dates on which distributions will be payable, voting rights, any redemption, exchange or sinking fund provisions, and any other rights, preferences, privileges, limitations and restrictions.

The Senior Notes, Junior Subordinated Notes and Preferred Securities may be offered in amounts, at prices and on terms to be determined at the time of offering; provided, however, that the aggregate initial public offering price of all Senior Notes, Junior Subordinated Notes and Preferred Securities shall not exceed $190,000,000.

The Prospectus Supplement relating to any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will contain information concerning certain United States federal income tax considerations, if applicable to such Senior Notes, Junior Subordinated Notes or Preferred Securities.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Senior Notes, Junior Subordinated Notes and Preferred Securities may be sold directly, through agents, underwriters or dealers as designated from time to time, or through a combination of such methods. See "Plan of Distribution." If agents or any underwriters or dealers are involved in the sale of Senior Notes, Junior Subordinated Notes or Preferred Securities in respect of which this Prospectus is being delivered, the names of such agents, underwriters or dealers and any applicable commissions or discounts will be set forth in or may be calculated from the Prospectus Supplement with respect to such Senior Notes, Junior Subordinated Notes or Preferred Securities.

December 30, 1997

AVAILABLE INFORMATION

The Company and the Trusts have filed with the Securities and Exchange Commission (the "Commission") a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments thereof and exhibits thereto) under the Securities Act of 1933, as amended (the "1933 Act"). As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is hereby made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which Exchange certain of the Company's securities are listed.

No separate financial statements of any Trust are included herein. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities in Junior Subordinated Notes.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated herein by reference and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996;

(b) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997, June 30, 1997 and September 30, 1997; and

(c) the Company's Current Reports on Form 8-K dated January 27, 1997, February 12, 1997 and July 28, 1997.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated herein by reference and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference). Such requests should be directed to Warren E. Tate, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.

SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

Gulf Power Company

Business	Generation, transmission, distribution and sale of electric energy
Service Area	Approximately 7,400 square miles within the northwestern portion of the State of Florida
Service Area Population (1990 Census)	Approximately 740,000
Customers at December 31, 1996	334,832
Generating Capacity at December 31, 1996 (kilowatts)	2,173,900
Sources of Generation during 1996 (kilowatt-hours)	Coal (99%), Gas and Oil (1%)
Sources of Generation Estimated for 1997 (kilowatt-hours)	Coal (99%), Gas and Oil (1%)

Selected Financial Information

	Year Ended December 31,					12 Months Ended October 31, 1997(1)
	1992	1993	1994	1995	1996	
	(Thousands, except ratios)					(Unaudited)
Operating Revenues	$570,902	$583,142	$578,813	$619,077	$634,365	$ 628,109
Income Before Interest Charges	98,422	96,088	93,407	92,693	94,283	95,069
Net Income After Dividends on Preferred Stock	54,090	54,311	55,229	57,154	57,845	58,261
Ratio of Earnings to Fixed Charges(2)	3.32	3.57	3.89	4.25	4.29	4.05
Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(3)	2.77	2.87	3.04	3.28	3.31	3.31

(Notes on following page)

	Capitalization (Unaudited) as of September 30, 1997		
	Actual	As Adjusted(4)	
	(Thousands, except percentages)		
Common Stock Equity	$443,867	$ 443,867	43.5%
Cumulative Preferred Stock	50,102	50,102	4.9
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes(5)	40,000	104,000	10.2
Senior Notes	—	63,000	6.2
Junior Subordinated Notes	20,000	83,000	8.1
Other Long-Term Debt	276,911	276,911	27.1
Total, excluding amounts due within one year	$830,880	$1,020,880	100.0%

(1) See "Recent Results of Operations" herein.

(2) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Income Before Interest Charges" all income taxes deducted therefrom and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Net Interest Charges" plus the debt portion of allowance for funds used during construction.

(3) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

(4) Reflects the issuance of $64,000,000 of new Preferred Securities, $63,000,000 of new Senior Notes and $63,000,000 of new Junior Subordinated Notes. Does not reflect the potential redemption of outstanding securities with proceeds from new security issuances. The pro forma amounts used in connection with this capitalization table are assumed solely for the purpose of this calculation and the amounts and types of securities that will be ultimately issued will depend upon market conditions and other factors prevailing at the time of issuance.

(5) As described in this Prospectus, substantially all of the assets of the respective Trusts will be the Junior Subordinated Notes of the Company, and upon redemption of such debt, the related Preferred Securities will be mandatorily redeemable.

GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company, a holding company registered under the Public Utility Holding Company Act of 1935. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

THE TRUSTS

Each Trust is a statutory business trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on December 26, 1996, with respect to Gulf Power Capital Trust II, and November 26, 1997, with respect to Gulf Power Capital Trust III. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee thereunder. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust

Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental thereto.

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two employees of the Company as Administrative Trustees; The Chase Manhattan Bank as Property Trustee; and Chase Manhattan Bank Delaware as Delaware Trustee. The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

ACCOUNTING TREATMENT

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

RECENT RESULTS OF OPERATIONS

For the twelve months ended October 31, 1997, "Operating Revenues," "Income Before Interest Charges" and "Net Income After Dividends on Preferred Stock" were $628,109,000, $95,069,000 and $58,261,000, respectively. In the opinion of the management of the Company, the above amounts for the twelve months ended October 31, 1997 reflect all adjustments (which were only normal recurring adjustments) necessary to present fairly the results of operations for such period. The "Ratio of Earnings to Fixed Charges" and the "Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)" for the twelve months ended October 31, 1997 were 4.05 and 3.31, respectively.

DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of January 1, 1998, between the Company and The Chase Manhattan Bank, as trustee

(the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is hereinafter referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Senior Note Indenture.

General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank *pari passu* with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $337,500,000 outstanding at September 30, 1997. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued thereunder and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered thereby: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an Interest Payment Date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company

from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency, or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Senior Note of such series affected thereby.

Registration and Transfer

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

Payment and Paying Agent

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Senior Notes. Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the Record Date for such interest payment (the fifteenth calendar day before such interest payment date).

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall

have become due and payable will be repaid to the Company, and the holder of such Senior Notes will thereafter look only to the Company for payment thereof.

Modification

The Senior Note Indenture contains provisions permitting the Company and the Senior Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series affected thereby, to modify the Senior Note Indenture or the rights of the holders of the Senior Note of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults thereunder and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note affected thereby.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of senior notes.

Consolidation, Merger and Sale

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

Information Concerning the Senior Note Indenture Trustee

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and The Chase Manhattan Bank, as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is hereinafter referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Subordinated Note Indenture.

General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued thereunder and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered thereby: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the

denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium, if any, or interest on (including Additional Interest (as defined herein)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of September 30, 1997, Senior Indebtedness of the Company aggregated approximately $337,500,000.

Additional Interest

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments, or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest thereon from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

Certain Covenants

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing, (ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default thereunder with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank *pari passu* with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

Events of Default

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture) in respect thereof, when due on an Interest Payment Date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition thereof in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency, or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Junior Subordinated Note of such series affected thereby.

Registration and Transfer

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

Payment and Paying Agent

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the Record Date for such interest payment (the fifteenth calendar day before such interest payment date).

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will thereafter look only to the Company for payment thereof.

Modification

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series affected thereby, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Note of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount thereof or the rate of interest (including Additional Interest) thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults thereunder and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of junior subordinated notes.

Consolidation, Merger and Sale

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of

Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

Information Concerning the Subordinated Note Indenture Trustee

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

The Subordinated Note Indenture and Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating thereto. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is

made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered hereby will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating thereto.

DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. The Chase Manhattan Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth therein and those made part thereof by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth therein, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined herein), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related thereto (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available therefor, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available therefor, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available therefor, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of

such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made *pari passu* or subordinate by their terms, (ii) *pari passu* with the most senior preferred or preference stock now or hereafter issued by the Company and with any guarantee now or hereafter entered into by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance thereof agrees to the subordination provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks *pari passu* to the Guarantees and common stock that ranks junior to the Guarantees. See "Selected Information—Selected Financial Information."

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

Amendments and Assignment

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

Termination

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

Events of Default

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations thereunder. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred

Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

Information Concerning the Guarantee Trustee

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby.

The Chase Manhattan Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds therefor are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds therefor are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the

Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism whereby the holders of the related Preferred Securities may appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism whereby the holders of the Preferred Securities to which such Guarantee relates may direct the Guarantee Trustee to enforce its rights thereunder. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection therewith, the holders of Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on the Junior

Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating thereto will be passed upon on behalf of the Company by Beggs & Lane, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

EXPERTS

The financial statements and schedules of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

Statements as to matters of law and legal conclusions in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, relating to titles to property of the Company under "Item 2—Properties—Titles to Property," and relating to the Company under "Item 1—Business—Regulation," "Item 1—Business—Rate Matters" and "Item 1—Business—Competition," have been reviewed by Beggs & Lane, general counsel for the Company, and such statements are made upon the authority of such firm as experts.

$50,000,000

Series B 7.05% Senior Notes due August 15, 2004

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PROSPECTUS SUPPLEMENT

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

August 17, 1999

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP

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August 24, 1999

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GULF POWER COMPANY
SERIES B 7.05% SENIOR NOTES DUE AUGUST 15, 2004

Ladies and Gentlemen:

We have acted as general counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $50,000,000 aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as heretofore supplemented and as supplemented by the Second Supplemental Indenture dated as of August 24, 1999 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated August 17, 1999 (the "Underwriting Agreement"), among the Company and you. This opinion is being delivered to you pursuant to Section 5(c)(1) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-42033, 333-42033-01 and 333-42033-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated December 30, 1997, as supplemented by the prospectus supplement dated August 17, 1999 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 1998, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 1999 and June 30, 1999 and the Current Reports on Form 8-K of the Company dated February 10, 1999 and August 17, 1999 (the

"Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of Georgia law and the federal law of the United States upon the opinion dated the date hereof rendered to you by Troutman Sanders LLP and relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue

sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above and in the second paragraph under the caption "Experts" on page S-5 of the Final Supplemented Prospectus. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Arthur Andersen LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented

Prospectus, as of August 17, 1999, complied as to form in all material respects with the requirements of the Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes – Book-Entry Only Issuance – The Depository Trust Company."

We are members of the State Bar of Florida and we do not express any opinion herein concerning any law other than the law of the States of Florida and Mississippi and, to the extent set forth herein, the laws of the States of Maine, Georgia and New York and the federal law of the United States.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Troutman Sanders LLP and Dewey Ballantine LLP may rely on this opinion in giving their opinions pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinions relate to matters of Florida and Mississippi law.

Very truly yours,

Beggs & Lane

BEGGS & LANE

EXHIBIT B. 7

TROUTMAN SANDERS LLP

ATTORNEYS AT LAW
A LIMITED LIABILITY PARTNERSHIP

1300 I STREET, N.W., SUITE 500 EAST
WASHINGTON, D.C. 20005-3314
TELEPHONE: 202-274-2950
FACSIMILE: 202-274-2994

BANK OF AMERICA PLAZA
600 PEACHTREE STREET, N.E., SUITE 5200
ATLANTA, GEORGIA 30308-2216
TELEPHONE: 404-885-3000
FACSIMILE: 404-885-3900

TWO EXCHANGE SQUARE, SUITE 3503A
8 CONNAUGHT PLACE
CENTRAL, HONG KONG
TELEPHONE: 852-2533-7888
FACSIMILE: 852-2533-7898

August 24, 1999

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.

c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, New York 10167

GULF POWER COMPANY
SERIES B 7.05% SENIOR NOTES DUE AUGUST 15, 2004

Ladies and Gentlemen:

We have acted as counsel to Gulf Power Company (the "Company") in connection with (i) the Company's issuance and sale of $50,000,000 aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Notes") pursuant to the Senior Note Indenture dated as of January 1, 1998, by and between the Company and The Chase Manhattan Bank, as trustee (the "Trustee"), as heretofore supplemented and as supplemented by the Second Supplemental Indenture dated as of August 24, 1999 (collectively, the "Indenture"); and (ii) the purchase by you of the Notes pursuant to the terms of an Underwriting Agreement dated August 17, 1999 (the "Underwriting Agreement"), among the Company and you. This opinion is being delivered to you pursuant to Section 5(c)(2) of the Underwriting Agreement.

All capitalized terms not otherwise defined herein shall have the meanings set forth in the Underwriting Agreement.

In rendering the opinions expressed below, we have examined the registration statement on Form S-3 (Nos. 333-42033, 333-42033-01 and 333-42033-02) pertaining to the Notes and certain other securities (the "Registration Statement") filed under the Securities Act of 1933, as amended (the "Act"), and the prospectus of the Company dated December 30, 1997, as supplemented by the prospectus supplement dated August 17, 1999 (the "Final Supplemented Prospectus"), which pursuant to Form S-3 incorporates by reference the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 1998, the Quarterly Reports on Form 10-Q of the Company for the quarters ended March 31, 1999 and June 30, 1999 and the

Current Reports on Form 8-K of the Company dated February 10, 1999 and August 17, 1999 (the "Exchange Act Documents"), each as filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

In addition, we have examined, and have relied as to matters of fact upon, the documents delivered to you at the closing (except the certificate representing the Notes, of which we have examined a specimen), and we have made such other and further investigations as we deemed necessary to express the opinions hereinafter set forth. In such examination, we have assumed the genuineness of all signatures, the legal capacity of natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

The Indenture and the Underwriting Agreement are herein referred to collectively as the "Agreements."

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion, relying as to matters of New York law upon the opinion dated the date hereof rendered to you by Dewey Ballantine LLP, and as to matters of Florida and Mississippi law upon the opinion dated the date hereof rendered to you by Beggs & Lane, A Registered Limited Liability Partnership ("Beggs & Lane"), that:

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Maine, is duly qualified to carry on its business as a foreign corporation in the States of Florida, Georgia and Mississippi and has due corporate authority to carry on the public utility business in which it is engaged, to own and operate the properties used by it in such business and to enter into and perform its obligations under the Agreements and the Notes.

2. The execution, delivery and performance by the Company of the Underwriting Agreement have been duly authorized by all necessary corporate action, and the Underwriting Agreement has been duly executed and delivered by the Company.

3. All orders, consents or other authorizations or approvals of the Florida Public Service Commission and the Commission legally required for the issuance and sale of the Notes have been obtained; such orders are sufficient for the issuance and sale of the Notes; the issuance and sale of the Notes conform in all material respects with the terms of such orders; and no other order, consent or other authorization or approval of any Florida or United States governmental body (other than in connection or in compliance with the provisions of the securities or "blue

sky" laws of any jurisdiction, as to which we express no opinion) is legally required for the issuance and sale of the Notes in accordance with the terms of the Underwriting Agreement.

4. The Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes a valid and legally binding instrument of the Company, enforceable against the Company in accordance with its terms, subject to the qualifications that the enforceability of the Company's obligations under the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Indenture conforms as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

5. The Notes have been duly authorized and executed by the Company and, when authenticated by the Trustee in the manner provided in the Indenture and delivered to and paid for by you pursuant to the Underwriting Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to the qualifications that the enforceability of the Company's obligations under the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and the Notes conform as to legal matters in all material respects to the description thereof in the Final Supplemented Prospectus.

6. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended.

We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and take no responsibility therefor, except as and to the extent set forth in paragraphs 4 and 5 above. In the course of the preparation by the Company of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, we participated in conferences with certain officers and employees of the Company, with other counsel for the Company, with representatives of Arthur Andersen LLP and with your counsel. Based upon our examination of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents, our investigations made in connection with the preparation of the Registration Statement, the Final Supplemented Prospectus and the Exchange Act Documents and our participation in the conferences referred to above, (i) we are of the opinion that the Registration Statement, as of its effective date, and the Final Supplemented Prospectus, as of August 17, 1999, complied as to form in all material respects with the requirements of the

Act and the applicable rules and regulations of the Commission thereunder and that the Exchange Act Documents, as of their respective dates of filing with the Commission, complied as to form in all material respects with the relevant requirements of the Exchange Act and the applicable rules and regulations of the Commission thereunder, except that in each case we express no opinion as to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents, and (ii) nothing came to our attention which gives us reason to believe that the Registration Statement, as of the date of filing of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (including the Exchange Act Documents on file with the Commission as of such date), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Final Supplemented Prospectus (including the Exchange Act Documents) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that in each case we express no opinion or belief with respect to the financial statements or other financial or statistical data contained or incorporated by reference in the Registration Statement, the Final Supplemented Prospectus or the Exchange Act Documents and with respect to information set forth in the Final Supplemented Prospectus under the caption "Description of the Series B Senior Notes – Book-Entry Only Issuance – The Depository Trust Company."

We are members of the State Bar of Georgia and we do not express any opinion herein concerning any law other than the law of the State of Georgia and the federal law of the United States and, to the extent set forth herein, the laws of the States of Florida, Maine, Mississippi and New York.

This opinion is rendered to you in connection with the above-described transaction. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person without our prior written consent, except that Beggs & Lane may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law and the federal law of the United States and Dewey Ballantine LLP may rely on this opinion in giving its opinion pursuant to Section 5(c) of the Underwriting Agreement insofar as such opinion relates to matters of Georgia law.

Very truly yours,

Troutman Sanders LLP

TROUTMAN SANDERS LLP

EXHIBIT B. 8

CRAVATH, SWAINE & MOORE

WORLDWIDE PLAZA
825 EIGHTH AVENUE
NEW YORK, NY 10019-7475

TELEPHONE: (212) 474-1000
FACSIMILE: (212) 474-3700

33 KING WILLIAM STREET
LONDON EC4R 9DU ENGLAND
TELEPHONE: 44-171-453-1000
FACSIMILE: 44-171-860-1150

SUITE 2609, ASIA PACIFIC FINANCE TOWER
3 GARDEN ROAD, CENTRAL
HONG KONG
TELEPHONE: 852-2509-7200
FACSIMILE: 852-2509-7272

WRITER'S DIRECT DIAL NUMBER

SAMUEL C. BUTLER
GEORGE J. GILLESPIE, III
THOMAS D. BARR
MELVIN L. BEDRICK
GEORGE T. LOWY
ROBERT ROSENMAN
ALAN J. HRUSKA
JAMES M. EDWARDS
FREDERICK A.O. SCHWARZ, JR.
CHRISTINE BESHAR
ROBERT S. RIFKIND
DAVID O. BROWNWOOD
PAUL M. DODYK
THOMAS R. BROME
ROBERT D. JOFFE
HERBERT L. CAMP
ALLEN FINKELSON
RONALD S. ROLFE
PAUL C. SAUNDERS
MARTIN L. SENZEL
DOUGLAS D. BROADWATER
ALAN C. STEPHENSON
MAX R. SHULMAN
STUART W. GOLD
JOHN W. WHITE
JOHN E. BEERBOWER
EVAN R. CHESLER
PATRICIA GEOGHEGAN
D. COLLIER KIRKHAM
MICHAEL L. SCHLER
DANIEL P. CUNNINGHAM
KRIS F. HEINZELMAN
B. ROBBINS KIESSLING
ROGER D. TURNER
PHILIP A. GELSTON
RORY O. MILLSON
NEIL P. WESTREICH
FRANCIS P. BARRON
RICHARD W. CLARY
WILLIAM P. ROGERS, JR.
JAMES D. COOPER
STEPHEN L. GORDON
ROBERT A. KINDLER
DANIEL L. MOSLEY
GREGORY M. SHAW
PETER S. WILSON
JAMES C. VARDELL, III
ROBERT H. BARON
KEVIN J. GREHAN
W. CLAYTON JOHNSON
STEPHEN S. MADSEN
C. ALLEN PARKER
MARC S. ROSENBERG
WILLIAM B. BRANNAN
LEWIS R. STEINBERG
SUSAN WEBSTER
WILLIAM H. WIDEN
TIMOTHY G. MASSAD
DAVID MERCADO
ROWAN D. WILSON
JOHN T. GAFFNEY
PETER T. BARBUR
SANDRA C. GOLDSTEIN
PAUL MICHALSKI
THOMAS G. RAFFERTY
MICHAEL S. GOLDMAN
GEORGE W. BILICIC, JR.
RICHARD HALL
ELIZABETH L. GRAYER
JULIE A. NORTH
STEPHEN L. BURNS
KATHERINE B. FORREST
KEITH R. HUMMEL
DANIEL SLIFKIN
JEFFREY A. SMITH
ROBERT I. TOWNSEND, III
WILLIAM J. WHELAN, III
SCOTT A. BARSHAY
PHILIP J. BOECKMAN
ROGER G. BROOKS
WILLIAM V. FOGG
FAIZA J. SAEED
RICHARD J. STARK

August 24, 1999

Gulf Power Company
Series B 7.05% Senior Notes
Due August 15, 2004

Dear Sirs:

We have acted as counsel to The Chase Manhattan Bank (the "Bank") in connection with (a) the Senior Note Indenture, dated as of January 1, 1998, as heretofore supplemented (the "Original Indenture"), between Gulf Power Company (the "Company") and the Bank, as Trustee, and (b) the Second Supplemental Indenture, dated as of August 24, 1999 (together with the Original Indenture, herein called the "Indenture"), between the Company and the Bank, as Trustee.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records and other instruments as we have deemed necessary or appropriate for the purpose of this opinion, including copies of the Indenture and certain resolutions adopted by the Board of Directors of the Bank.

Based upon the foregoing, we are of opinion that:

(i) the Bank has been duly incorporated and is validly existing as a banking corporation in good standing under the laws of the State of New York;

(ii) the Bank has the corporate trust power and authority to execute, deliver and perform its duties under the Indenture, has duly executed and delivered the Indenture, and, insofar as the laws governing the trust powers of the Bank are concerned and assuming due

authorization, execution and delivery thereof by the Company, the Indenture constitutes a legal, valid and binding agreement of the Bank, enforceable against the Bank in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law;

(iii) the execution, delivery and performance by the Bank of the Indenture do not conflict with or constitute a breach of the charter or bylaws of the Bank; and

(iv) no approval, authorization or other action by, or filing with, any governmental authority of the United States of America or the State of New York having jurisdiction over the trust powers of the Bank is required in connection with the execution and delivery by the Bank of the Indenture or the performance by the Bank of its duties thereunder, except such as have been obtained, taken or made.

We are admitted to practice only in the State of New York, and we express no opinion as to matters governed by any laws other than the laws of the State of New York and the Federal law of the United States of America. We are furnishing this opinion to you solely for your benefit. This opinion is not to be relied upon by any other person or used, circulated, quoted or otherwise referred to for any other purpose.

Very truly yours,

Cravath, Swaine & Moore

Bear, Stearns & Co. Inc.
Banc One Capital Markets, Inc.
c/o Bear, Stearns & Co. Inc.
245 Park Avenue
New York, NY 10167

Gulf Power Company
One Energy Place
Pensacola, FL 32520

As filed with the Securities and Exchange Commission on December 11, 1997.
Subject to Amendment. Registration Nos. 333-42033
333-42033-01
333-42033-02

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

EXHIBIT B. 9

Gulf Power Company Gulf Power Capital Trust II Gulf Power Capital Trust III (Exact name of registrant as specified in its charter)	Maine Delaware Delaware (State or other jurisdiction of incorporation or organization)	59-0276810 52-6841521 Applied for (I.R.S. Employer Identification No.)

500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6111
(Address, including zip code, and telephone number, including area code, of each registrant's principal executive offices)

WARREN E. TATE
Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501
(850) 444-6206
(Name, address, including zip code, and telephone number, including area code, of agent for service of each registrant)

The Commission is requested to mail signed copies of all orders, notices and communications to:

W. L. WESTBROOK Financial Vice President THE SOUTHERN COMPANY 270 Peachtree Street, N.W. Atlanta, Georgia 30303	JOHN D. McLANAHAN, ESQ. TROUTMAN SANDERS LLP 600 Peachtree Street, N.E. Suite 5200 Atlanta, Georgia 30308-2216

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ☐

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(1)(2)(3)	Proposed Maximum Aggregate Offering Price(1)(2)(3)	Amount of Registration Fee(1)
Gulf Power Capital Trust II Preferred Securities				
Gulf Power Capital Trust III Preferred Securities				
Gulf Power Company Senior Notes				
Gulf Power Company Junior Subordinated Notes				
Gulf Power Company Guarantees with respect to Preferred Securities of Gulf Power Capital Trust II and Gulf Power Capital Trust III(4)(5)				
Total	$190,000,000(6)	100%	$190,000,000	$56,050(7)

(1) There are being registered hereunder such presently indeterminate number of Preferred Securities of Gulf Power Capital Trust II and Gulf Power Capital Trust III and such presently indeterminate principal amount of Senior Notes and Junior Subordinated Notes of Gulf Power Company with an aggregate initial offering price not to exceed $190,000,000. Junior Subordinated Notes also may be issued to Gulf Power Capital Trust II or Gulf Power Capital Trust III and later distributed upon dissolution and distribution of the assets thereof, which would include such Junior Subordinated Notes for which no separate consideration will be received. Pursuant to Rule 457(o) under the Securities Act of 1933, which permits the registration fee to be calculated on the basis of the maximum offering price of all the securities listed, the table does not specify by each class information as to the amount to be registered, proposed maximum offering price per unit or proposed maximum aggregate offering price.

(2) Estimated solely for the purpose of determining the registration fee.

(3) Exclusive of accrued interest and distributions, if any.

(4) No separate consideration will be received for the Gulf Power Company Guarantees. Pursuant to Rule 457(n) no separate fee is payable in respect of the Gulf Power Company Guarantees.

(5) Includes the obligations of Gulf Power Company under the respective Trust Agreements, the Subordinated Note Indenture, the related series of Junior Subordinated Notes, the respective Guarantees and the respective Agreements as to Expenses and Liabilities, which include the Company's covenant to pay any indebtedness, expenses or liabilities of the Trusts (other than obligations pursuant to the terms of the Preferred Securities or other similar interests), all as described in this registration statement.

(6) Includes $175,500,000 of unsold securities previously registered under Registration Statement No. 33-50165.

(7) Pursuant to Rule 429 under the Securities Act of 1933, the registration fee consists of $4,278 paid herewith and $51,772 which has been previously paid. See Note (6).

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The within Prospectus contains the information required by Rule 429 of the Commission under the Securities Act of 1933 with respect to the $175,500,000 of securities remaining unsold under Registration Statement No. 33-50165.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED DECEMBER 11, 1997

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED DECEMBER , 1997

[ ] Preferred Securities

Gulf Power Capital Trust [ ]

% Trust Preferred Securities
(Liquidation amount $25 per Preferred Security)
Fully and unconditionally guaranteed, as set forth herein, by

Gulf Power Company

a subsidiary of The Southern Company

The % Trust Preferred Securities (the "Preferred Securities") offered hereby evidence preferred undivided beneficial interests, representing 97% undivided beneficial interests in the assets of Gulf Power Capital Trust [ ], a statutory business trust created under the laws of the State of Delaware (the "Trust"). Gulf Power Company, a Maine corporation (the "Company"), will own all the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") representing the remaining 3% undivided beneficial interests in the assets of the Trust. The Trust exists for the sole purpose of issuing the Preferred Securities and Common Securities and investing the proceeds thereof in an equivalent amount of the Company's Series % junior subordinated deferrable interest notes due , (the "Series Junior Subordinated Notes").

The Series Junior Subordinated Notes will be unsecured obligations of the Company and will be subordinate and junior in right of payment to Senior Indebtedness of the Company, as described herein. See "Description of the Junior Subordinated Notes—Subordination" in the accompanying Prospectus. Holders of the Preferred Securities are entitled to receive cumulative cash distributions at the rate of % per annum (the "Securities Rate"), accruing from the date of original issuance and payable, unless deferred, quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (each, a "Distribution Date").

(continued on page S-2)

See "Risk Factors" beginning on page S-8 for certain information relevant to an investment in the Preferred Securities, including the period and circumstances during and under which payments of distributions on the Preferred Securities may be deferred and the related United States federal income tax consequences of such deferral.

Application has been made to list the Preferred Securities on the New York Stock Exchange, Inc. (the "NYSE"). If approved, trading of the Preferred Securities on the NYSE is expected to commence within a 30-day period after the initial delivery of the Preferred Securities. See "Underwriting."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discount(2)(3)	Proceeds to Trust(2)(3)(4)
Per Preferred Security	$	$	$
Total	$	$	$

(1) Plus accrued distributions, if any, from the Issue Date.

(2) The Company and the Trust have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(3) Because the proceeds of the sale of the Preferred Securities will be invested in Series Junior Subordinated Notes, the Company has agreed to pay to the Underwriters, as compensation (the "Underwriters' Compensation") for arranging the investment therein of such proceeds, $ per Preferred Security, except for Preferred Securities sold to certain institutions, for which the Underwriters' Compensation will be $ per Preferred Security. Therefore, to the extent that Preferred Securities are sold to such institutions, the actual amount of Underwriters' Compensation will be less than and the Proceeds to Trust will be greater than the aggregate amounts specified above. See "Underwriting."

(4) Expenses of the offering to be paid by the Company are estimated to be approximately $.

The Preferred Securities are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of the Preferred Securities will be made in book-entry only form through the facilities of The Depository Trust Company on or about , (the "Issue Date").

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The Securities Rate and the Distribution Dates for the Preferred Securities will correspond to the interest rate and interest and other payment dates on the Series Junior Subordinated Notes, which will constitute substantially all the assets of the Trust. As a result, if principal or interest is not paid on the Series Junior Subordinated Notes, no amounts will be paid on the Preferred Securities. **The Company has the right to defer payments of interest on the Series Junior Subordinated Notes by extending the interest payment period on the Series Junior Subordinated Notes, at any time and from time to time, for up to 20 consecutive quarters (each, an "Extension Period").** If interest payments are so deferred, distributions on the Preferred Securities also will be deferred and the Company will not be permitted to declare or pay any dividend or distribution on any of its capital stock or make any guarantee payments with respect to the foregoing, or make any payment on any debt securities issued by the Company which rank *pari passu* (equal in priority) with or junior to the Series Junior Subordinated Notes. During any Extension Period, holders of Preferred Securities will be required to include income in the form of original issue discount ("OID") in their gross income for United States federal income tax purposes in advance of the receipt of the cash payments attributable to such deferred interest. See "Description of the Series Junior Subordinated Notes—Option to Extend Interest Payment Period," "Risk Factors—Option to Extend Interest Payment Period" and "Certain Federal Income Tax Considerations—Original Issue Discount" and "—Market Discount." Deferred installments of interest on the Series Junior Subordinated Notes will bear interest, compounded quarterly, at a rate per annum equal to the Securities Rate. The payment of such deferred interest, together with interest thereon, will be distributed to the holders of the Preferred Securities as received at the end of any Extension Period.

The Trust Securities are subject to mandatory redemption upon repayment of the Series Junior Subordinated Notes at maturity or their earlier redemption. The Series Junior Subordinated Notes are redeemable at the option of the Company (in whole or in part), from time to time, on or after , , or at any time in whole upon the occurrence of a Tax Event or Investment Company Act Event (either, a "Special Event"). The Company will have the right at any time to terminate the Trust and cause the Series Junior Subordinated Notes to be distributed to the holders of the Preferred Securities in liquidation of the Trust. See "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes." The Series Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined herein) of the Company. See "Description of the Junior Subordinated Notes—Subordination" in the accompanying Prospectus. As of , 199 , Senior Indebtedness of the Company aggregated approximately $. If the Series Junior Subordinated Notes are distributed to the holders of the Preferred Securities, the Company will use its best efforts to have the Series Junior Subordinated Notes listed on the NYSE or on such other exchange as the Preferred Securities are then listed. See "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes" and "Description of the Series Junior Subordinated Notes."

The payment of distributions on the Preferred Securities is guaranteed by the Company under the Guarantee Agreement, but only to the extent that the Trust has funds legally and immediately available therefor (the "Guarantee"). If the Company fails to make required payments on the Series Junior Subordinated Notes, the Trust will not have sufficient funds to pay such distributions, and the Guarantee does not cover the payment of distributions when the Trust does not have sufficient funds legally available therefor. In such event, the remedy of a holder of Preferred Securities is to enforce the Series Junior Subordinated Notes. See "Description of the Series Junior Subordinated Notes" herein and "Description of the Junior Subordinated Notes" in the accompanying Prospectus. The Company's obligations under the Guarantee are subordinate and junior in right of payment to all of its other liabilities and will rank *pari passu* with the most senior preferred stock of the Company. See "Description of the Guarantees" in the accompanying Prospectus. The Company has, through the Guarantee, the Subordinated Note Indenture, the Series Junior Subordinated Notes, the Trust Agreement and the Agreement as to Expenses and Liabilities, fully and unconditionally guaranteed, subject to certain subordination provisions, all the Trust's obligations with respect to the Preferred Securities.

In the event of the redemption of the Series Junior Subordinated Notes or the voluntary or involuntary dissolution, winding-up or termination of the Trust, the holders of the Preferred Securities will be entitled to receive, for each Preferred Security, a liquidation amount of $25 plus accrued and unpaid distributions thereon (including interest thereon) to the date of payment (the "Redemption Price"), unless in connection with such dissolution, winding-up or termination, the Series Junior Subordinated Notes are distributed to the holders of the Preferred Securities. See "Description of the Preferred Securities—Liquidation Distribution Upon Dissolution."

The Preferred Securities initially will be represented by a global certificate or certificates registered in the name of The Depository Trust Company ("DTC") or its nominee. Beneficial interests in the Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by Participants (as defined herein) in DTC. Except as described herein, Preferred Securities in certificated form will not be issued in exchange for the global certificates. See "Description of the Preferred Securities—Book-Entry Only Issuance—The Depository Trust Company."

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE PREFERRED SECURITIES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

SUMMARY OF OFFERING

The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus Supplement and in the accompanying Prospectus. Capitalized terms not otherwise defined shall have the meanings assigned in the Glossary.

The Company	The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The Company has its principal office at 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111. The Company is a wholly owned subsidiary of The Southern Company. The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 7,400 square mile service area within the northwestern portion of the State of Florida.
The Trust	Gulf Power Capital Trust is a statutory business trust created under Delaware law solely for the purpose of holding the Company's Series Junior Subordinated Notes and issuing Preferred Securities and Common Securities evidencing the entire beneficial interest therein (and engaging in activities necessary, appropriate, convenient or incidental thereto).
The Trustees	The Chase Manhattan Bank will act as property trustee (the "Property Trustee") of the Trust. Two employees of the Company also will act as trustees (the "Administrative Trustees") of the Trust. Chase Manhattan Bank Delaware will be an additional trustee (the "Delaware Trustee") of the Trust. The Chase Manhattan Bank also will act as trustee (the "Indenture Trustee") under the Subordinated Note Indenture pursuant to which the Series Junior Subordinated Notes will be issued and will act as trustee under the Guarantee (the "Guarantee Trustee"). The Property Trustee, Delaware Trustee and Administrative Trustees are sometimes referred to as the "Securities Trustees."
Preferred Securities Offered	The Trust will offer Preferred Securities evidencing preferred undivided beneficial interests in the assets of the Trust. Holders of the Preferred Securities are entitled to receive cumulative cash distributions at the Securities Rate, accruing from the date of original issuance and payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on , (each, a "Distribution Date"). The Securities Rate and the Distribution Dates for the Preferred Securities will correspond to the interest rate and payment dates on the Series Junior Subordinated Notes, which will constitute substantially all the assets of the Trust. As a result, if principal or interest is not paid on the Series Junior Subordinated Notes, no amounts will be paid on the Preferred Securities. See "Description of the Preferred Securities" herein.

Record Date	The record date for each Distribution Date will be the close of business on the 15th calendar day prior to such Distribution Date.
Series Junior Subordinated Notes	The Trust will invest the proceeds from the issuance of the Preferred Securities and Common Securities in an equivalent amount of Series % junior subordinated deferrable interest notes due . The Series Junior Subordinated Notes will be subordinate and junior in right of payment to all indebtedness for borrowed money and other obligations of the Company included in the definition of Senior Indebtedness. See "Description of the Junior Subordinated Notes—Subordination" in the accompanying Prospectus.
Guarantee	The payment of distributions on the Preferred Securities is guaranteed by the Company under the Guarantee, but only to the extent the Trust has funds legally and immediately available to make such distributions. If the Company does not make principal or interest payments on the Series Junior Subordinated Notes, the Trust will not have sufficient funds to make distributions on the Preferred Securities, in which event the Guarantee will not apply to such distributions until the Trust has sufficient funds legally available therefor. The obligations of the Company under the Guarantee will be subordinate and junior in right of payment to all other liabilities of the Company and will rank *pari passu* with the most senior preferred stock issued by the Company. See "Risk Factors—Ranking of and Rights Under the Guarantee" herein and "Description of the Guarantees" in the accompanying Prospectus. The Company has, through the Guarantee, the Subordinated Note Indenture, the Series Junior Subordinated Notes, the Trust Agreement and the Agreement as to Expenses and Liabilities, fully and unconditionally guaranteed, subject to certain subordination provisions, all the Trust's obligations with respect to the Preferred Securities.
Interest Deferral	The Company has the right to defer payments of interest on the Series Junior Subordinated Notes by extending the interest payment period on the Series Junior Subordinated Notes, at any time and from time to time, for up to 20 consecutive quarters (each, an "Extension Period"). The only restrictions on the Company's ability to defer payments of interest are that during the Extension Period the Company may not (i) pay dividends on or redeem any of its capital stock or (ii) pay principal or interest on any debt securities ranking *pari passu* with or subordinate to the Series Junior Subordinated Notes. There could be multiple Extension Periods of varying lengths throughout the term of the Series Junior Subordinated Notes. If interest payments on the Series Junior Subordinated Notes are deferred, distributions on the Preferred Securities will also be deferred. During an Extension Period, holders of Preferred Securities will be required to include income in the form of OID in their gross income for federal income tax purposes in advance of the receipt of the cash payments attributable to such deferred interest. See "Description of the Series Junior Subordinated Notes—Option to Extend Interest

	Payment Period" and "Certain Federal Income Tax Considerations—Original Issue Discount" and "—Market Discount." Deferred interest will bear interest, compounded quarterly, at a rate per annum equal to the Securities Rate from the date of deferral to the date of payment.
Redemption; Distribution.....	The Preferred Securities are subject to mandatory redemption upon repayment of the Series Junior Subordinated Notes at maturity or their earlier redemption. The Series Junior Subordinated Notes are redeemable by the Company (in whole or in part), from time to time on or after , or at any time in whole upon the occurrence of a Special Event. If a partial redemption of the Series Junior Subordinated Notes would result in the delisting of the Preferred Securities, the Company may only redeem the Series Junior Subordinated Notes in whole. Any partial redemption of the Series Junior Subordinated Notes will be effected by the redemption of an equivalent amount of Trust Securities, to be allocated approximately 97% to the Preferred Securities and 3% to the Common Securities. See "Description of the Preferred Securities—Redemption" and "—Special Event Redemption; Distribution of Series Junior Subordinated Notes."
	The Company will have the right at any time to terminate the Trust and cause the Series Junior Subordinated Notes to be distributed to the holders of the Preferred Securities in liquidation of the Trust. This right is optional and wholly within the discretion of the Company. Circumstances under which the Company may determine to exercise such right could include the occurrence of an Investment Company Act Event or a Tax Event, adverse tax consequences to the Company or the Trust that are not within the definition of a Tax Event because they do not result from an amendment or change described in such definition, and changes in the accounting requirements applicable to the Preferred Securities as described under "Accounting Treatment." See "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes."
Special Event	A Special Event means a Tax Event or an Investment Company Act Event. A "Tax Event" means that the Administrative Trustees and the Company shall have received an opinion from independent tax counsel experienced in such matters (which may be counsel to the Company) to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of such laws or regulations, there is more than an insubstantial risk that (i) the Trust would be subject to United States federal income tax with respect to income accrued or received on the Series Junior Subordinated Notes, (ii) interest payable to the Trust on the Series Junior Subordinated Notes would not be deductible by the Company for United States federal income tax purposes, or (iii) the Trust would be subject to more than a *de minimis* amount of other taxes, duties or other governmental charges, which change or amendment becomes effective on or after the

	Issue Date. An "Investment Company Act Event" means that the Administrative Trustees and the Company shall have received an opinion of independent counsel (which may be counsel to the Company) to the effect that, as a result of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority after the Issue Date, there is more than an insubstantial risk that the Trust is or will be considered an investment company under the Investment Company Act of 1940, as amended (the "1940 Act").
Redemption Price	In the event of the redemption of the Trust Securities or other termination of the Trust without distribution of the Series Junior Subordinated Notes, each Preferred Security shall be entitled to receive a liquidation amount of $25 plus accrued and unpaid distributions thereon (including interest thereon) to the date of payment.

RISK FACTORS

Prospective purchasers of Preferred Securities should carefully review the information contained elsewhere in this Prospectus Supplement and in the accompanying Prospectus and should consider particularly the following matters:

Ranking of and Rights Under the Series Junior Subordinated Notes

No amounts will be available to make payments on the Preferred Securities except from payments made on the Series Junior Subordinated Notes. The obligations of the Company under the Series Junior Subordinated Notes are subordinate and junior in right of payment to all present and future Senior Indebtedness of the Company. At , 199 , Senior Indebtedness of the Company aggregated approximately $. There are no terms in the Preferred Securities, the Series Junior Subordinated Notes or the Guarantee that limit the Company's ability to incur additional indebtedness, including indebtedness that ranks senior to the Series Junior Subordinated Notes. See "Description of the Guarantees" and "Description of the Junior Subordinated Notes—Subordination" in the accompanying Prospectus.

Ranking of and Rights Under the Guarantee

The Company's obligations under the Guarantee are subordinate and junior in right of payment to all liabilities of the Company and will be *pari passu* with the most senior preferred stock issued by the Company. If the Company were to default in its obligation to pay amounts payable on the Series Junior Subordinated Notes, the Trust would lack available funds for the payment of distributions or amounts payable on redemption of the Preferred Securities or otherwise, and in such event holders of the Preferred Securities would not be able to rely upon the Guarantee for payment of such amounts.

Option to Extend Interest Payment Period

The Company has the right under the Subordinated Note Indenture, and at any time, and from time to time, to defer payments of interest on the Series Junior Subordinated Notes for a period of up to 20 consecutive quarters (each, an "Extension Period"), but not beyond the stated maturity of the Series Junior Subordinated Notes. Prior to the termination of any Extension Period, the Company may further defer payments of interest, *provided* that such Extension Period, together with all such previous and further extensions thereof, may not exceed 20 consecutive quarters. Upon the termination of any Extension Period and the payment of all amounts then due, the Company may select a new Extension Period, subject to the above requirements. There could be multiple Extension Periods of varying lengths throughout the term of the Series Junior Subordinated Notes. Deferred installments of interest on the Series Junior Subordinated Notes will bear interest, compounded quarterly, at a rate per annum equal to the Securities Rate. The payment of such deferred interest, together with interest thereon, will be passed through to the holders of the Preferred Securities as received at the end of any Extension Period.

The only restrictions on the Company's ability to defer payments of interest are that during any Extension Period the Company may not (i) pay dividends on or redeem any of its capital stock or (ii) pay principal or interest on any debt securities ranking *pari passu* with or subordinate to the Series Junior Subordinated Notes. See "Description of the Preferred Securities—Distributions" and "Description of the Series Junior Subordinated Notes—Option to Extend Interest Payment Period."

Should the Company exercise its rights to defer payments of interest, each holder of Preferred Securities will be required to include income in the form of OID in their gross income for United States federal income tax purposes in respect of the deferred interest allocable to its Preferred Securities. As a result, holders of Preferred Securities will recognize income for United States federal income tax purposes in advance of the receipt of cash and will not receive the cash from the Trust related to such income if such holders dispose of their Preferred Securities prior to the record date for the date on which distributions of such amounts are made. See "Certain

Federal Income Tax Considerations—Original Issue Discount'' and ''—Sale of Preferred Securities.'' **Investors should consult with their own tax advisors with respect to the tax consequences of an investment in the Preferred Securities.**

The Company has no current intention of exercising its right to defer payments of interest by extending the interest payment period on the Series Junior Subordinated Notes. However, should the Company determine to exercise such right in the future, the market price of the Preferred Securities is likely to be affected. A holder that disposes of its Preferred Securities during an Extension Period, therefore, might not receive the same return on its investment as a holder that continues to hold its Preferred Securities. In addition, as a result of the existence of the Company's right to defer interest payments, the market price of the Preferred Securities (which represent an undivided beneficial interest in the Series Junior Subordinated Notes) may be more volatile than other similar securities that do not have such rights.

Special Event Redemption; Distribution of Series Junior Subordinated Notes

If a Special Event shall occur and be continuing, the Company will have the option to redeem the Series Junior Subordinated Notes in cash (with the result that the Preferred Securities shall be redeemed). In addition, the Company will have the right at any time to terminate the Trust and cause the Series Junior Subordinated Notes to be distributed to the holders of the Preferred Securities in liquidation of the Trust. See ''Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes.''

There can be no assurance as to the market price for the Series Junior Subordinated Notes that may be distributed in exchange for Preferred Securities if a termination or liquidation of the Trust were to occur. Accordingly, the Series Junior Subordinated Notes that the investor may receive on termination and liquidation of the Trust may trade at a discount to the price that the investor paid to purchase the Preferred Securities offered hereby. See ''Description of the Series Junior Subordinated Notes.''

Limited Voting Rights

Holders of Preferred Securities will have limited voting rights and, except for the rights of holders of Preferred Securities to appoint a Substitute Property Trustee upon the occurrence of certain events described herein, will not be entitled to vote to appoint, remove or replace the Securities Trustees, which voting rights are vested exclusively in the holder of the Common Securities.

Trading Characteristics of Preferred Securities

The Preferred Securities are expected to be listed on the NYSE, subject to official notice of issuance. Accordingly, the Preferred Securities are expected to trade at a price that takes into account the value, if any, of accrued but unpaid distributions; thus, purchasers will not pay and sellers will not receive accrued and unpaid interest with respect to the Preferred Securities that is not included in the trading price thereof. Nonetheless, if an Extension Period occurs, interest on the Series Junior Subordinated Notes will be included in the gross income of U.S. holders of Preferred Securities as it accrues rather than when it is paid. Should an Extension Period occur, a holder who disposes of his Preferred Securities between record dates for payments of distributions thereon would be required to include accrued but unpaid interest on the Series Junior Subordinated Notes through the date of disposition in income as OID, and to add such amount to his adjusted tax basis in his pro rata share of the related Series Junior Subordinated Notes deemed disposed of. To the extent the selling price is less than the holder's adjusted tax basis (which will include, in the form of OID, all accrued but unpaid interest), a holder generally will recognize a capital loss. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States federal income tax purposes. See ''Certain Federal Income Tax Considerations—Original Issue Discount'' and ''—Sale of Preferred Securities.''

The trading price of the Preferred Securities is likely to be sensitive to the level of interest rates generally. If interest rates rise in general, the trading price of the Preferred Securities may decline to reflect the additional yield requirements of the purchasers. Conversely, a decline in interest rates may increase the trading price of the Preferred Securities, although any increase will be moderated by the Company's ability to call the Series Junior Subordinated Notes at any time on or after at a redemption price equal to 100% of the principal amount to be redeemed plus accrued but unpaid interest. In addition, because holders of Preferred Securities will be paid only from payments on the Series Junior Subordinated Notes and may receive Series Junior Subordinated Notes upon the termination of the Trust, prospective purchasers of Preferred Securities are making an investment decision with regard to the Series Junior Subordinated Notes and should carefully review all the information regarding the Series Junior Subordinated Notes contained herein. See "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes" and "Description of the Series Junior Subordinated Notes."

GULF POWER CAPITAL TRUST [ ]

The Trust is a statutory business trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on , 199 . The Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee thereunder. This trust agreement will be amended and restated in its entirety on the Issue Date substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus Supplement and the accompanying Prospectus form a part (the "Trust Agreement"). The Trust Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). The Trust exists for the exclusive purposes of (i) issuing the Trust Securities representing undivided beneficial interests in the assets of the Trust, (ii) investing the gross proceeds of the Trust Securities in the Series Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental thereto. The Trust has a term of approximately years, but may terminate earlier as provided in the Trust Agreement.

Upon issuance of the Preferred Securities, the purchasers thereof will own all of the Preferred Securities. The Company will acquire all of the Common Securities, which will have an aggregate liquidation amount equal to approximately 3% of the total capital of the Trust. The Common Securities will rank *pari passu*, and payments will be made thereon pro rata, with the Preferred Securities, except that upon the occurrence and continuance of a Subordinated Note Indenture Event of Default, the rights of the holders of Common Securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Preferred Securities.

The Trust's business and affairs will be conducted by the Securities Trustees, which shall be appointed by the Company as the holder of the Common Securities. Two employees of the Company initially will serve as Administrative Trustees. The Chase Manhattan Bank will serve as Property Trustee and will hold legal title to the Series Junior Subordinated Notes issued by the Company on behalf of the Trust and the holders of the Trust Securities. Chase Manhattan Bank Delaware will serve as Delaware Trustee. In certain circumstances, the holders of a majority in liquidation amount of the Preferred Securities will be entitled to appoint a Substitute Property Trustee. See "Description of the Preferred Securities—Voting Rights."

The Property Trustee will hold legal title to the Series Junior Subordinated Notes for the benefit of the Trust and the holders of the Trust Securities and will have the power to exercise all rights, powers and privileges under the Subordinated Note Indenture as the holder of the Series Junior Subordinated Notes. The Property Trustee will make payments of distributions and payments on liquidation, redemption and otherwise to the holders of the Trust Securities. Subject to the right of the holders of the Preferred Securities to appoint a Substitute Property Trustee in certain instances, the Company, as the holder of all of the Common Securities, will have the right to appoint, remove or replace all the Securities Trustees.

The Series Junior Subordinated Notes will constitute substantially all of the assets of the Trust. Other assets that may constitute "Trust Property" (as that term is defined in the Trust Agreement) include any cash on deposit in, or owing to, the payment account as established under the Trust Agreement, as well as any other property or assets held by the Property Trustee pursuant to the Trust Agreement. In addition, the Trust may, from time to time, receive cash pursuant to the Agreement as to Expenses and Liabilities.

The rights of the holders of the Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement, the Delaware Business Trust Act, and the 1939 Act. See "Description of the Preferred Securities."

The Trust's registered office in the State of Delaware is c/o Chase Manhattan Bank Delaware, 1201 Market Street, Wilmington, Delaware 19801. The principal place of business of the Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1997, and as adjusted to reflect the issuances described in note (2) below. The following data is qualified in its entirety by reference to and, therefore, should be read together with the detailed information and financial statements appearing in the documents incorporated herein by reference. See also "Selected Information" in the accompanying Prospectus.

	As of September 30, 1997		
	Actual	As Adjusted(2)	
	(Thousands, except percentages)		
Common Stock Equity	$443,867	$ 443,867	43.5%
Cumulative Preferred Stock	50,102	50,102	4.9
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes(1)	40,000	104,000	10.2
Senior Notes	—	63,000	6.2
Junior Subordinated Notes	20,000	83,000	8.1
Other Long-Term Debt	276,911	276,911	27.1
Total, excluding amounts due within one year	$830,880	$1,020,880	100.0%

(1) As described herein and in the accompanying Prospectus, substantially all of the assets of the respective Trusts will be Junior Subordinated Notes of the Company, and upon redemption of such debt, the related Preferred Securities will be mandatorily redeemable.

(2) Reflects the issuance of $64,000,000 of new Preferred Securities, $63,000,000 of new Senior Notes and $63,000,000 of new Junior Subordinated Notes. Does not reflect the potential redemption of outstanding securities with proceeds from new security issuances. The pro forma amounts used in connection with this capitalization table are assumed solely for the purpose of this calculation and the amounts and types of securities that will be ultimately issued will depend upon market conditions and other factors prevailing at the time of issuance.

ACCOUNTING TREATMENT

For financial reporting purposes, the Trust will be treated as a subsidiary of the Company and, accordingly, the accounts of the Trust will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantee and the Series Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities will be issued pursuant to the terms of the Trust Agreement. The Trust Agreement will be qualified as an indenture under the 1939 Act. The Property Trustee will act as the indenture trustee with respect to the Trust, as well as the Guarantee, for purposes of compliance with the provisions of the 1939 Act. The terms of the Preferred Securities will include those stated in the Trust Agreement, the Delaware Business Trust Act, and those made part of the Trust Agreement by the 1939 Act. The following summary of the principal terms and provisions of the Preferred Securities does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Trust Agreement, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus Supplement and the accompanying Prospectus are a part, as well as the 1939 Act.

General

The Trust Agreement authorizes the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities, which represent preferred undivided beneficial interests in the assets of the Trust, and the Common Securities, which represent common undivided beneficial interests in the assets of the Trust. All of the Common Securities will be owned by the Company. The Common Securities rank *pari passu*, and payments will be made thereon on a pro rata basis, with the Preferred Securities, except that upon the occurrence of a Subordinated Note Indenture Event of Default, the rights of the holders of the Common Securities to receive payment of periodic distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Preferred Securities. The Trust Agreement does not permit the issuance by the Trust of any securities other than the Trust Securities or the incurrence of any indebtedness by the Trust. Pursuant to the Trust Agreement, the Property Trustee will own and hold the Series Junior Subordinated Notes for the benefit of the Trust and the holders of the Trust Securities. The payment of distributions out of money held by the Trust, and payments upon redemption of the Preferred Securities or liquidation of the Trust, are guaranteed by the Company on a subordinated basis as and to the extent described under "Description of the Guarantees" in the accompanying Prospectus. The Guarantee does not cover payment of distributions on the Preferred Securities when the Trust does not have legally and immediately available funds sufficient to make such distributions. In such event, the remedy of a holder of Preferred Securities is to direct the Property Trustee to enforce its rights under the Series Junior Subordinated Notes. In addition, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Series Junior Subordinated Notes having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Series Junior Subordinated Notes. The above mechanisms and obligations, together with the Company's obligations under the Agreement as to Expenses and Liabilities, constitute a full and unconditional guarantee by the Company of payments due on the Preferred Securities. See "—Voting Rights" below.

Distributions

Distributions on the Preferred Securities will be fixed at the Securities Rate and will accrue from the Issue Date and, except in the event of an Extension Period, will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. In the event that any date on which distributions are to be made on the Preferred Securities is not a Business Day, then payment of the distributions payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. A "Business Day" shall mean any day other than a Saturday or Sunday, a day on which banks in New York City are authorized or obligated by law or executive order to remain closed or a day on which the principal corporate trust office of the Property Trustee or the Indenture Trustee is closed for business.

Distributions payable on any Distribution Date will be payable to the holders of record on the Record Date for such Distribution Date, which is the close of business on the fifteenth calendar day preceding such Distribution Date. Subject to any applicable laws and regulations and the provisions of the Trust Agreement, each such payment will be made as described under "—Book-Entry Only Issuance—The Depository Trust Company" below. The amount of distributions payable for any period will be computed on the basis of a 360-day year of twelve 30-day months.

The Company has the right under the Subordinated Note Indenture to defer payments of interest on the Series Junior Subordinated Notes by extending the interest payment period from time to time on the Series Junior Subordinated Notes (each, an "Extension Period") which, if exercised, would defer quarterly distributions on the Preferred Securities during any such extended interest payment period. Deferred installments of interest on the Series Junior Subordinated Notes will bear interest, compounded quarterly, at a rate per annum equal to the Securities Rate. If distributions are deferred, the deferred distributions and accrued interest thereon shall be paid, if funds are legally available therefor, to holders of record of the Preferred Securities as they appear on the books and records of the Trust on the Record Date next following the termination of such Extension Period. See "Description of the Series Junior Subordinated Notes—Interest" and "—Option to Extend Interest Payment Period."

Distributions on the Preferred Securities must be paid on the Distribution Dates to the extent that the Trust has funds legally and immediately available for the payment of such distributions. The Trust's funds available for distribution to the holders of the Preferred Securities will be limited to payments received under the Series Junior Subordinated Notes. See "Description of the Series Junior Subordinated Notes."

Redemption

The Preferred Securities are subject to mandatory redemption upon repayment of the Series Junior Subordinated Notes at maturity or their earlier redemptions. The Series Junior Subordinated Notes will mature on , and may be redeemed, in whole or in part, at the option of the Company, at any time on or after , or at any time in whole upon the occurrence of a Special Event. Upon the repayment of the Series Junior Subordinated Notes, whether at maturity or upon redemption, the proceeds from such repayment or payment shall simultaneously be applied to redeem a like amount of Trust Securities upon not less than 30 nor more than 60 days' notice, at the Redemption Price (as defined below). See "Description of the Series Junior Subordinated Notes—Optional Redemption." If a partial redemption of the Series Junior Subordinated Notes would result in the delisting of the Preferred Securities, the Company may only redeem the Series Junior Subordinated Notes in whole. In the event that fewer than all of the outstanding Trust Securities are to be redeemed, the Preferred Securities to be redeemed will be selected as described under "—Book-Entry Only Issuance—The Depository Trust Company" below. If the Preferred Securities are no longer in book-entry only form, the Preferred Securities to be redeemed will be selected by such method as the Property Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to $25 or integral multiples thereof) of the aggregate liquidation amount of Preferred Securities of a denomination larger than $25; provided, however, that before undertaking the redemption of the Preferred Securities on other than a pro rata basis, the Property Trustee shall have received an opinion of counsel that the status of the Trust as a grantor trust for federal income tax purposes would not be adversely affected.

The Redemption Price for each Preferred Security shall equal the stated liquidation amount of $25 plus accrued and unpaid distributions thereon to the date of payment.

Special Event Redemption; Distribution of Series Junior Subordinated Notes

Upon the occurrence of a Special Event at any time, the Company will have the option to redeem the Series Junior Subordinated Notes in whole (and thus cause the redemption of the Preferred Securities in whole). A Special Event is either an Investment Company Act Event or a Tax Event.

An "Investment Company Act Event" means that the Administrative Trustees and the Company shall have received an opinion of independent counsel (which may be counsel to the Company) to the effect that, as a result of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority after the Issue Date, there is more than an insubstantial risk that the Trust is or will be considered an investment company under the 1940 Act.

"Tax Event" means that the Administrative Trustees and the Company shall have received an opinion from independent tax counsel experienced in such matters (which may be counsel to the Company) to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of such laws or regulations, there is more than an insubstantial risk that (i) the Trust would be subject to United States federal income tax with respect to income accrued or received on the Series Junior Subordinated Notes, (ii) interest payable to the Trust on the Series Junior Subordinated Notes would not be deductible by the Company for United States federal income tax purposes or (iii) the Trust would be subject to more than a *de minimis* amount of other taxes, duties or other governmental charges, which change or amendment becomes effective on or after the Issue Date.

The Company will have the right at any time to terminate the Trust and, after satisfaction of liabilities to creditors of the Trust, if any, cause the Series Junior Subordinated Notes to be distributed to the holders of the Preferred Securities in liquidation of the Trust. See "—Liquidation Distribution Upon Dissolution" below. This right is optional and wholly within the discretion of the Company. Circumstances under which the Company may determine to exercise such right could include the occurrence of an Investment Company Act Event or a Tax Event, adverse tax consequences to the Company or the Trust that are not within the definition of a Tax Event because they do not result from an amendment or change described in such definition, and changes in the accounting requirements applicable to the Preferred Securities as described under "Accounting Treatment."

If Series Junior Subordinated Notes are distributed to the holders of the Preferred Securities, the Company will use its best efforts to have the Series Junior Subordinated Notes listed on the NYSE or on such other exchange as the Preferred Securities are then listed. After the date for any distribution of Series Junior Subordinated Notes upon termination of the Trust, (i) the Preferred Securities and the Guarantee will no longer be deemed to be outstanding, (ii) the depositary or its nominee, as the record holder of the Preferred Securities, will receive a registered global certificate or certificates representing the Series Junior Subordinated Notes to be delivered upon such distribution and (iii) any certificates representing Preferred Securities and the Guarantee not held by the depositary or its nominee will be deemed to represent Series Junior Subordinated Notes having an aggregate principal amount equal to the aggregate stated liquidation amount of, with an interest rate identical to the Securities Rate of, and accrued and unpaid interest equal to accrued and unpaid distributions on, such Preferred Securities, until such certificates are presented to the Company or its agent for transfer or reissuance.

There can be no assurance as to the market prices for the Preferred Securities or the Series Junior Subordinated Notes that may be distributed in exchange for the Preferred Securities if a termination and liquidation of the Trust were to occur. Accordingly, the Preferred Securities that an investor may purchase, or the Series Junior Subordinated Notes that the investor may receive on termination and liquidation of the Trust, may trade at a discount to the price that the investor paid to purchase the Preferred Securities offered hereby.

Redemption Procedures

In the event that fewer than all of the Trust Securities are to be redeemed, then the aggregate liquidation amount of the Trust Securities to be redeemed shall be allocated 97% to the Preferred Securities and 3% to the Common Securities.

The Preferred Securities redeemed on each redemption date shall be redeemed at the Redemption Price with the proceeds from the contemporaneous redemption of the Series Junior Subordinated Notes. The Redemption Price of Preferred Securities shall be deemed payable on each redemption date only to the extent that the Trust has funds legally and immediately available for payment of such Redemption Price.

If the Property Trustee gives a notice of redemption in respect of Preferred Securities (which notice will be irrevocable), then, by 2:00 P.M., New York City time, on the redemption date, subject to the immediately preceding paragraph, the Property Trustee will irrevocably deposit with the securities depositary, so long as the Preferred Securities are in book-entry only form, sufficient funds to pay the applicable Redemption Price. See "—Book-Entry Only Issuance—The Depository Trust Company" below. If the Preferred Securities are no longer in book-entry only form, the Property Trustee, subject to the immediately preceding paragraph, shall irrevocably deposit with the Paying Agent funds sufficient to pay the applicable Redemption Price and will give the Paying Agent irrevocable instructions to pay the Redemption Price to the holders thereof upon surrender of their Preferred Securities certificates. If notice of redemption shall have been given and funds deposited as required, then immediately prior to the close of business on the date of such deposit, distributions will cease to accrue and all rights of holders of such Preferred Securities so called for redemption will cease, except the right of the holders of such Preferred Securities to receive the Redemption Price, but without interest on such Redemption Price. In the event that any date fixed for redemption of Preferred Securities is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day. In the event that payment of the Redemption Price in respect of Preferred Securities is improperly withheld or refused and not paid either by the Trust or by the Company pursuant to the Guarantee, distributions on such Preferred Securities will continue to accrue at the then applicable rate, from such redemption date originally established by the Trust for such Preferred Securities to the date such Redemption Price is actually paid. See "—Events of Default" below, "Relationship Among the Preferred Securities, the Series Junior Subordinated Notes and the Guarantee" and "Description of the Guarantees—Events of Default" in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, United States federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Preferred Securities by tender, in the open market or by private agreement.

Book-Entry Only Issuance—The Depository Trust Company

The Depository Trust Company ("DTC") will act as the initial securities depositary for the Preferred Securities. The Preferred Securities will be issued only as fully registered securities registered in the name of Cede & Co., DTC's nominee. One or more fully registered global Preferred Securities certificates will be issued, representing in the aggregate the total number of Preferred Securities, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the 1934 Act. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the NYSE, the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Commission.

Purchases of Preferred Securities within the DTC system must be made by or through Direct Participants, which will receive a credit for the Preferred Securities on DTC's records. The ownership interest of each actual purchaser of Preferred Securities ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners purchased Preferred Securities. Transfers of ownership interests in the Preferred Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Preferred Securities, except in the event that use of the book-entry system for the Preferred Securities is discontinued.

DTC has no knowledge of the actual Beneficial Owners of the Preferred Securities. DTC's records reflect only the identity of the Direct Participants to whose accounts such Preferred Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Preferred Securities are being redeemed, DTC will reduce the amount of the interest of each Direct Participant in the Preferred Securities in accordance with its procedures.

Although voting with respect to the Preferred Securities is limited, in those cases where a vote is required, neither DTC nor Cede & Co. will itself consent or vote with respect to Preferred Securities. Under its usual procedures, DTC would mail an Omnibus Proxy to the Trust as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Preferred Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Distribution payments on the Preferred Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trust, any trustee or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions to DTC is the responsibility of the Trust, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Except as provided herein, a Beneficial Owner in a global Preferred Security will not be entitled to receive physical delivery of Preferred Securities. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Preferred Securities. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Preferred Security.

DTC may discontinue providing its services as securities depositary with respect to the Preferred Securities at any time by giving reasonable notice to the Trust. Under such circumstances, in the event that a successor securities depositary is not obtained, Preferred Securities certificates will be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depositary) with respect to the Preferred Securities. In that event, certificates for the Preferred Securities will be printed and delivered to the holders of record.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company and the Trust believe to be reliable, but the Company and the Trust take no responsibility for the accuracy thereof. The Trust has no responsibility for the performance by DTC or its Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

Liquidation Distribution Upon Dissolution

Pursuant to the Trust Agreement, the Trust shall terminate on , or earlier upon (i) the occurrence of a Bankruptcy Event (as defined in the Trust Agreement) in respect of the Company, dissolution or liquidation of the Company, or dissolution of the Trust pursuant to a judicial decree; (ii) the delivery of written direction to the Property Trustee by the Company, as Depositor, at any time (which direction is optional and wholly within the discretion of the Company, as Depositor) to terminate the Trust and distribute the Series Junior Subordinated Notes to the holders of the Preferred Securities in liquidation of the Trust (see "—Special Event Redemption; Distribution of Series Junior Subordinated Notes" above); or (iii) the payment at maturity or redemption of all of the Series Junior Subordinated Notes, and the consequent payment of the Trust Securities.

If an early termination occurs as described in clause (i) or (ii) above, the Trust shall be liquidated, and the Property Trustee shall distribute to each holder of Preferred Securities and Common Securities a like amount of Series Junior Subordinated Notes, unless in the case of an event described in clause (i) such distribution is determined by the Administrative Trustees not to be practical, in which event such holders will be entitled to receive, out of the assets of the Trust available for distribution to holders after satisfaction of liabilities to creditors, an amount equal to the aggregate of the stated liquidation preference of $25 per Trust Security plus accrued and unpaid distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If such Liquidation Distribution can be paid only in part because the Trust has insufficient assets available to pay in full the aggregate Liquidation Distribution, then subject to the next succeeding sentence, the amounts payable directly by the Trust on the Trust Securities shall be paid on a pro rata basis. The holder of the Common Securities will be entitled to receive distributions upon any such dissolution pro rata with the holders of the Preferred Securities, except that if a Subordinated Note Indenture Event of Default has occurred and is continuing, the holders of Preferred Securities shall have a preference over the holders of Common Securities.

Events of Default

Any one of the following events constitutes an "Event of Default" under the Trust Agreement ("Trust Agreement Event of Default") with respect to the Trust Securities issued thereunder (whatever the reason for such Event of Default, and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(i) the occurrence of an "Event of Default" as defined in Section 501 of the Subordinated Note Indenture ("Subordinated Note Indenture Event of Default") (see "Description of the Junior Subordinated Notes—Events of Default" in the accompanying Prospectus); or

(ii) default by the Trust in the payment of any distribution when it becomes due and payable, and the continuation of such default for a period of 30 days; or

(iii) default by the Trust in the payment of any Redemption Price of any Preferred Security or Common Security when it becomes due and payable; or

(iv) default in the performance, or breach, of any covenant or warranty of the Securities Trustees in the Trust Agreement (other than a covenant or warranty a default in performance of which or the breach of which is dealt with in clause (ii) or (iii) above), and continuation of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to such Securities Trustees by the holders of at least 10% in liquidation amount of the outstanding Preferred Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Trust Agreement; or

(v) the occurrence of certain events of bankruptcy or insolvency with respect to the Trust.

Within 90 days after the occurrence of any Trust Agreement Event of Default, the Property Trustee shall transmit notice of any default known to the Property Trustee to the holders of Trust Securities and the Company, unless such Trust Agreement Event of Default shall have been cured or waived.

If a Trust Agreement Event of Default occurs and is continuing, then, pursuant to the Trust Agreement, holders of a majority in aggregate liquidation amount of Preferred Securities have the right to direct the exercise of any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee under the Trust Agreement to exercise the remedies available to it as holder of the Series Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under the Series Junior Subordinated Notes, a holder of Preferred Securities may, to the fullest extent permitted by applicable law, institute a legal proceeding directly against the Company to enforce its rights under the Trust Agreement without first instituting any legal proceeding against the Property Trustee or the Trust. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Series Junior Subordinated Notes having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Series Junior Subordinated Notes. See "Relationship Among the Preferred Securities, the Series Junior Subordinated Notes and the Guarantee" herein and "Description of the Guarantees—Events of Default" in the accompanying Prospectus.

Unless a Subordinated Note Indenture Event of Default shall have occurred and be continuing, the Securities Trustees may be removed at any time by act of the holder of the Common Securities. If a Subordinated Note Indenture Event of Default has occurred and is continuing, any Securities Trustee may be removed at such time by act of the holders of a majority in liquidation amount of the Preferred Securities, delivered to the appropriate Securities Trustee (in its individual capacity and on behalf of the Trust). No resignation or removal of any Securities Trustee and no appointment of a successor shall be effective until the acceptance of appointment by the successor Trustee in accordance with the requirements of the Trust Agreement.

If a Subordinated Note Indenture Event of Default has occurred and is continuing, the holders of Preferred Securities shall have a preference over the holders of Common Securities upon dissolution of the Trust as described above. See "—Liquidation Distribution Upon Dissolution."

Voting Rights

Except as provided below and under "Description of the Guarantees—Amendments and Assignment" in the accompanying Prospectus and as otherwise required by law and the Trust Agreement, the holders of the Preferred Securities will have no voting rights.

If any proposed amendment to the Trust Agreement provides for, or the Securities Trustees otherwise propose to effect, (i) any action that would adversely affect the powers, preferences or special rights of the Preferred Securities, whether by way of amendment to the Trust Agreement or otherwise, or (ii) the dissolution, winding-up or termination of the Trust, other than pursuant to the Trust Agreement, then the holders of outstanding Preferred Securities will be entitled to vote as a class on such amendment or proposal of the Securities Trustees, and such amendment or proposal shall not be effective except with the approval of the holders of at least 66⅔% in liquidation amount of such outstanding Preferred Securities.

So long as any Series Junior Subordinated Notes are held by the Property Trustee, the Securities Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee (as defined herein), or executing any trust or power conferred on the Indenture Trustee with respect to the Series Junior Subordinated Notes, (ii) waive any past default which is waivable under Section 513 of the Subordinated Note Indenture, (iii) exercise any right to rescind or annul a declaration that the principal of all the Series Junior Subordinated Notes shall be due and payable, or (iv) consent to any

amendment, modification or termination of the Subordinated Note Indenture or the Series Junior Subordinated Notes, where such consent shall be required, or to any other action, as the holder of the Series Junior Subordinated Notes, under the Subordinated Note Indenture, without, in each case, obtaining the prior approval of the holders of at least 66⅔% in liquidation amount of the outstanding Preferred Securities; *provided, however*, that where a consent under the Subordinated Note Indenture would require the consent of each holder of Series Junior Subordinated Notes affected thereby, no such consent shall be given by the Securities Trustees without the prior consent of each holder of Preferred Securities. The Securities Trustees shall not revoke any action previously authorized or approved by a vote of the holders of the Preferred Securities, except pursuant to a subsequent vote of such holders. The Property Trustee shall notify all holders of the Preferred Securities of any notice of default received from the Indenture Trustee with respect to the Series Junior Subordinated Notes. In addition to obtaining the foregoing approvals of the holders of the Preferred Securities, prior to taking any of the foregoing actions, the Securities Trustees shall obtain an opinion of counsel experienced in such matters to the effect that the Trust will not be classified as other than a grantor trust for federal income tax purposes on account of such action.

Any required approval of holders of Preferred Securities may be given at a separate meeting of holders of Preferred Securities convened for such purpose or pursuant to written consent. The Administrative Trustees will cause a notice of any meeting at which holders of Preferred Securities are entitled to vote to be given to each holder of record of Preferred Securities in the manner set forth in the Trust Agreement.

Notwithstanding that holders of Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Preferred Securities that are owned by the Company, the Securities Trustees or any affiliate of the Company or any Securities Trustee, shall, for purposes of such vote or consent, be treated as if they were not outstanding.

Co-Property Trustees and Separate Property Trustee

At any time or times, for the purpose of meeting the legal requirements of the 1939 Act or of any jurisdiction in which any part of the Trust Property (as defined in the Trust Agreement) may at the time be located, the holder of the Common Securities and the Property Trustee shall have power to appoint, and upon the written request of the Property Trustee, the Company, as Depositor, shall for such purpose join with the Property Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint, one or more persons approved by the Property Trustee either to act as co-property trustee, jointly with the Property Trustee, of all or any part of such Trust Property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such person or persons in such capacity, any property, title, right or power deemed necessary or desirable, subject to the provisions of the Trust Agreement. If the Company, as Depositor, does not join in such appointment within 15 days after the receipt by it of a request so to do, or in case a Subordinated Note Indenture Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make such appointment.

Amendment of the Trust Agreement

The Trust Agreement may be amended from time to time by the Company and the Securities Trustees without the consent of the holders of the Trust Securities (i) to cure any ambiguity, correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Trust Agreement, which shall not be inconsistent with the other provisions of the Trust Agreement, *provided* that the amendment does not adversely affect in any material respect the interests of any holder of Trust Securities, or (ii) to modify, eliminate or add to any provisions of the Trust Agreement to such extent as shall be necessary to ensure that the Trust will not be classified as other than a grantor trust for federal income tax purposes. Except as provided in the succeeding paragraph, other

amendments to the Trust Agreement may be made (i) upon approval of the holders of not less than 66⅔% in aggregate liquidation amount of the Trust Securities then outstanding and (ii) upon receipt by the Securities Trustees of an opinion of counsel to the effect that such amendment will not affect the Trust's status as a grantor trust or the Trust's exemption from the 1940 Act.

Notwithstanding the foregoing, without the consent of each affected holder of Trust Securities, the Trust Agreement may not be amended to (i) change the amount or timing of any distribution on the Trust Securities or otherwise adversely affect the amount of any distribution required to be made in respect of the Trust Securities as of a specified date, (ii) restrict the right of a holder of Trust Securities to institute suit for the enforcement of any such payment on or after such date, or (iii) change the consent required to amend the Trust Agreement.

Mergers, Consolidations or Amalgamations

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any corporation or other body, except as described below. The Trust may at the request of the Company, with the consent of the Administrative Trustees and without the consent of the holders of the Trust Securities, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any state; *provided,* that (i) such successor entity either (x) expressly assumes all of the obligations of the Trust with respect to the Trust Securities or (y) substitutes for the Preferred Securities other securities having substantially the same terms as the Trust Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Trust Securities rank in priority with respect to distributions and payments upon liquidation, redemption and otherwise, (ii) the Company expressly appoints a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Junior Subordinated Notes, (iii) the Preferred Securities or any Successor Securities are listed, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or other organization on which the Preferred Securities are then listed, (iv) such merger, consolidation, amalgamation or replacement does not cause the Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization, (v) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Securities (including any Successor Securities) in any material respect, (vi) such successor entity has a purpose substantially identical to that of the Trust, (vii) prior to such merger, consolidation, amalgamation or replacement, the Company has received an opinion of counsel to the effect that (A) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Securities (including any Successor Securities) in any material respect, and (B) following such merger, consolidation, amalgamation or replacement, neither the Trust nor such successor entity will be required to register as an investment company under the 1940 Act, and (viii) the Company guarantees the obligations of such successor entity under the Successor Securities at least to the extent provided by the Guarantee. Notwithstanding the foregoing, the Trust shall not, except with the consent of holders of 100% in liquidation amount of the Trust Securities, consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity to be classified as other than a grantor trust for federal income tax purposes.

Any corporation or other body into which any of the Property Trustee, the Delaware Trustee or any Administrative Trustee that is not a natural person may be merged or converted or with which it may be consolidated, or any corporation or other body resulting from any merger, conversion or consolidation to which any such Securities Trustee shall be a party, or any corporation or other body succeeding to all or substantially all the corporate trust business of any such Securities Trustee, shall be the successor of such Securities Trustee under the Trust Agreement, *provided* such corporation is otherwise qualified and eligible under the Trust Agreement.

Payment and Paying Agent

So long as DTC is acting as securities depositary for the Preferred Securities, payments in respect of the Preferred Securities shall be made to DTC, which is to credit the relevant accounts at DTC on the applicable Distribution Dates. If the Preferred Securities are not held by DTC, such payments shall be made by check mailed to the address of the holder entitled thereto as such address shall appear on the Securities Register (as such term is defined in the Trust Agreement). The Paying Agent shall initially be the Property Trustee. The Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Administrative Trustees and the Company. In such event, the Administrative Trustees shall appoint a successor to act as Paying Agent.

Registrar and Transfer Agent

It is anticipated that the Property Trustee, or one of its affiliates, will act as registrar and transfer agent (the "Securities Registrar") for the Preferred Securities.

Registration of transfers of Preferred Securities will be effected without charge by or on behalf of the Trust, but upon payment in respect of any tax or other governmental charges which may be imposed in relation to it.

The Securities Registrar will not be required to register or cause to be registered any transfer of Preferred Securities after they have been called for redemption.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a Trust Agreement Event of Default with respect to the Trust Securities, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after default, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement at the request of any holder of Preferred Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby.

The Chase Manhattan Bank, the Property Trustee, also serves as Subordinated Note Indenture Trustee and Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

The Trust Agreement and the Trust Securities will be governed by, and construed in accordance with, the internal laws of the State of Delaware; provided that the immunities and standard of care of the Property Trustee shall be governed by New York law.

Miscellaneous

The Administrative Trustees are authorized and directed to operate the Trust so that the Trust will not be deemed to be an "investment company" required to be registered under the 1940 Act or taxed as other than a grantor trust for federal income tax purposes and so that the Series Junior Subordinated Notes will be treated as indebtedness of the Company for federal income tax purposes. In this connection, the Administrative Trustees and the Company are authorized to take any action, not inconsistent with applicable law, the Trust's certificate of trust or the Trust Agreement, that the Administrative Trustees and the Company determine in their discretion to be necessary or desirable for such purposes, as long as such action does not materially and adversely affect the interests of the holders of the Preferred Securities.

DESCRIPTION OF THE SERIES JUNIOR SUBORDINATED NOTES

Set forth below is a description of the specific terms of the Series Junior Subordinated Notes. This description supplements, and should be read together with, the description of the general terms and provisions of the Junior Subordinated Notes set forth in the accompanying Prospectus under the caption "Description of the Junior Subordinated Notes." The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Subordinated Note Indenture (as defined therein).

General

The Series Junior Subordinated notes will be issued as a series of Junior Subordinated Notes under the Subordinated Note Indenture. The Series Junior Subordinated Notes will be limited in aggregate principal amount to $, such amount being the approximate aggregate liquidation amount of the Trust Securities.

The entire principal amount of the Series Junior Subordinated Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest, if any, on . The Series Junior Subordinated Notes are not subject to any sinking fund provision.

The terms of the Series Junior Subordinated Notes correspond to those of the Preferred Securities, as described herein.

Optional Redemption

The Company shall have the right to redeem the Series Junior Subordinated Notes, in whole or in part, without premium, from time to time, on or after , or at any time in whole or upon the occurrence of a Special Event as described under "Description of the Preferred Securities—Special Event Redemption or Distribution," upon not less than 30 nor more than 60 days' notice, at a Redemption Price equal to 100% of the principal amount to be redeemed plus any accrued and unpaid interest, including Additional Interest, if any, to the Redemption Date. If a partial redemption of the Series Junior Subordinated Notes would result in the delisting of the Preferred Securities, the Company may only redeem the Series Junior Subordinated Notes in whole.

Interest

Each Series Junior Subordinated Note shall bear interest at the Securities Rate from the Issue Date, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year to the person in whose name such Series Junior Subordinated Note is registered at the close of business on the fifteenth calendar day prior to such payment date. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series Junior Subordinated Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date.

Option to Extend Interest Payment Period

The Company shall have the right at any time, and from time to time, to defer payments of interest on the Series Junior Subordinated Notes by extending the interest payment period for up to 20 consecutive quarters, but not beyond the stated maturity date. At the end of an Extension Period, the Company shall pay all

interest then accrued and unpaid (together with interest thereon at the Securities Rate compounded quarterly) and all Additional Interest; *provided*, that if the Company shall have given notice of its election to select an Extension Period, (a) the Company shall not declare or pay any dividend or distribution on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock or make any guarantee payments with respect to the foregoing, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantee) issued by the Company which rank *pari passu* with or junior to the Series Junior Subordinated Notes. Prior to the termination of any Extension Period, the Company may further defer payments of interest by extending the interest payment period, *provided* that such Extension Period, together with all such previous and further extensions thereof, may not exceed 20 consecutive quarters. Upon the termination of any Extension Period and the payment of all amounts then due, the Company may select a new Extension Period, subject to the above requirements. The Company has no present intention of exercising its rights to defer payments of interest by extending the interest payment period on the Series Junior Subordinated Notes. See "Certain Federal Income Tax Considerations—Original Issue Discount."

The Company shall give the holder or holders of the Series Junior Subordinated Notes and the Indenture Trustee notice of its selection or extension of an Extension Period at least one Business Day prior to the earlier of (i) the record date relating to the interest payment date on which the Extension Period is to commence or relating to the interest payment date on which an Extension Period that is being extended would otherwise terminate or (ii) the date the Company or the Trust is required to give notice to the NYSE or other applicable self-regulatory organization of the record date or the date such distributions are payable.

Book-Entry and Issuance

If distributed to holders of Trust Securities in connection with the voluntary or involuntary dissolution, winding-up or liquidation of the Trust, the Series Junior Subordinated Notes are expected to be issued in the form of one or more global certificates registered in the name of the securities depositary or its nominee. In such event, the procedures applicable to the transfer and payment of the Series Junior Subordinated Notes are expected to be substantially similar to those described with respect to the Preferred Securities in "Description of the Preferred Securities—Book-Entry Only Issuance—The Depository Trust Company."

RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE SERIES JUNIOR SUBORDINATED NOTES AND THE GUARANTEE

As long as payments of interest and other payments are made when due on the Series Junior Subordinated Notes, such payments will be sufficient to cover distributions and payments due on the Trust Securities primarily because (i) the aggregate principal amount of Series Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the Trust Securities; (ii) the interest rate and interest and other payment dates on the Series Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the Preferred Securities; (iii) the Company shall pay for all costs and expenses of the Trust pursuant to the Agreement as to Expenses and Liabilities; and (iv) the Trust Agreement provides that the Securities Trustees shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds therefor are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds therefor are legally and immediately available) are guaranteed by the Company as and to the extent set forth under "Description of the Guarantees" in the accompanying Prospectus. If the Company does not make interest payments on the Series Junior Subordinated Notes, it is not expected that the Trust will have sufficient funds to pay distributions on the Preferred Securities. The Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions

unless and until the Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on the Series Junior Subordinated Notes when due (taking into account any Extension Period), the Trust Agreement provides a mechanism whereby the holders of the Preferred Securities may appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Series Junior Subordinated Notes, including proceeding directly against the Company to enforce the Series Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under the Series Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under the Series Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Series Junior Subordinated Notes having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Series Junior Subordinated Notes.

If the Company fails to make payments under the Guarantee, the Guarantee provides a mechanism whereby the holders of the Preferred Securities may direct the Guarantee Trustee to enforce its rights thereunder. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

The Guarantee, the Subordinated Note Indenture, the Series Junior Subordinated Notes, the Trust Agreement and the Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of the Trust, unless the Series Junior Subordinated Notes are distributed in connection therewith, the holders of Preferred Securities will be entitled to receive, out of assets legally available for distribution to holders, the Liquidation Distribution in cash. See "Description of the Preferred Securities—Liquidation Distribution Upon Dissolution." Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the Series Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under the Guarantee and has agreed to pay for all costs, expenses and liabilities of the Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Series Junior Subordinated Notes relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Series Junior Subordinated Notes provide that no payments may be made in respect of the Series Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on the Series Junior Subordinated Notes would constitute an Event of Default under the Subordinated Note Indenture except that failure to make interest payments on the Series Junior Subordinated Notes will not be an Event of Default during an Extension Period; provided, however, that any Extension Period may not exceed 20 consecutive quarters or extend beyond the stated maturity of the Series Junior Subordinated Notes.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material United States federal income tax consequences of the ownership and disposition of the Preferred Securities and constitutes the opinion of Troutman Sanders LLP, counsel to the Company and the Trust, insofar as it relates to matters of law and legal conclusions. This summary deals only with Preferred Securities held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), by Holders (as defined herein). Moreover, it does not discuss all of the tax consequences that may be relevant to a Holder in light of his particular circumstances or to Holders subject to special rules, such as certain financial institutions, insurance companies, dealers in securities, individual retirement and certain tax deferred accounts, and persons who engage in a straddle or a hedge relating to a Preferred Security. Prospective investors should consult their own tax advisors with regard to the application of the tax considerations discussed below to their particular situations as well as the application of any state, local or other tax laws. This summary is based on laws, existing and proposed regulations, and applicable judicial and administrative determinations, all of which are subject to change at any time, and any such changes may be retroactively applied in a manner that could adversely affect Holders. As used herein, the term "Holder" means a beneficial owner of a Preferred Security that for the United States federal income tax purposes is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust. Thus, the following summary does not address any tax consequences that apply specifically to nonresident aliens or foreign entities.

Treatment of the Trust and Preferred Securities for Federal Income Tax Purposes

The Trust will be treated as a "grantor trust" and not as an association taxable as a corporation for federal income tax purposes. Thus, for federal income tax purposes, each Holder will be treated as the beneficial owner of a pro rata undivided interest in the Series Junior Subordinated Notes and, consequently, will be required to include in income the Holder's pro rata share of the entire income from the Series Junior Subordinated Notes. Each Holder generally will determine its net income or loss with respect to the Trust in accordance with its own method of accounting, although income arising from OID, if any, must be taken into account under the accrual method of accounting even if the Holder otherwise would use the cash receipts and disbursements method.

Payments of Interest

Except as set forth below, stated interest on a Series Junior Subordinated Note will generally be taxable to a Holder as ordinary income at the time it is paid or accrued in accordance with the Holder's own method of accounting.

Original Issue Discount

Under income tax regulations that recently became effective, the Company believes that the Series Junior Subordinated Notes will not be treated as issued with OID. It should be noted that these regulations have not yet been addressed in any rulings or other interpretations by the Internal Revenue Service (the "IRS"). Accordingly, it is possible that the IRS could take a position contrary to the interpretations described herein.

The terms of the Series Junior Subordinated Notes permit the Company to defer the payment of interest on the Series Junior Subordinated Notes at any time and from time to time by extending the interest payment period for up to 20 consecutive quarters with respect to each Extension Period; provided, however, that no Extension Period may extend beyond the stated maturity date of the Series Junior Subordinated Notes. Should the Company exercise this option to defer payments of interest, the Series Junior Subordinated

Notes would at that time be treated as issued with OID and all the stated interest payments on the Series Junior Subordinated Notes would thereafter be treated as OID for so long as they remained outstanding. As a result, all Holders would, in effect, be required to accrue interest income even if such Holders are on a cash method of accounting. Consequently, in the event that the payment of interest is deferred, a Holder could be required to include OID in income on an economic accrual basis, notwithstanding that the Company will not make any interest payments during such period on the Series Junior Subordinated Notes.

Market Discount

A purchaser of a Preferred Security at a discount from the liquidation amount at maturity of such purchaser's pro rata share of the Series Junior Subordinated Notes acquires such Preferred Security with "market discount." However, market discount with respect to a Preferred Security will be considered to be zero if it is *de minimis*. Market discount will be *de minimis* with respect to a Preferred Security if it is less than the product of (i) 0.25% of the adjusted issue price of the purchaser's pro rata share of the Series Junior Subordinated Notes multiplied by (ii) the number of complete years to maturity of such Series Junior Subordinated Notes after the date of purchase. The purchaser of a Preferred Security with more than a *de minimis* amount of market discount generally will be required to treat any gain on the sale, exchange, redemption or other disposition of all or part of all Preferred Securities (or related Series Junior Subordinated Notes) as ordinary income to the extent of accrued (but not previously taxed) market discount. Market discount generally will accrue ratably during the period from the date of purchase of such Preferred Security to the maturity date of the Series Junior Subordinated Notes unless the Holder irrevocably elects to accrue such market discount on the basis of a constant interest rate.

A Holder who has acquired a Preferred Security at a market discount generally will be required to defer any deductions of interest expense attributable to any indebtedness incurred or continued to purchase or carry the Preferred Security, to the extent such interest expense exceeds the related interest income. Any such deferred interest expense generally will be allowable as a deduction not later than the year in which the related market discount income is recognized. As an alternative to the inclusion of market discount in income upon disposition of all or a portion of a Preferred Security or the related Series Junior Subordinated Notes (including redemptions thereof), a Holder may make an election (which may not be revoked without the Internal Revenue Service's consent) to include market discount in income as it accrues on all market discount instruments acquired by the Holder during or after the taxable year for which the election is made. In that case, the preceding deferral rule for interest expense will not apply.

In lieu of the foregoing treatment of market discount and interest expense, a Holder may elect to treat any market discount (including a *de minimis* amount) as OID and accrue such discount on a constant-yield basis in the same manner as the Holder accrues OID.

Sale of Preferred Securities

Upon the sale, retirement (including redemption) or other taxable disposition of all or part of a Preferred Security, a Holder thereof will recognize gain or loss equal to the difference between the amount realized on such sale, retirement or other disposition and such Holder's adjusted tax basis in the Preferred Security or part thereof. If the Holder disposes of a Preferred Security prior to the occurrence of an Extension Period, any portion of the amount received that is attributable to accrued interest will be treated as interest income to the Holder and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Preferred Security. Any recognized gain or loss will be capital gain or loss, except to the extent of any accrued market discount (see "Market Discount" above), and such capital gain or loss will be long-term if the holding period for the Preferred Security is more than one year at the time of sale, retirement or other disposition. In the case of individuals, "net capital gain," *i.e.*, the excess of net long-term capital gain over net short-term capital loss, is generally subject to a reduced rate of federal income tax. Capital gains and losses from property held for more than 18 months will be taken into account in determining "adjusted net capital gain," which is subject to a further reduction in the rate of tax pursuant to a recent amendment of the Code. Also, in taxable years beginning after December 31, 2000, an additional reduction in the rate of tax may be available in certain

circumstances for capital gains from property held by the taxpayer for more than five years. A Holder's adjusted tax basis in a Preferred Security acquired by purchase will equal the cost of such Preferred Security to the Holder, increased by the amount of any related accrued OID and market discount included in taxable income by the Holder and reduced by any prior payments on the Series Junior Subordinated Notes distributed on the Preferred Security. The redemption of only part of a Preferred Security will require an allocation of the Holder's adjusted tax basis in his pro rata share of the related Series Junior Subordinated Notes between the portion of the Series Junior Subordinated Notes redeemed and retained by the Holder in order to determine gain or loss.

Receipt of Series Junior Subordinated Notes Upon Liquidation of the Trust

As described under "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes," Series Junior Subordinated Notes may be distributed to Holders in exchange for the Preferred Securities and in liquidation of the Trust. Such a distribution would be treated as a non-taxable event to each Holder and each Holder would receive an aggregate tax basis in the Holder's Series Junior Subordinated Notes equal to the Holder's aggregate tax basis in its Preferred Securities. A Holder's holding period with respect to the Series Junior Subordinated Notes so received in liquidation of the Trust would include the period for which the Preferred Securities were held by such Holder.

Information Reporting to Holders

Income on the Preferred Securities will be reported to Holders on Form 1099, which form should be mailed to Holders of Preferred Securities by January 31 following each calendar year.

Backup Withholding

A Holder may be subject to "backup withholding" under certain circumstances. Backup withholding applies to a Holder if the Holder, among other things, (i) fails to furnish his social security number or other taxpayer identification number ("TIN") to the payor responsible for backup withholding (for example, the Holder's securities broker), (ii) furnishes such payor an incorrect TIN, (iii) fails to provide such payor with a certified statement, signed under penalties of perjury, that the TIN provided to the payor is correct and that the Holder is not subject to backup withholding, or (iv) fails to report properly interest and dividends on his tax return. Backup withholding, however, does not apply to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. The backup withholding rate is 31% of "reportable payments," which generally will include distributions of interest and principal payments on the Series Junior Subordinated Notes.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE MAY NOT BE APPLICABLE TO A HOLDER, DEPENDING UPON A HOLDER'S PARTICULAR SITUATION, AND THEREFORE EACH HOLDER SHOULD CONSULT HIS TAX ADVISOR WITH RESPECT TO THE TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF PREFERRED SECURITIES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAW.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement (the "Underwriting Agreement"), the Trust has agreed to sell to the Underwriters named below, and the Underwriters, for whom is acting as representative (the "Representative"), have severally agreed to purchase the number of Preferred Securities set forth opposite their respective names below. In the Underwriting Agreement, the Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all of the Preferred Securities offered hereby if any of the Preferred Securities are purchased.

Name	Number of Preferred Securities
Total	

The Underwriters have advised the Company and the Trust that they propose to offer the Preferred Securities in part directly to the public at the price to the public, as set forth on the cover page of this Prospectus Supplement, and in part to certain securities dealers at such price less a concession not in excess of $ per Preferred Security. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per Preferred Security to certain other dealers. After the Preferred Securities are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters.

The Preferred Securities are expected to be approved for listing on the NYSE, subject to official notice of issuance. Trading of the Preferred Securities on the NYSE is expected to commence within a 30-day period after the initial delivery of the Preferred Securities. The Representative has advised the Company and the Trust that it intends to make a market in the Preferred Securities prior to the commencement of trading on the NYSE. The Representative will have no obligation to make a market in the Preferred Securities, however, and may cease market making activities, if commenced, at any time.

Prior to this offering, there has been no public market for the Preferred Securities. In order to meet one of the requirements for listing the Preferred Securities on the NYSE, the Underwriters will undertake to sell lots of 100 or more Preferred Securities to a minimum of 400 beneficial holders.

In connection with the offering, the Underwriters may purchase and sell the Preferred Securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Preferred Securities; and syndicate short positions involve the sale by the Underwriters of a greater number of Preferred Securities than they are required to purchase from the Trust in the offering. The Underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if such Preferred Securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Preferred Securities, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

The Company and the Trust have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the 1933 Act.

Certain of the Underwriters engage in transactions with, and, from time to time, have performed services for, the Company and its affiliates in the ordinary course of business.

LEGAL OPINIONS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trust by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trust. The validity of the Series Junior Subordinated Notes, the Guarantee and certain matters relating thereto will be passed upon on behalf of the Company by Beggs & Lane, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Troutman Sanders LLP will also pass upon certain matters relating to United States federal income tax considerations. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

GLOSSARY

1933 Act	The Securities Act of 1933, as amended.
1934 Act	The Securities Exchange Act of 1934, as amended.
1939 Act	The Trust Indenture Act of 1939, as amended.
1940 Act	The Investment Company Act of 1940, as amended.
Additional Interest	Amounts payable by the Company as defined under "Description of the Junior Subordinated Notes—Additional Interest" in the accompanying Prospectus.
Administrative Trustees	Linda Malone and Wayne Boston.
Agreement as to Expenses and Liabilities	The agreement between the Company and the Trust pursuant to which the Company has agreed to pay all indebtedness, expenses or liabilities of the Trust, other than the Trust's obligations to pay to the holders of the Preferred Securities the amounts due such holders pursuant to the terms thereof.
Code	The Internal Revenue Code of 1986, as amended.
Common Securities	The Trust Securities being sold to the Company.
Company	Gulf Power Company.
Delaware Trustee	Chase Manhattan Bank Delaware.
DTC	The Depository Trust Company, a "clearing corporation" that initially will hold (through its agents) a global certificate evidencing the Preferred Securities.
Distribution Dates	March 31, June 30, September 30 and December 31 of each year.
Extension Period	Any period during which interest is not paid on the Series Junior Subordinated Notes (and, consequently, on the Preferred Securities) at the election of the Company to the extent permitted under the terms of the Series Junior Subordinated Notes.
Guarantee	The guarantee by the Company of the payments by the Trust on the Preferred Securities from funds available in the Trust.
Guarantee Payments	Payments required to be made pursuant to the Guarantee as described in "Description of the Guarantees—General" in the accompanying Prospectus.
Guarantee Trustee	The trustee under the Guarantee; initially, The Chase Manhattan Bank.
Indenture Trustee	The trustee under the Subordinated Note Indenture; initially, The Chase Manhattan Bank.
Issue Date	The date set forth on the cover page on which the Series Junior Subordinated Notes and Preferred Securities are scheduled to be issued.

Investment Company Act Event	An event of the type described in "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes."
NYSE	New York Stock Exchange.
Preferred Securities	The Trust Securities being offered to investors pursuant to this Prospectus Supplement and the accompanying Prospectus.
Property Trustee	A trustee under the Trust designated to hold the trust property; initially The Chase Manhattan Bank.
Record Date	The close of business on the 15th calendar day prior to a Distribution Date.
Redemption Price	The stated liquidation amount of $25 per Preferred Security, plus accrued and unpaid distributions thereon (and interest thereon) to the date of payment.
Securities Rate	The per annum interest rate expressed as a percentage of the stated liquidation amount of $25 per Preferred Security, and set forth on the cover page of this Prospectus Supplement.
Securities Trustees	The Property Trustee, Administrative Trustees and Delaware Trustee.
Senior Indebtedness	Indebtedness of the Company described hereunder under "Description of the Junior Subordinated Notes—Subordination" in the accompanying Prospectus.
Series Junior Subordinated Notes	The Series % junior subordinated deferrable interest notes of the Company due .
Special Event	A Tax Event or Investment Company Act Event.
Subordinated Note Indenture	The indenture pursuant to which the Company's Series Junior Subordinated Notes will be issued.
Subordinated Note Indenture Event of Default	As described under "Description of the Junior Subordinated Notes—Events of Default" in the accompanying Prospectus.
Tax Event	An event of the type described in "Description of the Preferred Securities—Special Event Redemption; Distribution of Series Junior Subordinated Notes."
Trust	Gulf Power Capital Trust , a Delaware business trust that will issue the Trust Securities.
Trust Agreement	The agreement pursuant to which the Trust is organized as it may be amended and restated from time to time.
Trust Agreement Event of Default ...	As described under "Description of the Preferred Securities—Events of Default."
Trust Securities	The Preferred Securities and the Common Securities.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED DECEMBER 11, 1997

PROSPECTUS

$190,000,000
Gulf Power Company
Senior Notes
Junior Subordinated Notes

Gulf Power Capital Trust II
Gulf Power Capital Trust III
Trust Preferred Securities
Fully and unconditionally guaranteed, as set forth herein, by
Gulf Power Company
a subsidiary of The Southern Company

Gulf Power Company, a Maine corporation (the "Company"), may offer, from time to time, (i) its senior notes (the "Senior Notes") in one or more series or (ii) its junior subordinated notes (the "Junior Subordinated Notes") in one or more series. The Senior Notes will be unsecured obligations of the Company and will rank *pari passu (equal in priority)* with all other unsecured and unsubordinated debt of the Company. The Junior Subordinated Notes will be unsecured obligations of the Company and will be subordinate and junior in right of payment to Senior Indebtedness (as defined herein) of the Company.

Gulf Power Capital Trust II and Gulf Power Capital Trust III, each a statutory business trust created under the laws of the State of Delaware (individually, a "Trust" and collectively, the "Trusts"), may offer, from time to time, trust preferred securities (collectively, the "Preferred Securities") representing preferred undivided beneficial interests in the assets of the respective Trusts. The Company will own all the common securities (the "Common Securities" and, together with the Preferred Securities, the "Trust Securities") representing common undivided beneficial interests in the assets of the respective Trusts. The payment of periodic cash distributions on the Preferred Securities of each Trust and payments on liquidation or redemption with respect to such Preferred Securities, in each case to the extent such Trust has funds legally and immediately available therefor, will be guaranteed by the Company as described herein (individually, a "Guarantee" and collectively, the "Guarantees"). See "Description of Guarantees." The Company's obligations under each Guarantee will be subordinate and junior in right of payment to all of its other liabilities and will rank *pari passu* with the most senior preferred stock of the Company. Concurrently with the issuance by a Trust of its Preferred Securities, such Trust will invest the proceeds thereof and of the Company's purchase of the Common Securities of such Trust in a related series of Junior Subordinated Notes of the Company with terms corresponding to the terms of such Trust's Preferred Securities. Junior Subordinated Notes may subsequently be distributed pro rata to holders of the Trust Securities of a Trust in connection with the termination of such Trust upon the occurrence of certain events as may be described in an accompanying Prospectus Supplement.

As described herein, the Company will, through each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, fully and unconditionally guarantee all of each Trust's obligations with respect to its Preferred Securities.

Specific terms of the Senior Notes or the Junior Subordinated Notes of any series or the Preferred Securities of any Trust in respect of which this Prospectus is being delivered will be set forth in an accompanying Prospectus Supplement with respect to such securities, which will describe, without limitation and where applicable, the following: (a) in the case of Senior Notes or Junior Subordinated Notes, the specific designation, aggregate principal amount, denominations, maturity, interest payment dates, interest rate (or the method of determining such rate), any redemption, exchange or sinking fund provisions, and any other specific terms of the offering, and (b) in the case of Preferred Securities, the specific designation, number of Preferred Securities, liquidation amount per security, distribution rate (or the method of determining such rate), dates on which distributions will be payable, voting rights, any redemption, exchange or sinking fund provisions, and any other rights, preferences, privileges, limitations and restrictions.

The Senior Notes, Junior Subordinated Notes and Preferred Securities may be offered in amounts, at prices and on terms to be determined at the time of offering; provided, however, that the aggregate initial public offering price of all Senior Notes, Junior Subordinated Notes and Preferred Securities shall not exceed $190,000,000.

The Prospectus Supplement relating to any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will contain information concerning certain United States federal income tax considerations, if applicable to such Senior Notes, Junior Subordinated Notes or Preferred Securities.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Senior Notes, Junior Subordinated Notes and Preferred Securities may be sold directly, through agents, underwriters or dealers as designated from time to time, or through a combination of such methods. See "Plan of Distribution." If agents or any underwriters or dealers are involved in the sale of Senior Notes, Junior Subordinated Notes or Preferred Securities in respect of which this Prospectus is being delivered, the names of such agents, underwriters or dealers and any applicable commissions or discounts will be set forth in or may be calculated from the Prospectus Supplement with respect to such Senior Notes, Junior Subordinated Notes or Preferred Securities.

December , 1997

AVAILABLE INFORMATION

The Company and the Trusts have filed with the Securities and Exchange Commission (the "Commission") a combined registration statement on Form S-3 (the "Registration Statement," which term encompasses any amendments thereof and exhibits thereto) under the Securities Act of 1933, as amended (the "1933 Act"). As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is hereby made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Commission. Such reports and other information can be inspected and copied at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at http://www.sec.gov. In addition, reports and other material concerning the Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which Exchange certain of the Company's securities are listed.

No separate financial statements of any Trust are included herein. The Company considers that such statements would not be material to holders of the Preferred Securities because each Trust has no independent operations and exists for the sole purpose of investing the proceeds of the sale of its Trust Securities in Junior Subordinated Notes.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents have been filed with the Commission pursuant to the 1934 Act and are incorporated herein by reference and made a part of this Prospectus:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996;

(b) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997, June 30, 1997 and September 30, 1997; and

(c) the Company's Current Reports on Form 8-K dated January 27, 1997, February 12, 1997 and July 28, 1997.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated herein by reference and made a part of this Prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated herein by reference (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference). Such requests should be directed to Warren E. Tate, Secretary and Treasurer, Gulf Power Company, One Energy Place, Pensacola, Florida 32520, telephone: (850) 444-6111.

SELECTED INFORMATION

The following material, which is presented herein solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus, is qualified in its entirety by reference thereto and, therefore, should be read together therewith.

Gulf Power Company

Business	Generation, transmission, distribution and sale of electric energy
Service Area	Approximately 7,400 square miles within the northwestern portion of the State of Florida
Service Area Population (1990 Census)	Approximately 740,000
Customers at December 31, 1996	334,832
Generating Capacity at December 31, 1996 (kilowatts)	2,173,900
Sources of Generation during 1996 (kilowatt-hours)	Coal (99%), Gas and Oil (1%)
Sources of Generation Estimated for 1997 (kilowatt-hours)	Coal (99%), Gas and Oil (1%)

Selected Financial Information

	Year Ended December 31,					12 Months Ended October 31, 1997(1)
	1992	1993	1994	1995	1996	
	(Thousands, except ratios)					(Unaudited)
Operating Revenues	$570,902	$583,142	$578,813	$619,077	$634,365	$ 628,109
Income Before Interest Charges	98,422	96,088	93,407	92,693	94,283	95,069
Net Income After Dividends on Preferred Stock	54,090	54,311	55,229	57,154	57,845	58,261
Ratio of Earnings to Fixed Charges(2)	3.32	3.57	3.89	4.25	4.29	4.05
Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)(3)	2.77	2.87	3.04	3.28	3.31	3.31

(Notes on following page)

	Capitalization (Unaudited) as of September 30, 1997		
	Actual	As Adjusted(4)	
	(Thousands, except percentages)		
Common Stock Equity	$443,867	$ 443,867	43.5%
Cumulative Preferred Stock	50,102	50,102	4.9
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Company Junior Subordinated Notes(5)	40,000	104,000	10.2
Senior Notes	—	63,000	6.2
Junior Subordinated Notes	20,000	83,000	8.1
Other Long-Term Debt	276,911	276,911	27.1
Total, excluding amounts due within one year	$830,880	$1,020,880	100.0%

(1) See "Recent Results of Operations" herein.

(2) This ratio is computed as follows: (i) "Earnings" have been calculated by adding to "Income Before Interest Charges" all income taxes deducted therefrom and the debt portion of allowance for funds used during construction, and (ii) "Fixed Charges" consist of "Net Interest Charges" plus the debt portion of allowance for funds used during construction.

(3) In computing this ratio, "Preferred Dividend Requirements" represent the before tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

(4) Reflects the issuance of $64,000,000 of new Preferred Securities, $63,000,000 of new Senior Notes and $63,000,000 of new Junior Subordinated Notes. Does not reflect the potential redemption of outstanding securities with proceeds from new security issuances. The pro forma amounts used in connection with this capitalization table are assumed solely for the purpose of this calculation and the amounts and types of securities that will be ultimately issued will depend upon market conditions and other factors prevailing at the time of issuance.

(5) As described in this Prospectus, substantially all of the assets of the respective Trusts will be the Junior Subordinated Notes of the Company, and upon redemption of such debt, the related Preferred Securities will be mandatorily redeemable.

GULF POWER COMPANY

The Company is a corporation organized under the laws of the State of Maine on November 2, 1925, and was admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976 and in Georgia on November 20, 1984. The principal executive offices of the Company are located at 500 Bayfront Parkway, Pensacola, Florida 32501, and the telephone number is (850) 444-6111.

The Company is a wholly owned subsidiary of The Southern Company, a holding company registered under the Public Utility Holding Company Act of 1935. The Company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities as well as in rural areas, and at wholesale to a nonaffiliated utility and to a municipality.

THE TRUSTS

Each Trust is a statutory business trust created under Delaware law pursuant to the filing of a certificate of trust with the Delaware Secretary of State on December 26, 1996, with respect to Gulf Power Capital Trust II, and November 26, 1997, with respect to Gulf Power Capital Trust III. Each Trust's business is defined in a trust agreement, executed by the Company, as Depositor, and the Delaware Trustee thereunder. This trust agreement of each Trust will be amended and restated in its entirety substantially in the form filed as an exhibit to the Registration Statement of which this Prospectus forms a part (the "Trust Agreement"). Each Trust

Agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"). Each Trust exists for the exclusive purposes of (i) issuing its Trust Securities representing undivided beneficial interests in the assets of such Trust, (ii) investing the gross proceeds of its Trust Securities in a related series of Junior Subordinated Notes, and (iii) engaging in only those other activities necessary, appropriate, convenient or incidental thereto.

Each Trust's business and affairs will be conducted by its trustees, which shall be appointed by the Company as the holder of the Common Securities: two employees of the Company as Administrative Trustees; The Chase Manhattan Bank as Property Trustee; and Chase Manhattan Bank Delaware as Delaware Trustee. The Property Trustee of each Trust will act as the indenture trustee with respect to such Trust for purposes of compliance with the provisions of the 1939 Act.

The principal place of business of each Trust shall be c/o the Company, 500 Bayfront Parkway, Pensacola, Florida 32501, telephone (850) 444-6111, Attn: Treasurer.

Reference is made to the Prospectus Supplement relating to the Preferred Securities of a Trust for further information concerning such Trust.

ACCOUNTING TREATMENT

For financial reporting purposes, the Trusts will be treated as subsidiaries of the Company and, accordingly, the accounts of the Trusts will be included in the consolidated financial statements of the Company. The Preferred Securities will be presented as a separate line item in the consolidated balance sheet of the Company, and appropriate disclosures concerning the Preferred Securities, the Guarantees and the Junior Subordinated Notes will be included in the notes to the consolidated financial statements. For financial reporting purposes, the Company will record distributions payable on the Preferred Securities as an expense.

USE OF PROCEEDS

Each Trust will invest the proceeds received from the sale of its Preferred Securities in Junior Subordinated Notes. Except as may be otherwise described in an applicable Prospectus Supplement, the net proceeds received by the Company from such investment and any proceeds received from the sale of its Senior Notes or other sales of its Junior Subordinated Notes will be used in connection with its ongoing construction program, to pay scheduled maturities and/or refundings of its securities, to repay short-term indebtedness to the extent outstanding and for other general corporate purposes.

RECENT RESULTS OF OPERATIONS

For the twelve months ended October 31, 1997, "Operating Revenues," "Income Before Interest Charges", and "Net Income After Dividends on Preferred Stock" were $628,109,000, $95,069,000 and $58,261,000, respectively. In the opinion of the management of the Company, the above amounts for the twelve months ended October 31, 1997 reflect all adjustments (which were only normal recurring adjustments) necessary to present fairly the results of operations for such period. The "Ratio of Earnings to Fixed Charges" and the "Ratio of Earnings to Fixed Charges Plus Preferred Dividend Requirements (Pre-Income Tax Basis)" for the twelve months ended October 31, 1997 were 4.05 and 3.31, respectively.

DESCRIPTION OF THE SENIOR NOTES

Set forth below is a description of the general terms of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Senior Note Indenture, dated as of 1, 199 , between the Company and The Chase Manhattan Bank, as trustee

(the "Senior Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Senior Notes of each series (the Senior Note Indenture, as so supplemented, is hereinafter referred to as the "Senior Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Senior Notes will include those stated in the Senior Note Indenture and those made a part of the Senior Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Senior Note Indenture.

General

The Senior Notes will be issued as unsecured senior debt securities under the Senior Note Indenture and will rank *pari passu* with all other unsecured and unsubordinated debt of the Company. The Senior Notes will be effectively subordinated to all secured debt of the Company, including its first mortgage bonds, aggregating approximately $337,500,000 outstanding at September 30, 1997. The Senior Note Indenture does not limit the aggregate principal amount of Senior Notes that may be issued thereunder and provides that Senior Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Senior Note Indenture.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Senior Notes being offered thereby: (i) the title of such Senior Notes; (ii) any limit on the aggregate principal amount of such Senior Notes; (iii) the date or dates on which the principal of such Senior Notes is payable; (iv) the rate or rates at which such Senior Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Senior Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Senior Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Senior Notes; (viii) the denominations in which such Senior Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Senior Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Senior Note Indenture pertaining to such Senior Notes; (xi) whether such Senior Notes shall be issued in whole or in part in the form of a Global Security; and (xii) any other terms of such Senior Notes.

The Senior Note Indenture does not contain provisions that afford holders of Senior Notes protection in the event of a highly leveraged transaction involving the Company.

Events of Default

The Senior Note Indenture provides that any one or more of the following described events with respect to the Senior Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Senior Notes of such series:

(a) failure for 10 days to pay interest on the Senior Notes of such series, when due on an Interest Payment Date other than at maturity or upon earlier redemption; or

(b) failure to pay principal or premium, if any, or interest on the Senior Notes of such series when due at maturity or upon earlier redemption; or

(c) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Senior Note of such series; or

(d) failure to observe or perform any other covenant or warranty of the Company in the Senior Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Senior Notes other than such series) for 90 days after written notice to the Company

from the Senior Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Senior Notes of such series; or

(e) certain events of bankruptcy, insolvency, or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Senior Note Indenture Trustee with respect to the Senior Notes of such series. If a Senior Note Indenture Event of Default occurs and is continuing with respect to the Senior Notes of any series, then the Senior Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Senior Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Senior Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Senior Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Senior Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Senior Note Indenture Trustee a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration and all sums paid or advanced by the Senior Note Indenture Trustee, including reasonable compensation and expenses of the Senior Note Indenture Trustee.

The holders of not less than a majority in aggregate outstanding principal amount of the Senior Notes of any series may, on behalf of the holders of all the Senior Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Senior Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Senior Note of such series affected thereby.

Registration and Transfer

The Company shall not be required to (i) issue, register the transfer of or exchange Senior Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Senior Notes of such series called for redemption, or (ii) register the transfer of or exchange any Senior Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Senior Note being redeemed in part.

Payment and Paying Agent

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Senior Notes will be made only against surrender to the Paying Agent of such Senior Notes. Principal of and interest on Senior Notes will be payable subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Senior Notes. Payment of interest on Senior Notes on any interest payment date will be made to the person in whose name the Senior Notes (or predecessor security) are registered at the close of business on the Record Date for such interest payment (the fifteenth calendar day before such interest payment date).

Unless otherwise indicated in an applicable Prospectus Supplement, the Senior Indenture Trustee will act as Paying Agent with respect to the Senior Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Senior Notes of any series which remain unclaimed at the end of two years after such principal or interest shall

have become due and payable will be repaid to the Company, and the holder of such Senior Notes will thereafter look only to the Company for payment thereof.

Modification

The Senior Note Indenture contains provisions permitting the Company and the Senior Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Senior Notes of each series affected thereby, to modify the Senior Note Indenture or the rights of the holders of the Senior Note of such series; provided, that no such modification may, without the consent of the holder of each outstanding Senior Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Senior Note, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Senior Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Senior Note Indenture or certain defaults thereunder and their consequences) provided for in the Senior Note Indenture, or (iii) modify any of the provisions of the Senior Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Senior Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Senior Note affected thereby.

In addition, the Company and the Senior Note Indenture Trustee may execute, without the consent of any holders of Senior Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of senior notes.

Consolidation, Merger and Sale

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Senior Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest on all the Senior Notes and the performance of every covenant of the Senior Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Senior Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Senior Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

Information Concerning the Senior Note Indenture Trustee

The Senior Note Indenture Trustee, prior to an Event of Default with respect to Senior Notes of any series, undertakes to perform, with respect to Senior Notes of such series, only such duties as are specifically set forth in the Senior Note Indenture and, in case an Event of Default with respect to Senior Notes of any series has occurred and is continuing, shall exercise, with respect to Senior Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Senior Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Senior Note Indenture at the request of any holder of Senior Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Senior Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Senior Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Senior Note Indenture Trustee, also serves as Subordinated Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

The Senior Note Indenture and the Senior Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Senior Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Senior Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

DESCRIPTION OF THE JUNIOR SUBORDINATED NOTES

Set forth below is a description of the general terms of the Junior Subordinated Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Note Indenture, dated as of January 1, 1997, between the Company and The Chase Manhattan Bank, as trustee (the "Subordinated Note Indenture Trustee"), as to be supplemented by a supplemental indenture thereto establishing the Junior Subordinated Notes of each series (the Subordinated Note Indenture, as so supplemented, is hereinafter referred to as the "Subordinated Note Indenture"), the forms of which are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Junior Subordinated Notes will include those stated in the Subordinated Note Indenture and those made a part of the Subordinated Note Indenture by reference to the 1939 Act. Certain capitalized terms used herein are defined in the Subordinated Note Indenture.

General

The Junior Subordinated Notes will be issued as unsecured junior subordinated debt securities under the Subordinated Note Indenture. The Subordinated Note Indenture does not limit the aggregate principal amount of Junior Subordinated Notes that may be issued thereunder and provides that Junior Subordinated Notes may be issued from time to time in one or more series pursuant to an indenture supplemental to the Subordinated Note Indenture.

Reference is made to the Prospectus Supplement that will accompany this Prospectus for the following terms of the series of Junior Subordinated Notes being offered thereby: (i) the title of such Junior Subordinated Notes; (ii) any limit on the aggregate principal amount of such Junior Subordinated Notes; (iii) the date or dates on which the principal of such Junior Subordinated Notes is payable; (iv) the rate or rates at which such Junior Subordinated Notes shall bear interest, if any, or any method by which such rate or rates will be determined, the date or dates from which such interest will accrue, the interest payment dates on which such interest shall be payable, and the regular record date for the interest payable on any interest payment date; (v) the place or places where the principal of (and premium, if any) and interest, if any, on such Junior Subordinated Notes shall be payable; (vi) the period or periods within which, the price or prices at which and the terms and conditions on which such Junior Subordinated Notes may be redeemed, in whole or in part, at the option of the Company; (vii) the obligation, if any, of the Company to redeem or purchase such Junior Subordinated Notes; (viii) the

denominations in which such Junior Subordinated Notes shall be issuable; (ix) if other than the principal amount thereof, the portion of the principal amount of such Junior Subordinated Notes which shall be payable upon declaration of acceleration of the maturity thereof; (x) any deletions from, modifications of or additions to the Events of Default or covenants of the Company as provided in the Subordinated Note Indenture pertaining to such Junior Subordinated Notes; (xi) whether such Junior Subordinated Notes shall be issued in whole or in part in the form of a Global Security; (xii) the right, if any, of the Company to extend the interest payment periods of such Junior Subordinated Notes; and (xiii) any other terms of such Junior Subordinated Notes. The terms of each series of Junior Subordinated Notes issued to a Trust will correspond to those of the related Preferred Securities of such Trust as described in the Prospectus Supplement relating to such Preferred Securities.

The Subordinated Note Indenture does not contain provisions that afford holders of Junior Subordinated Notes protection in the event of a highly leveraged transaction involving the Company.

Subordination

The Junior Subordinated Notes are subordinated and junior in right of payment to all Senior Indebtedness (as defined below) of the Company. No payment of principal of (including redemption payments, if any), or premium, if any, or interest on (including Additional Interest (as defined herein)) the Junior Subordinated Notes may be made if (a) any Senior Indebtedness is not paid when due and any applicable grace period with respect to such default has ended with such default not being cured or waived or otherwise ceasing to exist, or (b) the maturity of any Senior Indebtedness has been accelerated because of a default, or (c) notice has been given of the exercise of an option to require repayment, mandatory payment or prepayment or otherwise. Upon any payment or distribution of assets of the Company to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors, marshalling of assets or liabilities, or any bankruptcy, insolvency or similar proceedings of the Company, the holders of Senior Indebtedness shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Indebtedness before the holders of the Junior Subordinated Notes are entitled to receive or retain any payment or distribution. Subject to the prior payment of all Senior Indebtedness, the rights of the holders of the Junior Subordinated Notes will be subrogated to the rights of the holders of Senior Indebtedness to receive payments and distributions applicable to such Senior Indebtedness until all amounts owing on the Junior Subordinated Notes are paid in full.

The term "Senior Indebtedness" means, with respect to the Company, (i) any payment due in respect of indebtedness of the Company, whether outstanding at the date of execution of the Subordinated Note Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by the Company that, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of the Company under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which the Company is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of the Company (whether or not such obligation is assumed by the Company), except for (1) any such indebtedness that is by its terms subordinated to or *pari passu* with the Junior Subordinated Notes and (2) any unsecured indebtedness between or among the Company or its affiliates. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions contained in the Subordinated Note Indenture irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

The Subordinated Note Indenture does not limit the aggregate amount of Senior Indebtedness that may be issued by the Company. As of September 30, 1997, Senior Indebtedness of the Company aggregated approximately $337,500,000.

Additional Interest

"Additional Interest" is defined in the Subordinated Note Indenture as (i) such additional amounts as may be required so that the net amounts received and retained by a holder of Junior Subordinated Notes (if the holder is a Trust) after paying taxes, duties, assessments or governmental charges of whatever nature (other than withholding taxes) imposed by the United States or any other taxing authority will not be less than the amounts the holder would have received had no such taxes, duties, assessments, or other governmental charges been imposed; and (ii) any interest due and not paid on an interest payment date, together with interest thereon from such interest payment date to the date of payment, compounded quarterly, on each interest payment date.

Certain Covenants

The Company covenants in the Subordinated Note Indenture, for the benefit of the holders of each series of Junior Subordinated Notes, that, (i) if at such time the Company shall have given notice of its election to extend an interest payment period for such series of Junior Subordinated Notes and such extension shall be continuing, (ii) if at such time the Company shall be in default with respect to its payment or other obligations under the Guarantee with respect to the Trust Securities, if any, related to such series of Junior Subordinated Notes, or (iii) if at such time an Event of Default thereunder with respect to such series of Junior Subordinated Notes shall have occurred and be continuing, (a) the Company shall not declare or pay any dividend or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, and (b) the Company shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Guarantees) issued by the Company which rank *pari passu* with or junior to the Junior Subordinated Notes. None of the foregoing, however, shall restrict (i) any of the actions described in the preceding sentence resulting from any reclassifications of the Company's capital stock or the exchange or conversion of one class or series of the Company's capital stock for another class or series of the Company's capital stock, or (ii) the purchase of fractional interests in shares of the Company's capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

The Subordinated Note Indenture further provides that, for so long as the Trust Securities of any Trust remain outstanding, the Company covenants (i) to directly or indirectly maintain 100% ownership of the Common Securities of such Trust; provided, however, that any permitted successor of the Company under the Subordinated Note Indenture may succeed to the Company's ownership of such Common Securities, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities in liquidation of such Trust, the redemption of all of the Trust Securities of such Trust, or certain mergers, consolidations or amalgamations, each as permitted by the related Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

Events of Default

The Subordinated Note Indenture provides that any one or more of the following described events with respect to the Junior Subordinated Notes of any series, which has occurred and is continuing, constitutes an "Event of Default" with respect to the Junior Subordinated Notes of such series:

(a) failure for 10 days to pay interest on the Junior Subordinated Notes of such series, including any Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture) in respect thereof, when due on an Interest Payment Date other than at maturity or upon earlier redemption; provided, however, that a valid extension of the interest payment period by the Company shall not constitute a default in the payment of interest for this purpose; or

(b) failure for 10 days to pay Additional Interest (as defined in clause (i) of the definition thereof in the Subordinated Note Indenture); or

(c) failure to pay principal or premium, if any, or interest, including Additional Interest (as defined in clause (ii) of the definition thereof in the Subordinated Note Indenture), on the Junior Subordinated Notes of such series when due at maturity or upon earlier redemption; or

(d) failure for three Business Days to deposit any sinking fund payment when due by the terms of a Junior Subordinated Note of such series; or

(e) failure to observe or perform any other covenant or warranty of the Company in the Subordinated Note Indenture (other than a covenant or warranty which has expressly been included therein solely for the benefit of one or more series of Junior Subordinated Notes other than such series) for 90 days after written notice to the Company from the Subordinated Note Indenture Trustee or the holders of at least 25% in principal amount of the outstanding Junior Subordinated Notes of such series; or

(f) certain events of bankruptcy, insolvency, or reorganization of the Company.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Subordinated Note Indenture Trustee with respect to the Junior Subordinated Notes of such series. If a Subordinated Note Indenture Event of Default occurs and is continuing with respect to the Junior Subordinated Notes of any series, then the Subordinated Note Indenture Trustee or the holders of not less than 25% in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may declare the principal amount thereof due and payable immediately by notice in writing to the Company (and to the Subordinated Note Indenture Trustee if given by the holders), and upon any such declaration such principal amount shall become immediately due and payable. At any time after such a declaration of acceleration with respect to the Junior Subordinated Notes of any series had been made and before a judgment or decree for payment of the money due has been obtained as provided in Article Five of the Subordinated Note Indenture, the holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of such series may rescind and annul such declaration and its consequences if the default has been cured or waived and the Company has paid or deposited with the Subordinated Note Indenture Trustee a sum sufficient to pay all matured installments of interest (including any Additional Interest) and principal due otherwise than by acceleration and all sums paid or advanced by the Subordinated Note Indenture Trustee, including reasonable compensation and expenses of the Subordinated Note Indenture Trustee.

A holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on the Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

The holders of not less than a majority in aggregate outstanding principal amount of the Junior Subordinated Notes of any series may, on behalf of the holders of all the Junior Subordinated Notes of such series, waive any past default with respect to such series, except (i) a default in the payment of principal or interest or (ii) a default in respect of a covenant or provision which under Article Nine of the Subordinated Note Indenture cannot be modified or amended thereunder without the consent of the holder of each outstanding Junior Subordinated Note of such series affected thereby.

Registration and Transfer

The Company shall not be required to (i) issue, register the transfer of or exchange Junior Subordinated Notes of any series during a period of 15 days immediately preceding the date notice is given identifying the Junior Subordinated Notes of such series called for redemption, or (ii) register the transfer of or exchange any Junior Subordinated Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Junior Subordinated Note being redeemed in part.

Payment and Paying Agent

Unless otherwise indicated in an applicable Prospectus Supplement, payment of principal of any Junior Subordinated Notes will be made only against surrender to the Paying Agent of such Junior Subordinated Notes. Principal of and interest on Junior Subordinated Notes will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as the Company may designate from time to time, except that, at the option of the Company, payment of any interest may be made by wire transfer or by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register with respect to the Junior Subordinated Notes. Payment of interest on Junior Subordinated Notes on any interest payment date will be made to the person in whose name the Junior Subordinated Notes (or predecessor security) are registered at the close of business on the Record Date for such interest payment (the fifteenth calendar day before such interest payment date).

Unless otherwise indicated in an applicable Prospectus Supplement, the Subordinated Note Indenture Trustee will act as Paying Agent with respect to the Junior Subordinated Notes. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agents or approve a change in the office through which any Paying Agent acts.

All moneys paid by the Company to a Paying Agent for the payment of the principal of or interest on the Junior Subordinated Notes of any series which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Company, and the holder of such Junior Subordinated Notes will thereafter look only to the Company for payment thereof.

Modification

The Subordinated Note Indenture contains provisions permitting the Company and the Subordinated Note Indenture Trustee, with the consent of the holders of not less than a majority in principal amount of the outstanding Junior Subordinated Notes of each series affected thereby, to modify the Subordinated Note Indenture or the rights of the holders of the Junior Subordinated Note of such series; provided, that no such modification may, without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Junior Subordinated Note, or reduce the principal amount thereof or the rate of interest (including Additional Interest) thereon or any premium payable upon the redemption thereof, or change the method of calculating the rate of interest thereon, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or (ii) reduce the percentage of principal amount of the outstanding Junior Subordinated Notes of any series, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of the Subordinated Note Indenture or certain defaults thereunder and their consequences) provided for in the Subordinated Note Indenture, or (iii) modify any of the provisions of the Subordinated Note Indenture relating to supplemental indentures, waiver of past defaults, or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Subordinated Note Indenture cannot be modified or waived without the consent of the holder of each outstanding Junior Subordinated Note affected thereby, or (iv) modify the provisions of the Subordinated Note Indenture with respect to the subordination of the Junior Subordinated Notes in a manner adverse to such holder.

In addition, the Company and the Subordinated Note Indenture Trustee may execute, without the consent of any holders of Junior Subordinated Notes, any supplemental indenture for certain other usual purposes, including the creation of any new series of junior subordinated notes.

Consolidation, Merger and Sale

The Company shall not consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any person, unless (1) such other corporation or person is a corporation organized and existing under the laws of the United States, any state thereof or the District of

Columbia and such other corporation or person expressly assumes, by supplemental indenture executed and delivered to the Subordinated Note Indenture Trustee, the payment of the principal of (and premium, if any) and interest (including Additional Interest) on all the Junior Subordinated Notes and the performance of every covenant of the Subordinated Note Indenture on the part of the Company to be performed or observed; (2) immediately after giving effect to such transactions, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and (3) the Company has delivered to the Subordinated Note Indenture Trustee an officers' certificate and an opinion of counsel, each stating that such transaction complies with the provisions of the Subordinated Note Indenture governing consolidation, merger, conveyance, transfer or lease and that all conditions precedent thereto have been complied with.

Information Concerning the Subordinated Note Indenture Trustee

The Subordinated Note Indenture Trustee, prior to an Event of Default with respect to Junior Subordinated Notes of any series, undertakes to perform, with respect to Junior Subordinated Notes of such series, only such duties as are specifically set forth in the Subordinated Note Indenture and, in case an Event of Default with respect to Junior Subordinated Notes of any series has occurred and is continuing, shall exercise, with respect to Junior Subordinated Notes of such series, the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Note Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Note Indenture at the request of any holder of Junior Subordinated Notes of any series, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Subordinated Note Indenture Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties if the Subordinated Note Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Chase Manhattan Bank, the Subordinated Note Indenture Trustee, also serves as Senior Note Indenture Trustee, as Property Trustee and as Guarantee Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank also serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

The Subordinated Note Indenture and Junior Subordinated Notes will be governed by, and construed in accordance with, the internal laws of the State of New York.

Miscellaneous

The Company will have the right at all times to assign any of its rights or obligations under the Subordinated Note Indenture to a direct or indirect wholly-owned subsidiary of the Company; provided, that, in the event of any such assignment, the Company will remain primarily liable for all such obligations. Subject to the foregoing, the Subordinated Note Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

DESCRIPTION OF THE PREFERRED SECURITIES

Each Trust may issue only one series of Preferred Securities having terms described in the Prospectus Supplement relating thereto. The Trust Agreement of each Trust will authorize the Administrative Trustees, on behalf of the Trust, to issue the Preferred Securities of such Trust. The Preferred Securities of each Trust will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferral or other special rights or such restrictions as shall be set forth in the Trust Agreement of such Trust. Reference is

made to the Prospectus Supplement relating to the Preferred Securities of a Trust for specific terms, including (i) the distinctive designation of such Preferred Securities; (ii) the number of Preferred Securities issued by such Trust; (iii) the annual distribution rate (or method of determining such rate) for Preferred Securities of such Trust and the date or dates on which such distributions shall be payable; (iv) whether distributions on such Preferred Securities shall be cumulative and, in the case of Preferred Securities having cumulative distribution rights, the date or dates, or method of determining the date or dates, from which distributions on such Preferred Securities shall be cumulative; (v) the amount or amounts that shall be paid out of the assets of such Trust to the holders of the Preferred Securities of such Trust upon voluntary or involuntary dissolution, winding-up or termination of such Trust; (vi) the obligation, if any, of such Trust to purchase or redeem such Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which such Preferred Securities shall be purchased or redeemed, in whole or in part, pursuant to such obligation; (vii) the voting rights, if any, of such Preferred Securities in addition to those required by law, including the number of votes per Preferred Security and any requirement for the approval by the holders of Preferred Securities as a condition to specified action or amendments to the Trust Agreement of such Trust; (viii) the rights, if any, to defer distributions on the Preferred Securities by extending the interest payment period on the related Junior Subordinated Notes; and (ix) any other relative rights, preferences, privileges, limitations or restrictions of such Preferred Securities not inconsistent with the Trust Agreement of such Trust or applicable law. All Preferred Securities offered hereby will be guaranteed by the Company to the extent set forth under "Description of the Guarantees." Any material United States federal income tax considerations applicable to an offering of Preferred Securities will be described in the Prospectus Supplement relating thereto.

DESCRIPTION OF THE GUARANTEES

Set forth below is a summary of information concerning the Guarantees that will be executed and delivered by the Company for the benefit of the holders of Preferred Securities of the respective Trusts from time to time. Each Guarantee will be qualified as an indenture under the 1939 Act. The Chase Manhattan Bank will act as indenture trustee under each Guarantee (the "Guarantee Trustee") for purposes of the 1939 Act. The terms of the respective Guarantees will be those set forth therein and those made part thereof by the 1939 Act. The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Guarantees, the form of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part, and the 1939 Act. Each Guarantee will be held by the Guarantee Trustee for the benefit of holders of the Preferred Securities to which it relates.

General

Pursuant to each Guarantee, the Company will irrevocably and unconditionally agree, to the extent set forth therein, to pay in full, to the holders of the related Preferred Securities, the Guarantee Payments (as defined herein), to the extent not paid by, or on behalf of, the related Trust, regardless of any defense, right of set-off or counterclaim that the Company may have or assert against any person. The following payments or distributions with respect to the Preferred Securities of any Trust to the extent not paid or made by, or on behalf of, such Trust will be subject to the Guarantee related thereto (without duplication): (i) any accrued and unpaid distributions required to be paid on the Preferred Securities of such Trust but if and only if and to the extent that such Trust has funds legally and immediately available therefor, (ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to any Preferred Securities called for redemption by such Trust, but if and only to the extent such Trust has funds legally and immediately available therefor, and (iii) upon a dissolution, winding-up or termination of such Trust (other than in connection with the distribution of Junior Subordinated Notes to the holders of Trust Securities of such Trust or the redemption of all of the Preferred Securities of such Trust), the lesser of (a) the aggregate of the liquidation amount and all accrued and unpaid distributions on the Preferred Securities of such Trust to the date of payment, to the extent such Trust has funds legally and immediately available therefor, and (b) the amount of assets of such Trust remaining available for distribution to holders of Preferred Securities of such Trust in liquidation of

such Trust (the "Guarantee Payments"). The Company's obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by the Company to the holders of the related Preferred Securities or by causing the related Trust to pay such amounts to such holders.

Each Guarantee will be a guarantee of the Guarantee Payments with respect to the related Preferred Securities from the time of issuance of such Preferred Securities, but will not apply to the payment of distributions and other payments on such Preferred Securities when the related Trust does not have sufficient funds legally and immediately available to make such distributions or other payments. **If the Company does not make interest payments on the Junior Subordinated Notes held by the Property Trustee under any Trust, such Trust will not make distributions on its Preferred Securities.**

Subordination

The Company's obligations under each Guarantee to make the Guarantee Payments will constitute an unsecured obligation of the Company and will rank (i) subordinate and junior in right of payment to all other liabilities of the Company, including the Junior Subordinated Notes, except those obligations or liabilities made *pari passu* or subordinate by their terms, (ii) *pari passu* with the most senior preferred or preference stock now or hereafter issued by the Company and with any guarantee now or hereafter entered into by the Company in respect of any preferred or preference securities of any affiliate of the Company, and (iii) senior to all common stock of the Company. The terms of the Preferred Securities will provide that each holder of Preferred Securities by acceptance thereof agrees to the subordination provisions and other terms of the Guarantee related thereto. The Company has outstanding preferred stock that ranks *pari passu* to the Guarantees and common stock that ranks junior to the Guarantees. See "Selected Information—Selected Financial Information."

Each Guarantee will constitute a guarantee of payment and not of collection (that is, the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under the guarantee without first instituting a legal proceeding against any other person or entity).

Amendments and Assignment

Except with respect to any changes that do not materially and adversely affect the rights of holders of the related Preferred Securities (in which case no consent will be required), each Guarantee may be amended only with the prior approval of the holders of not less than 66⅔% in liquidation amount of such outstanding Preferred Securities. The manner of obtaining any such approval of holders of the Preferred Securities will be as set forth in an accompanying Prospectus Supplement. All guarantees and agreements contained in each Guarantee shall bind the successors, assigns, receivers, trustees and representatives of the Company and shall inure to the benefit of the holders of the related Preferred Securities then outstanding.

Termination

Each Guarantee will terminate and be of no further force and effect as to the related Preferred Securities upon full payment of the Redemption Price of all such Preferred Securities, upon distribution of Junior Subordinated Notes to the holders of such Preferred Securities, or upon full payment of the amounts payable upon liquidation of the related Trust. Each Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of the related Preferred Securities must restore payment of any sums paid with respect to such Preferred Securities or under such Guarantee.

Events of Default

An event of default under each Guarantee will occur upon the failure by the Company to perform any of its payment obligations thereunder. The holders of a majority in liquidation amount of the Preferred Securities to which any Guarantee relates have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Guarantee Trustee in respect of such Guarantee or to direct the exercise of any trust or power conferred upon the Guarantee Trustee under such Guarantee. Any holder of the related Preferred

Securities may institute a legal proceeding directly against the Company to enforce its rights under such Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity. The holders of a majority in liquidation amount of Preferred Securities of any series may, by vote, on behalf of the holders of all the Preferred Securities of such series, waive any past event of default and its consequences.

Information Concerning the Guarantee Trustee

The Guarantee Trustee, prior to the occurrence of any event of default with respect to any Guarantee and after the curing or waiving of all events of default with respect to such Guarantee, undertakes to perform only such duties as are specifically set forth in such Guarantee and, in case an event of default has occurred, shall exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provisions, the Guarantee Trustee is under no obligation to exercise any of the powers vested in it by any Guarantee at the request of any holder of the related Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby.

The Chase Manhattan Bank, the Guarantee Trustee, also serves as Property Trustee, as Senior Note Indenture Trustee and as Subordinated Note Indenture Trustee. The Company and certain of its affiliates maintain deposit accounts and banking relationships with The Chase Manhattan Bank. The Chase Manhattan Bank serves as trustee under other indentures pursuant to which securities of the Company and affiliates of the Company are outstanding.

Governing Law

Each Guarantee will be governed by, and construed in accordance with, the internal laws of the State of New York.

The Agreements as to Expenses and Liabilities

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under each Trust Agreement, the Company will irrevocably and unconditionally guarantee to each person or entity to whom each Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of such Trust, other than obligations of such Trust to pay to the holders of the related Preferred Securities or other similar interests in such Trust the amounts due such holders pursuant to the terms of such Preferred Securities or such other similar interests, as the case may be.

RELATIONSHIP AMONG THE PREFERRED SECURITIES, THE JUNIOR SUBORDINATED NOTES AND THE GUARANTEES

As long as payments of interest and other payments are made when due on each series of Junior Subordinated Notes issued to a Trust, such payments will be sufficient to cover distributions and payments due on the related Trust Securities of such Trust primarily because (i) the aggregate principal amount of each series of Junior Subordinated Notes will be equal to the sum of the aggregate stated liquidation amount of the related Trust Securities; (ii) the interest rate and interest and other payment dates on each series of Junior Subordinated Notes will match the distribution rate and distribution and other payment dates for the related Preferred Securities; (iii) the Company shall pay for all costs and expenses of each Trust pursuant to the Agreements as to Expenses and Liabilities; and (iv) each Trust Agreement provides that the Securities Trustees thereunder shall not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions (to the extent funds therefor are legally and immediately available) and other payments due on the Preferred Securities (to the extent funds therefor are legally and immediately available) will be guaranteed by the Company as and to the extent set forth under "Description of the Guarantees." If the

Company does not make interest payments on any series of Junior Subordinated Notes, it is not expected that the related Trust will have sufficient funds to pay distributions on its Preferred Securities. Each Guarantee is a guarantee from the time of its issuance, but does not apply to any payment of distributions unless and until the related Trust has sufficient funds legally and immediately available for the payment of such distributions.

If the Company fails to make interest or other payments on any series of Junior Subordinated Notes when due (taking into account any extension period as described in the applicable Prospectus Supplement), the Trust Agreement provides a mechanism whereby the holders of the related Preferred Securities may appoint a substitute Property Trustee. Such holders may also direct the Property Trustee to enforce its rights under the Junior Subordinated Notes of such series, including proceeding directly against the Company to enforce such Junior Subordinated Notes. If the Property Trustee fails to enforce its rights under any series of Junior Subordinated Notes, to the fullest extent permitted by applicable law, any holder of related Preferred Securities may institute a legal proceeding directly against the Company to enforce the Property Trustee's rights under such series of Junior Subordinated Notes without first instituting any legal proceeding against the Property Trustee or any other person or entity. Notwithstanding the foregoing, a holder of Preferred Securities may institute a legal proceeding directly against the Company, without first instituting a legal proceeding against the Property Trustee or any other person or entity, for enforcement of payment to such holder of principal of or interest on Junior Subordinated Notes of the related series having a principal amount equal to the aggregate stated liquidation amount of the Preferred Securities of such holder on or after the due dates specified in the Junior Subordinated Notes of such series.

If the Company fails to make payments under any Guarantee, such Guarantee provides a mechanism whereby the holders of the Preferred Securities to which such Guarantee relates may direct the Guarantee Trustee to enforce its rights thereunder. In addition, any holder of Preferred Securities may institute a legal proceeding directly against the Company to enforce the Guarantee Trustee's rights under the related Guarantee without first instituting a legal proceeding against the Guarantee Trustee or any other person or entity.

Each Guarantee, the Subordinated Note Indenture, the Junior Subordinated Notes of the related series, the related Trust Agreement and the related Agreement as to Expenses and Liabilities, as described above, constitute a full and unconditional guarantee by the Company of the payments due on the related series of Preferred Securities.

Upon any voluntary or involuntary dissolution, winding-up or termination of any Trust, unless Junior Subordinated Notes of the related series are distributed in connection therewith, the holders of Preferred Securities of such Trust will be entitled to receive, out of assets legally available for distribution to holders, a liquidation distribution in cash as described in the applicable Prospectus Supplement. Upon any voluntary or involuntary liquidation or bankruptcy of the Company, the Property Trustee, as holder of the related series of Junior Subordinated Notes, would be a subordinated creditor of the Company, subordinated in right of payment to all Senior Indebtedness, but entitled to receive payment in full of principal and interest, before any stockholders of the Company receive payments or distributions. Because the Company is guarantor under each Guarantee and has agreed to pay for all costs, expenses and liabilities of each Trust (other than the Trust's obligations to holders of the Preferred Securities) pursuant to the related Agreement as to Expenses and Liabilities, the positions of a holder of Preferred Securities and a holder of Junior Subordinated Notes of the related series relative to other creditors and to stockholders of the Company in the event of liquidation or bankruptcy of the Company would be substantially the same.

A default or event of default under any Senior Indebtedness would not constitute a default or Event of Default under the Subordinated Note Indenture. However, in the event of payment defaults under, or acceleration of, Senior Indebtedness, the subordination provisions of the Junior Subordinated Notes provide that no payments may be made in respect of the Junior Subordinated Notes until such Senior Indebtedness has been paid in full or any payment default thereunder has been cured or waived. Failure to make required payments on the Junior

Subordinated Notes of any series would constitute an Event of Default under the Subordinated Note Indenture with respect to the Junior Subordinated Notes of such series except that failure to make interest payments on the Junior Subordinated Notes of such series will not be an Event of Default during an extension period as described in the applicable Prospectus Supplement.

PLAN OF DISTRIBUTION

The Company may sell the Senior Notes and the Junior Subordinated Notes and the Trusts may sell the Preferred Securities in one or more of the following ways from time to time: (i) to underwriters for resale to the public or to institutional investors; (ii) directly to institutional investors; or (iii) through agents to the public or to institutional investors. The Prospectus Supplement with respect to each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will set forth the terms of the offering of such Senior Notes, Junior Subordinated Notes or Preferred Securities, including the name or names of any underwriters or agents, the purchase price of such Senior Notes, Junior Subordinated Notes or Preferred Securities and the proceeds to the Company or the applicable Trust from such sale, any underwriting discounts or agency fees and other items constituting underwriters' or agents' compensation, any initial public offering price, any discounts or concessions allowed or reallowed or paid to dealers and any securities exchange on which such Senior Notes, Junior Subordinated Notes or Preferred Securities may be listed.

If underwriters participate in the sale, such Senior Notes, Junior Subordinated Notes or Preferred Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase any series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be subject to certain conditions precedent and the underwriters will be obligated to purchase all of such series of Senior Notes, Junior Subordinated Notes or Preferred Securities, if any are purchased.

Underwriters and agents may be entitled under agreements entered into with the Company and/or the applicable Trust to indemnification against certain civil liabilities, including liabilities under the 1933 Act. Underwriters and agents may engage in transactions with, or perform services for, the Company in the ordinary course of business.

Each series of Senior Notes, Junior Subordinated Notes or Preferred Securities will be a new issue of securities and will have no established trading market. Any underwriters to whom Senior Notes, Junior Subordinated Notes or Preferred Securities are sold for public offering and sale may make a market in such Senior Notes, Junior Subordinated Notes or Preferred Securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The Senior Notes, Junior Subordinated Notes or Preferred Securities may or may not be listed on a national securities exchange.

LEGAL MATTERS

Certain matters of Delaware law relating to the validity of the Preferred Securities will be passed upon on behalf of the Company and the Trusts by Richards, Layton & Finger, Wilmington, Delaware, special Delaware counsel to the Company and the Trusts. The validity of the Senior Notes, the Junior Subordinated Notes, the Guarantees and certain matters relating thereto will be passed upon on behalf of the Company by Beggs & Lane, Pensacola, Florida, and by Troutman Sanders LLP, Atlanta, Georgia. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

EXPERTS

The financial statements and schedules of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, incorporated by reference in this Prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

Statements as to matters of law and legal conclusions in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, relating to titles to property of the Company under "Item 2—Properties—Titles to Property," and relating to the Company under "Item 1—Business—Regulation," "Item 1—Business—Rate Matters" and "Item 1—Business—Competition," have been reviewed by Beggs & Lane, general counsel for the Company, and such statements are made upon the authority of such firm as experts.

No dealer, salesperson or other individual has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus Supplement or the Prospectus in connection with the offer made by this Prospectus Supplement and the Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, Gulf Power Capital Trust [ ] or the Underwriters. Neither the delivery of this Prospectus Supplement or the Prospectus nor any sale made hereunder or thereunder shall under any circumstance create an implication that there has been no change in the affairs of the Company or Gulf Power Capital Trust [ ] since the date hereof. This Prospectus Supplement and the Prospectus do not constitute an offer or solicitation by anyone in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

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[ ] Preferred Securities

Gulf Power Capital Trust [ ]

% Trust Preferred Securities (Liquidation amount $25 per Preferred Security) Fully and unconditionally guaranteed, as set forth herein, by

Gulf Power Company

a subsidiary of The Southern Company

PROSPECTUS SUPPLEMENT

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution.***

The estimated expenses of issuance and distribution, other than underwriting discounts and commissions, to be borne by the Company are as follows:

	Initial Sale	Each Additional Sale
*Florida Documentary Stamp Tax	$ 665,000	$ —
*Florida intangible personal property tax	28,500	—
*Filing Fees—Securities and Exchange Commission—registration statement	56,050	—
Charges of trustees (including counsel)	9,500	9,500
*Listing fees of New York Stock Exchange	58,300	—
Printing and preparation of registration statement, prospectus, etc.	40,000	10,000
Rating fees—		
Moody's Investors Service, Inc.	15,000	15,000
Standard & Poor's Corporation	17,000	—
Duff and Phelps, Inc.	5,000	5,000
Services of Southern Company Services, Inc.	40,000	10,000
Fees and expenses of counsel	65,000	35,000
Blue sky fees and expenses	3,500	3,500
Fees of accountants, Arthur Andersen LLP	40,000	20,000
Miscellaneous, including telephone charges and traveling expenses	17,150	7,000
Total	$1,060,000	$115,000

* The Prospectus Supplement will reflect actual filing fees, listing fees and taxes based upon the amount of the related offering.

Item 15. ***Indemnification of Directors and Officers.***

Section 719 of Title 13-A of the Maine Revised Statutes, as amended in 1987, provides that a corporation shall have the power to indemnify, or if so provided in the bylaws shall in all cases indemnify, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that that person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, trustee, partner, fiduciary, employee or agent of another corporation, partnership, joint venture, trust, pension or other employee benefit plan or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding; provided that no indemnification shall be provided for any person with respect to any matter as to which that person shall have been finally adjudicated not to have acted honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust, or its participants or beneficiaries; or, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order or conviction adverse to that person, or by settlement or plea of nolo contendere or its equivalent, shall not of itself create a presumption that that person did not act honestly or in the reasonable belief that that person's action was in or not opposed to the best interests of the corporation or its shareholders or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust or its participants or beneficiaries and, with respect to any criminal action or proceeding, had reasonable cause to believe that that person's conduct was unlawful.

Section 21 of the By-laws of the Company provides in pertinent part as follows:

To the fullest extent permitted by law, the Company shall indemnify each person made, or threatened to be made, a party to any threatened, pending, or completed claim, action, suit or proceeding, whether civil or criminal, administrative or investigative, and whether by or in the right of the Company or otherwise, by reason of the fact that such person, or such person's testator or intestate, is or was a director, officer or was an employee of the Company holding one or more management positions through and inclusive of managers (but not positions below the level of managers) (such positions being hereinafter referred to as "Management Positions") or is or was serving at the request of the Company as a director, officer, employee, agent or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity at the request of the Company, against all loss and expense actually or reasonably incurred by him including, without limiting the generality of the foregoing, judgments, fines, penalties, liabilities, sanctions and amounts paid in settlement and attorneys fees and disbursements actually and necessarily incurred by him in defense of such action or proceeding, or any appeal therefrom. The indemnification provided by this Section shall inure to the benefit of the heirs, executors and administrators of such person.

In any case in which a director, officer of the Company or employee of the Company holding one or more Management Positions requests indemnification with respect to the defense of any such claim, action, suit or proceedings, the Company may advance expenses (including attorney's fees) incurred by such person prior to the final disposition of such claim, action, suit or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of a written undertaking by or on behalf of such person to repay amounts advanced if it shall ultimately be determined that such person was not entitled to be indemnified by the Company under this Section or otherwise; provided, however, that the advancement of such expenses shall not be deemed to be indemnification unless and until it shall ultimately be determined that such person is entitled to be indemnified by the Company. Such a person claiming indemnification shall be entitled to indemnification upon a determination that no judgment or other final adjudication adverse to such person has established that such person's acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or such person personally obtained an economic benefit including a financial profit or other advantage to which such person was not legally entitled. Without limiting the generality of the foregoing provision, no former, present or future director or officer of the Company or employee of the Company holding one or more management positions, or his heirs, executors or administrators, shall be liable for any undertaking entered into by the Company or its subsidiaries or affiliates as required by the Securities and Exchange Commission pursuant to any rule or regulation of the Securities and Exchange Commission now or hereafter in effect or orders issued pursuant to the Public Utility Holding Company Act of 1935, the Federal Power Act, or any undertaking entered into by the Company due to environmental requirements including all legally enforceable environmental compliance obligations imposed by federal, state or local statute, regulation, permit, judicial or administrative decree, order and judgment or other similar means, or any undertaking entered into by the Company pursuant to any approved Company compliance plan or any federal or state or municipal ordinance which directly or indirectly regulates the Company, or its parent by reason of their being holding or investment companies, public utility companies, public utility holding companies or subsidiaries of public utility holding companies.

The foregoing rights shall not be exclusive of any other rights to which any such director, officer or employee may otherwise be entitled and shall be available whether or not the director, officer or employee continues to be a director, officer or employee at the time of incurring any such expenses and liabilities.

The Company has an insurance policy covering its liabilities and expenses which might arise in connection with its lawful indemnification of its directors and officers for certain of their liabilities and expenses and also covering its officers and directors against certain other liabilities and expenses.

Item 16. *Exhibits.*

Exhibit Number	
1.1	—Form of Underwriting Agreement relating to Senior Notes.*
1.2	—Form of Underwriting Agreement relating to Junior Subordinated Notes.*
1.3	—Form of Underwriting Agreement relating to Preferred Securities.*
4.1	—Form of Senior Note Indenture between Gulf Power Company and The Chase Manhattan Bank, as Trustee.
4.2	—Form of Supplemental Indenture to Senior Note Indenture to be used in connection with the issuance of Senior Notes.*
4.3	—Subordinated Note Indenture between Gulf Power Company and The Chase Manhattan Bank, as Trustee (Designated in the Company's Current Report on Form 8-K dated January 27, 1997 as Exhibit 4.1).
4.4	—Form of Supplemental Indenture to Subordinated Note Indenture to be used in connection with the issuance of Junior Subordinated Notes (Designated in Registration No. 333-19271 as Exhibit 4.2-A).
4.5-A	—Certificate of Trust of Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 4.3-B).
4.5-B	—Certificate of Trust of Gulf Power Capital Trust III.
4.6-A	—Trust Agreement of Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 4.4-B).
4.6-B	—Trust Agreement of Gulf Power Capital Trust III.
4.7-A	—Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 4.5-B).
4.7-B	—Form of Amended and Restated Trust Agreement of Gulf Power Capital Trust III.
4.8-A	—Form of Preferred Security of Gulf Power Capital Trust II (included in Exhibit 4.7-A above).
4.8-B	—Form of Preferred Security of Gulf Power Capital Trust III (included in Exhibit 4.7-B above).
4.9	—Form of Senior Note (included in Exhibit 4.2 above).
4.10	—Form of Junior Subordinated Note (included in Exhibit 4.4 above).
4.11-A	—Form of Guarantee relating to Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 4.8-B).
4.11-B	—Form of Guarantee relating to Gulf Power Capital Trust III.
4.12-A	—Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust II (included in Exhibit 4.7-A above).
4.12-B	—Form of Agreement as to Expenses and Liabilities relating to Gulf Power Capital Trust III (included in Exhibit 4.7-B above).
5.1	—Opinion of Beggs & Lane.
5.2-A	—Opinion of Richards, Layton & Finger relating to Gulf Power Capital Trust II.
5.2-B	—Opinion of Richards, Layton & Finger relating to Gulf Power Capital Trust III.
8.1	—Tax Opinion of Troutman Sanders LLP.
12.1	—Computation of ratio of earnings to fixed charges.
12.2	—Computation of ratio of earnings to fixed charges plus preferred dividend requirements (pre-income tax basis).
23.1	—Consent of Arthur Andersen LLP.
23.2	—Consent of Beggs & Lane (included in Exhibit 5.1 above).
23.3	—Consent of Troutman Sanders LLP (included in Exhibit 8.1 above).
23.4	—Consent of Richards, Layton & Finger (included in Exhibits 5.2-A and 5.2-B above).
24.1	—Powers of Attorney and Resolution.
25.1	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Senior Note Indenture Trustee.

Exhibit Number	
25.2	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Subordinated Note Indenture Trustee (Designated in Registration No. 333-19271 as Exhibit 25.1).
25.3	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Property Trustee, relating to Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 25.4).
25.4	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust II (Designated in Registration No. 333-19271 as Exhibit 25.5).
25.5	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Property Trustee, relating to Gulf Power Capital Trust III.
25.6	—Statement of Eligibility under Trust Indenture Act of 1939, as amended, of The Chase Manhattan Bank, as Guarantee Trustee, relating to Gulf Power Capital Trust III.

Exhibits listed above which have heretofore been filed with the Commission and which were designated as noted above are hereby incorporated herein by reference and made a part hereof with the same effect as if filed herewith.

* To be subsequently filed or incorporated by reference.

Item 17. ***Undertakings.***

(a) Undertaking related to Rule 415 offering:

The undersigned registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3, S-8 or F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrants pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Undertaking related to filings incorporating subsequent Securities Exchange Act of 1934 documents by reference:

The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Undertaking related to acceleration of effectiveness:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions or otherwise, the registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrants of expenses incurred or paid by a director, officer or controlling person of the registrants in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrants will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrants hereby undertake that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrants pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Gulf Power Company certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 11th day of December, 1997.

GULF POWER COMPANY

By: TRAVIS J. BOWDEN,
President and Chief Executive Officer

By: WAYNE BOSTON,
Attorney-in-fact

Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust II certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 11th day of December, 1997.

GULF POWER CAPITAL TRUST II

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

Pursuant to the requirements of the Securities Act of 1933, Gulf Power Capital Trust III certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on the 11th day of December, 1997.

GULF POWER CAPITAL TRUST III

By: GULF POWER COMPANY
Depositor

By: WAYNE BOSTON,
Assistant Secretary

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following directors and officers of Gulf Power Company in the capacities and on the date indicated.

Signature	Title	Date
TRAVIS J. BOWDEN	President, Chief Executive Officer and Director (Principal Executive Officer)	
A. E. SCARBROUGH	Vice President—Finance (Principal Financial and Accounting Officer)	
PAUL J. DENICOLA FRED C. DONOVAN W. DECK HULL, JR. JOSEPH K. TANNNEHILL BARBARA H. THAMES	Directors	
By WAYNE BOSTON **(Wayne Boston, Attorney-in-fact)**		December 11, 1997

EXHIBIT B. 10

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION.

Gulf Power Company ("Gulf") and Mississippi Power Company ("Mississippi") are wholly-owned subsidiaries of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act"). Gulf and Mississippi are sometimes hereinafter referred to individually as an "Applicant" and collectively as the "Applicants." Each of Gulf and Mississippi proposes to issue and sell at any time or from time to time in one or more series through March 31, 2003 up to $350 million and $400 million, respectively, aggregate principal amount of its senior debentures, senior promissory notes or other senior debt instruments (individually, a "Senior Note" and collectively, the "Senior Notes") governed by an indenture or other document. Each Applicant requests authority to issue and sell Senior Notes pursuant to the authority requested herein without additional prior Securities and Exchange Commission (the "Commission") approval if the Applicant is within the parameters discussed below under the heading "Parameters of Authorization." The provisions of each series of Senior Notes and related instruments would be determined at the time of the sale of such series of Senior Notes.

The proceeds from the issuance and sale of Senior Notes by the Applicants will be added to their respective treasuries and subsequently used principally (i) to finance capital expenditures, (ii) to acquire, retire or redeem securities of which the respective Applicant is the issuer, (iii) to repay outstanding short-term borrowings, (iv) to provide working capital and/or (v) for other general corporate purposes.

Parameters of Authorization

The Applicants request authority to issue Senior Notes for which the specific terms and conditions are not currently known, subject to the following parameters:

Effective Cost of Money on Senior Notes. The effective cost of money on Senior Notes issued pursuant to this application-declaration (this "Application") will not exceed the greater of (i) 300 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities.

Maturity of Senior Notes. The maturity of the Senior Notes will not exceed approximately 50 years.

Interest. The interest rate on each issue of Senior Notes may be either a fixed rate or an adjustable rate to be determined on a periodic basis by auction or remarketing procedures, in accordance with formula or formulae based upon certain reference rates, or by other predetermined methods.

Ranking. The Senior Notes will be direct, unsecured and unsubordinated obligations of the respective Applicants ranking pari passu with all other unsecured and unsubordinated obligations of the Applicants. The Senior Notes of each Applicant will be effectively subordinated to all secured debt of such Applicant, including its first mortgage bonds.

Issuance Expenses. The underwriting fees, commissions, or other similar expenses paid in connection with the issue, sale or distribution of the Senior Notes of each series pursuant to this Application will not exceed 5% of the aggregate principal amount of such series.

Description of Senior Notes

The Applicants request authority to sell Senior Notes covered by this Application in any of the following ways: (i) through underwriters or dealers; (ii) directly to a limited number of purchasers or to a single purchaser, or (iii) through agents or dealers. If underwriters are used in the sale of the Senior Notes, such Senior Notes will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Senior Notes may be offered to the public either through underwriting syndicates (which may be represented by managing underwriters) or directly by one or more underwriters acting alone. The Senior Notes may be sold directly by an Applicant or through agents designated from time to time. If dealers are used in the sale of any Senior Notes, such Senior Notes will be sold to the dealers as principal. Any dealer may then resell such Senior Notes to the public at varying prices to be determined by such dealer at the time of resale.

Senior Notes may be sold pursuant to "delayed delivery contracts" which permit the underwriters to locate buyers who will agree to buy the Senior Notes at the same price but at a later date than the date of the closing of the sale to the underwriters. Senior Notes may also be sold through the use of medium-term note and similar programs, including in transactions covered by Rule 144A under the Securities Act of 1933, as amended.

Any Senior Notes would have such designations, aggregate principal amount, maturity, interest rate(s) or methods of determining the same, interest payment terms, redemption provisions, non-refunding provisions, sinking fund terms, conversion or put terms and other terms and conditions as the Applicants may determine at the time of issuance.

ITEM 2. FEES, COMMISSIONS AND EXPENSES.

The estimated fees and expenses to be incurred by Gulf in connection herewith are as follows:

	Initial Issuance	Each Additional Issuance
*Florida Documentary Stamp Tax	$ 1,225,000	$ —
*Filing fees - Securities and Exchange Commission	103,250	—
Fees and Expenses of Trustees	9,500	9,500
*Listing on New York Stock Exchange	79,300	—
Printing charges	40,000	10,000
Rating Agency Fees	59,250	27,500
Services of Southern Company Services, Inc.	40,000	10,000
Fees and Expenses of counsel	65,000	35,000
Blue sky fees and expenses	3,500	3,500
Fees of accountants, Arthur Andersen LLP	40,000	20,000
Miscellaneous	15,200	4,500
TOTAL	$1,680,000	$120,000

*These categories of expenses are a function of the amount of issuance.

The estimated fees and expenses to be incurred by Mississippi in connection herewith are as follows:

	Initial Issuance	Each Additional Issuance
*Filing fees - Securities and Exchange Commission	$ 118,000	$ —
Fees and Expenses of Trustees	17,000	17,000
*Listing on New York Stock Exchange	86,300	—
Printing charges	40,000	10,000
Rating Agency Fees	98,500	27,500
Services of Southern Company Services, Inc.	40,000	10,000
Fees and Expenses of counsel	65,000	35,000
Blue sky fees and expenses	3,500	3,500
Fees of accountants, Arthur Andersen LLP	40,000	20,000
Miscellaneous	11,700	7,000
TOTAL	$520,000	$130,000

*These categories of expenses are a function of the amount of issuance.

ITEM 3. APPLICABLE STATUTORY PROVISIONS.

Sections 6(a) and 7 of the Act and Rules 24 and 54 thereunder are applicable to the proposed transactions.

Rule 54 Analysis: The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At January 31, 1998, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and

FUCOs was approximately $2.899 billion, or about 76.82% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended September 30, 1997 ($3,774 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See The Southern Company, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of operating company personnel to render services to EWGs and FUCOs, and the requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application. The action requested in the instant filing (*viz.* issuance of Senior Notes by Gulf and Mississippi) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility

subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition which took into account, among other factors, Southern's consolidated capitalization ratio and the recent growth trend in Southern's retained earnings. As of December 31, 1995, the most recent fiscal year preceding the Rule 53(c) Order, Southern's consolidated capitalization consisted of 49.3% equity (including mandatorily redeemable preferred securities) and 50.7% debt (including $1.68 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). As of year-end 1996, that ratio was 52.9% equity and 47.1% debt (including $1.74 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs); and as of September 30, 1997, the comparable ratio was 48.9% equity and 51.1% debt (including $4.354 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). On a *pro forma* basis, taking into consideration, among other things, the transactions contemplated hereby such ratios are 48.6% and 51.4%, respectively, for equity and debt. The common equity component of Southern's pro forma consolidated capitalization represents 35.6% of total capitalization at September 30, 1997. Thus, since the date of the Rule 53(c) Order, there has been no material change in Southern's consolidated capitalization ratio, which remains within acceptable ranges and limits of rating agencies as evident by the continued "A" corporate credit rating of Southern. Specifically, in January 1997 Standard & Poor's assigned Southern its corporate credit rating of "A" which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated

credit rating has remained at "A" thereby demonstrating Southern's continued strong financial integrity. In addition, the underlying ratings of the affiliated operating companies, which have a strong influence on the Southern corporate rating, are all "A+". As a point of reference, the consolidated pro forma percentage of debt in the total capital structure of the Southern domestic operating utility companies is 42.6%, which is solidly below the median total debt ratio of the Standard & Poor's "A" rated vertically integrated utilities.[1]

Southern's consolidated retained earnings grew on average approximately 8.8% per year from 1991 through 1995. In 1996, consolidated retained earnings increased $280,365,000, or slightly more than 8%. The small reduction in the rate of earnings growth was primarily attributable to reduced domestic utility sales due to mild weather conditions throughout most of 1996 in the southeastern United States. Earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit H filed herewith which reflects capitalization at September 30, 1997 and the Statement of Income for the twelve months ended September 30, 1997 for Southern and subsidiaries consolidated.

[1] Currently, capitalization ratios, including short-term debt, for "A" rated vertically integrated electric utilities have a median total debt to total capital ratio of 45% as noted by Standard & Poor's in May 1997 for companies rated both publicly and confidentially. Prior to issuing this rating standard, the Standard & Poor's total debt to total capital benchmark for an "A" rated vertically integrated investor-owned-utility having an average business position was 47%.

ITEM 4. REGULATORY APPROVAL.

A. The issuance of any series of Senior Notes by Gulf has been or will be authorized by the Florida Public Service Commission.

B. No other state commission (except as aforesaid) has jurisdiction with respect to the subject transactions and no federal commission other than the Commission has jurisdiction with respect thereto.

ITEM 5. PROCEDURE.

It is hereby requested that the Commission's order be issued as soon as the rules allow, and that there be no thirty-day waiting period between the issuance of the Commission's order and the date on which it is to become effective. The Applicants hereby waive a recommended decision by a hearing officer or other responsible officer of the Commission and hereby consent that the Division of Investment Management may assist in the preparation of the Commission's decision and/or orders in this matter unless the Division opposes the matters covered hereby.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENTS.

(a) Exhibits:

Exhibit B-1	Form of Gulf Senior Note Indenture (Designated in Registration No. 333-42033 as Exhibit 4.1).
Exhibit B-2	Form of Mississippi Senior Note Indenture (Designated in Registration No. 333-45069 as Exhibit 4.1).
Exhibit B-3	Form of Gulf Senior Note (included in Exhibit B-1 above).
Exhibit B-4	Form of Mississippi Senior Note (included in Exhibit B-2 above).

Exhibit C-1 Gulf Registration Statement under the Securities Act of 1933. (Filed electronically December 11, 1997, File Nos. 333-42033, 333-42033-01 and 333-42033-02.).

Exhibit C-2 Mississippi Registration Statement under the Securities Act of 1933. (Filed electronically January 28, 1998, File Nos. 333-45069, 333-45069-01 and 333-45069-02.).

Exhibit F-1 Opinion of Beggs & Lane, counsel for Gulf (to be filed by amendment).

Exhibit F-2 Opinion of Eaton and Cottrell, P.A., counsel for Mississippi (to be filed by amendment).

Exhibit G Proposed form of notice.

Exhibit H Capitalization and Income Statement of The Southern Company and Subsidiary Companies after giving effect to the issuance of the Senior Notes.

(b) Financial Statements:

Balance sheet of each Applicant at September 30, 1997. (Designated in each Applicant's Form 10-Q for the quarter ended September 30, 1997, File Nos. 0-2429 and 0-6849.)

Statements of Income of each Applicant for the period ended September 30, 1997. (Designated in each Applicant's Form 10-Q for the quarter ended September 30, 1997, File Nos. 0-2429 and 0-6849.)

Since September 30, 1997, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of the Applicants from that set forth in or contemplated by the foregoing financial statements.

ITEM 7. INFORMATION AS TO ENVIRONMENTAL EFFECTS.

A. As described in Item 1, the proposed transactions are of a routine and strictly financial nature in the ordinary course of the Applicants' businesses. Accordingly, the Commission's action in this matter will not constitute any major federal action significantly affecting the quality of the human environment.

B. No other federal agency has prepared or is preparing an environmental impact statement with respect to the proposed transactions.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this statement to be signed on their behalf by the undersigned thereunto duly authorized.

Date: February 6, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

Exhibit G

Gulf Power Company and Mississippi Power Company
Proposed Notice of Proceedings

Gulf Power Company ("Gulf") and Mississippi Power Company ("Mississippi"), wholly-owned subsidiaries of The Southern Company ("Southern"), a registered holding company under the Public Utility Holding Company Act of 1935, as amended (the "Act"), have filed an application-declaration (the "Application") under Sections 6(a) and 7 of the Act and Rules 24 and 54 thereunder. Gulf and Mississippi are sometimes hereinafter referred to individually as an "Applicant" and collectively as the "Applicants."

Each of Gulf and Mississippi seeks authorization to issue and sell at any time or from time to time in one or more series from the period beginning with the effective date of an order issued in this proceeding through March 31, 2003 up to $350 million and $400 million, respectively, aggregate principal amount of its senior debentures, senior promissory notes or other senior debt instruments (individually, a "Senior Note" and collectively, the "Senior Notes") governed by an indenture or other document. Each Applicant requests authority to issue and sell Senior Notes pursuant to the authority requested herein without additional prior Securities and Exchange Commission (the "Commission") approval if the Applicant is within the parameters discussed below under the heading "Parameters of Authorization." The provisions of each series of Senior Notes and related instruments would be determined at the time of the sale of such series of Senior Notes.

The proceeds from the issuance and sale of Senior Notes by the Applicants will be added to their respective treasuries and subsequently used principally (i) to finance capital expenditures, (ii) to acquire, retire or redeem securities of which the respective Applicant is the issuer, (iii) to repay outstanding short-term borrowings, (iv) to provide working capital and/or (v) for other general corporate purposes.

The Applicants request authority to issue Senior Notes for which the specific terms and conditions are not currently known, subject to the following parameters:

(a) The effective cost of money on Senior Notes issued pursuant to the Application will not exceed the greater of (i) 300 basis points over comparable term U.S. Treasury securities, or (ii) a gross spread over such Treasury securities which is consistent with comparable securities.

(b) The maturity of the Senior Notes will not exceed approximately 50 years.

(c) The interest rate on each issue of Senior Notes may be either a fixed rate or an adjustable rate to be determined on a periodic basis by auction or remarketing procedures, in accordance with formula or formulae based upon certain reference rates, or by other predetermined methods.

(d) The Senior Notes will be direct, unsecured and unsubordinated obligations of the respective Applicants ranking pari passu with all other unsecured and unsubordinated obligations of the Applicants. The Senior Notes of each Applicant will be effectively subordinated to all secured debt of such Applicant, including its first mortgage bonds.

(e) The underwriting fees, commissions, or other similar expenses paid in connection with the issue, sale or distribution of the Senior Notes of each series pursuant to the Application will not exceed 5% of the aggregate principal amount of such series.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Exhibit H

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

Capitalization Ratios at September 30, 1997

	Consolidated per 10-Q	Pro Forma Amounts (A)	Equity	Debt
Capitalization (in thousands of dollars):				
Common stock	$3,447,958	$ -	$3,447,958	
Paid-in capital	2,265,204	-	2,265,204	
Retained earnings	3,875,410	(92,182) (B)	3,783,228	
Preferred stock	695,702	67,745 (B)	763,447	
Capital & preferred securities	1,742,020	935,750 (B,D)	2,677,770	
Long-term debt	10,055,279	1,109,070 (B)		$11,164,349
Preferred due within one year	28,913	-	28,913	
Long-term debt due within one year	679,670	-		679,670
Notes payable & commercial paper	1,871,505	-		1,871,505
Total (Incl Amts Due in 1 Year)	$24,661,661	$2,020,383	$12,966,520	$13,715,524
Actual Amounts in Millions of Dollars	**$24,661**		**$12,055**	**$12,606**
Actual Capitalization Ratios	**100.0%**		**48.9%**	**51.1%**
Pro Forma Amounts in Millions of Dollars.	**$26,683**		**$12,967**	**$13,716**
Pro Forma Capitalization Ratios	**100.0%**		**48.6%**	**51.4%**

Pro Forma Consolidated Statements of Income (Unaudited)

(Stated in Thousands of Dollars)

	For the Twelve Months Ended September 30, 1997	Pro Forma Amounts (A)	As Adjusted
OPERATING REVENUES	$ 11,805,284	$ -	$ 11,805,284
OPERATING EXPENSES:			
Operation--			
Fuel	2,241,717	-	2,241,717
Purchased power	2,415,542	-	2,415,542
Other	1,836,972	-	1,836,972
Maintenance	795,769	-	795,769
Depreciation and amortization	1,186,509	-	1,186,509
Amortization of deferred Plant Vogtle costs	148,371	-	148,371
Taxes other than income taxes	585,649	-	585,649
Income taxes	717,808	(54,912) (C)	662,896
Total operating expenses	9,928,337	(54,912)	9,873,425
OPERATING INCOME	1,876,947	54,912	1,931,859
OTHER INCOME:			
Allowance for equity funds used during construction	5,992	-	5,992
Interest income	92,549	-	92,549
Other, net	(124,970)	-	(124,970)
Income taxes applicable to other income	14,359	-	14,359
INCOME BEFORE INTEREST CHARGES	1,864,877	54,912	1,919,789
INTEREST CHARGES AND OTHER:			
Interest on long-term debt	618,529	76,186 (C)	694,715
Allowance for debt funds used during construction	(14,306)	-	(14,306)
Interest on notes payable	93,746	-	93,746
Amortization of debt discount, premium and expense, net	22,431	-	22,431
Other interest charges	50,863	-	50,863
Minority interest in subsidiaries	21,479	-	21,479
Distributions on capital and preferred securities of subsidiary companies	94,817	67,729 (C,D)	162,546
Preferred dividends of subsidiary companies	61,313	(1,832) (C)	59,481
Interest charges and other, net	948,872	142,083	1,090,955
CONSOLIDATED NET INCOME	$ 916,005	$ (87,171)	$ 828,834

(See Notes on Following Page)

NOTES

(A) The amounts and types of the securities to be issued will be dependent upon, among other things, market conditions prevailing at the time of issuance. The amounts estimated to be issued are the maximum amounts requested in the subject application, together with remaining authorizations in certain previous applications, and are used solely for the purpose of illustrating the effect upon Southern Company consolidated capitalization and earnings. In addition, no assumptions are made in connection with possible refundings.

(B) To give effect to (i) the proposed issuance of $500,000,000 of preferred securities by Alabama Power Company; (ii) the proposed issuance of $310,750,000 of preferred securities by Georgia Power Company; (iii) the proposed issuance of $75,000,000 of preferred securities by Mississippi Power Company; (iv) the issuance in January 1998 by Gulf Power Company of $45,000,000 of 7% Trust Preferred Securities and the proposed issuance by Gulf Power Company of $5,000,000 additional preferred securities, $200,000,000 of first mortgage bonds, $200,000,000 of preferred stock, and $159,070,000 of pollution control obligations; and (v) the collective retirements of $132,255,000 of preferred stock at various rates by Alabama Power Company, Georgia Power Company, Gulf Power Company and Mississippi Power Company in connection with tender offers on December 10, 1997 and fees and expenses recorded therefrom.

(C) To give effect to (i) the proposed issuance of $500,000,000 of preferred securities by Alabama Power Company at an assumed rate of 7.25%; (ii) the proposed issuance of $310,750,000 of preferred securities by Georgia Power Company at an assumed rate of 7.25%; (iii) the proposed issuance of $75,000,000 of preferred securities by Mississippi Power Company at an assumed rate of 7.25%; (iv) the issuance in January 1998 by Gulf Power Company of $45,000,000 of 7% Trust Preferred Securities and the proposed issuance by Gulf Power Company of $5,000,000 additional preferred securities at an assumed rate of 7.25%, $200,000,000 of first mortgage bonds at an assumed rate of 7%, $200,000,000 of preferred stock at an assumed rate of 6.50%, and $159,070,000 of pollution control obligations at an assumed rate of 5.50%; and (v) the collective retirements of $132,255,000 of preferred stock at various rates by Alabama Power Company, Georgia Power Company, Gulf Power Company and Mississippi Power Company in connection with tender offers on December 10, 1997 and net gains and fees recorded therefrom.

(D) To give effect to the proposed issuance of $350,000,000 of senior notes by Gulf Power Company and the proposed issuance of $400,000,000 senior notes by Mississippi Power Company, both of which are contemplated in this Form U-1 application.

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

Item 3. Applicable Statutory Provisions.

Rule 54 Analysis. The proposed transaction is also subject to Rule 54, which provides that, in determining whether to approve an application which does not relate to any "exempt wholesale generator" ("EWG") or "foreign utility company" ("FUCO"), the Commission shall not consider the effect of the capitalization or earnings of any such EWG or FUCO which is a subsidiary of a registered holding company if the requirements of Rule 53(a), (b) and (c) are satisfied.

Southern currently meets all of the conditions of Rule 53(a), except for clause (1). At March 31, 1998, Southern's "aggregate investment," as defined in Rule 53(a)(1), in EWGs and FUCOs was approximately $2.947 billion, or about 77.70% of Southern's "consolidated retained earnings," also as defined in Rule 53(a)(1), for the four quarters ended December 31, 1997 ($3,793 million). With respect to Rule 53(a)(1), however, the Commission has determined that Southern's financing of investments in EWGs and FUCOs in an amount greater than the amount that would otherwise be allowed by Rule 53(a)(1) would not have either of the adverse effects set forth in Rule 53(c). See *The Southern Company*, Holding Company Act Release No. 16501, dated April 1, 1996 (the "Rule 53(c) Order"); and Holding Company Act Release No. 26646, dated January 15, 1997 (order denying request for reconsideration and motion to stay).

In addition, Southern has complied and will continue to comply with the record-keeping requirements of Rule 53(a)(2), the limitation under Rule 53(a)(3) on the use of Operating Company personnel to render services to EWGs and FUCOs, and the

requirements of Rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail rate regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred.

Moreover, even if the effect of the capitalization and earnings of EWGs and FUCOs in which Southern has an ownership interest upon the Southern holding company system were considered, there is no basis for the Commission to withhold or deny approval for the proposal made in this Application-Declaration. The action requested in the instant filing (*viz.* issuance of Senior Notes by Gulf and Mississippi) would not, by itself, or even considered in conjunction with the effect of the capitalization and earnings of Southern's EWGs and FUCOs, have a material adverse effect on the financial integrity of the Southern system, or an adverse impact on Southern's public-utility subsidiaries, their customers, or the ability of State commissions to protect such public-utility customers.

The Rule 53(c) Order was predicated, in part, upon an assessment of Southern's overall financial condition which took into account, among other factors, Southern's consolidated capitalization ratio and the recent growth trend in Southern's retained earnings. As of December 31, 1995, the most recent fiscal year preceding the Rule 53(c) Order, Southern's consolidated capitalization consisted of 49.3% equity (including mandatorily redeemable preferred securities) and 50.7% debt (including $1.68 billion of long-term, non-recourse debt and short-term debt related to EWGs and FUCOs). As of year-end 1997, that ratio was 47.5% equity and 52.5% debt (including $4.593 billion of long-term, non-recourse debt and short-term debt related to EWGs

and FUCOs). On a *pro forma* basis, taking into consideration, among other things, the transactions contemplated hereby such ratios are 47.5% and 52.5%, respectively, for equity and debt. The common equity component of Southern's pro forma consolidated capitalization represents 35.1% of total capitalization at December 31, 1997. Thus, since the date of the Rule 53(c) Order, there has been no material change in Southern's consolidated capitalization ratio, which remains within acceptable ranges and limits of rating agencies as evident by the continued "A" corporate credit rating of Southern. Specifically, in January 1997 Standard & Poor's assigned Southern its corporate credit rating of "A" which was consistent with the implied corporate rating previously held by Southern. This implied rating had been in effect since May 1995. Therefore, since the April 1996 issue of the Rule 53(c) Order, the Southern consolidated credit rating has remained at "A" thereby demonstrating Southern's continued strong financial integrity. In addition, the underlying ratings of the affiliated operating companies, which have a strong influence on the Southern corporate rating, are all "A+". As a point of reference, the pro forma percentage of debt in the total capital structure of the Southern domestic operating utility companies is 45.1%, which is at the median total debt ratio of the Standard & Poor's "A" rated vertically integrated utilities.[1]

Southern's consolidated retained earnings grew on average approximately 8.6% per year from 1992 through 1996. In 1997, consolidated retained earnings increased

[1] Currently, capitalization ratios, including short-term debt, for "A" rated vertically integrated electric utilities have a median total debt to total capital ratio of 45% as noted by Standard & Poor's in May 1997 for companies rated both publicly and confidentially. Prior to issuing this rating standard, the Standard & Poor's total debt to total capital benchmark for an "A" rated vertically integrated investor-owned-utility having an average business position was 47%.

approximately $78,148,000, or slightly more than 2%. The reduction in the rate of earnings growth in 1997 was primarily due to a $111 million windfall profits tax assessed against South Western Electricity in the United Kingdom. Excluding the impact of such tax, earnings attributable to Southern's investments in EWGs and FUCOs continued to contribute modestly to consolidated retained earnings.

Accordingly, since the date of the Rule 53(c) Order, the capitalization and earnings attributable to Southern's investments in EWGs and FUCOs has not had any adverse impact on Southern's financial integrity.

Reference is made to Exhibit H filed herewith which reflects capitalization at December 31, 1997 and the Statement of Income for the year ended December 31, 1997 for Southern and subsidiaries consolidated.

Item 6. Exhibits and Financial Statements.

(a) Exhibits:

F-1	Opinion of Beggs & Lane, counsel for Gulf.
F-2	Opinion of Eaton and Cottrell, P.A., counsel for Mississippi.
H	Capitalization and Income Statement of The Southern Company and Subsidiary Companies after giving effect to the issuance of the Senior Notes.

(b) Financial Statements:

Balance sheet of each Applicant at December 31, 1997. (Designated in each Applicant's Form 10-K for the year ended December 31, 1997, File Nos. 0-2429 and 0-6849.)

Statements of Income of each Applicant for the period ended December 31, 1997. (Designated in each Applicant's Form 10-K for the year ended December 31, 1997, File Nos. 0-2429 and 0-6849.)

Since December 31, 1997, there have been no material adverse changes, not in the ordinary course of business, in the financial condition of the Applicants from that set forth in or contemplated by the foregoing financial statements.

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this amendment to be signed on their behalf by the undersigned thereunto duly authorized.

Date: April 14, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

Exhibit F-2

EATON AND COTTRELL, P. A.
ATTORNEYS AT LAW
1310 TWENTY FIFTH AVENUE
GULFPORT, MISSISSIPPI 39501-7748
TELEPHONE (601) 864-9900
FAX (601) 864-8221

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ANNETTE E. BALL
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D. MITCHELL McCRANIE
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BRENDA VANOVER ZNACHKO
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FAX (601) 961-4466

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HATTIESBURG, MS 39403-0707
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FAX (601) 582-8732

Bay St. Louis Office
205 SOUTH BEACH BOULEVARD
BAY ST. LOUIS, MS 39520
TELEPHONE (601) 466-9905
FAX (601) 467-6517

BARNEY E. EATON
1878-1944
JAMES S. EATON
1912-1994
DAVID COTTRELL, JR.
1908-1995

April 14, 1998

Securities and Exchange Commission
Washington, D.C. 20549

Re: Statement on Form U-1 of
Mississippi Power Company
(herein called the "Company")
File No. 70-9171

Ladies and Gentlemen:

We have read the statement on Form U-1, as amended, referred to above, and are furnishing this opinion with respect to the proposed transactions described therein relating to the issuance by the Company of the Senior Notes (as defined therein).

We are of the opinion that the Company is validly organized and duly existing as a corporation under the laws of the State of Mississippi and is duly admitted to do business under the laws of the State of Alabama and that, upon the adoption of appropriate resolutions by the board of directors of the Company (or a duly authorized committee thereof), upon the issuance of your order or orders in this matter permitting such statement on Form U-1 to become effective with respect to such proposed transactions, upon compliance with the relevant provisions of the Securities Act of 1933 and the Trust Indenture Act of 1939, and in the event that the proposed transactions are consummated in accordance with such statement on Form U-1 and your order or orders in respect thereof:

(a) all State laws applicable to the proposed transactions will have been complied with;

(b) the Senior Notes will be valid and binding obligations of the Company in accordance with their terms; and

(c) the consummation of the proposed transactions will not violate the legal rights of the holders of any securities issued by the Company or any associate company thereof.

EATON AND COTTRELL, P. A.

We hereby give our written consent to the use of this opinion in connection with the above-mentioned statement on Form U-1.

Very truly yours,

Eaton and Cottrell, P.A.

EATON AND COTTRELL, P.A.

Exhibit H

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

Capitalization Ratios at December 31, 1997

	Consolidated per 10-Q	Pro Forma Amounts (A)	Equity	Debt
Capitalization (in thousands of dollars):				
Common stock	$3,467,115	$ -	$3,467,115	
Paid-in capital	2,337,714	-	2,337,714	
Retained earnings	3,842,135	(101,974) (B)	3,740,161	
Preferred stock	493,346	200,000 (B)	693,346	
Capital & preferred securities	1,743,520	935,750 (B)	2,679,270	
Long-term debt	10,273,606	1,184,070 (B,D)		$11,457,676
Preferred due within one year	-	-	-	
Long-term debt due within one year	783,805	-		783,805
Notes payable & commercial paper	2,064,249	-		2,064,249
Total (Incl Amts Due in 1 Year)	$25,005,490	$2,217,846	$12,917,606	$14,305,730
Actual Amounts in Millions of Dollars	**$25,006**		**$11,884**	**$13,122**
Actual Capitalization Ratios	**100.0%**		**47.5%**	**52.5%**
Pro Forma Amounts in Millions of Dollars	**$27,224**		**$12,918**	**$14,306**
Pro Forma Capitalization Ratios	**100.0%**		**47.5%**	**52.5%**

Pro Forma Consolidated Statements of Income (Unaudited)

(Stated in Thousands of Dollars)

	For the Twelve Months Ended December 31, 1997	Pro Forma Amounts (A)	As Adjusted
OPERATING REVENUES	$ 12,610,972	$ -	$ 12,610,972
OPERATING EXPENSES:			
Operation--			
Fuel	2,280,956	-	2,280,956
Purchased power	3,032,637	-	3,032,637
Other	1,930,064	-	1,930,064
Maintenance	762,945	-	762,945
Depreciation and amortization	1,246,111	-	1,246,111
Amortization of deferred Plant Vogtle costs	120,577	-	120,577
Taxes other than income taxes	572,341	-	572,341
Income taxes	724,881	(55,516) (C)	669,365
Total operating expenses	10,670,512	(55,516)	10,614,996
OPERATING INCOME	1,940,460	55,516	1,995,976
OTHER INCOME:			
Allowance for equity funds used during construction	6,461	-	6,461
Interest income	151,693	-	151,693
Other, net	52,960	-	52,960
Income taxes applicable to other income	33,868	-	33,868
Windfall profits tax assessed in United Kingdom	(148,062)	-	(148,062)
INCOME BEFORE INTEREST CHARGES	2,037,380	55,516	2,092,896
INTEREST CHARGES AND OTHER:			
Interest on long-term debt	679,696	78,874 (C,D)	758,570
Allowance for debt funds used during construction	(14,053)	-	(14,053)
Interest on notes payable	111,694	-	111,694
Amortization of debt discount, premium and expense, net	34,233	-	34,233
Other interest charges	63,250	-	63,250
Minority interest in subsidiaries	28,666	-	28,666
Distributions on capital and preferred securities of subsidiary companies	119,577	66,616 (C)	186,193
Preferred dividends of subsidiary companies	42,741	12,000 (C)	54,741
Interest charges and other, net	1,065,804	157,490	1,223,294
CONSOLIDATED NET INCOME	$ 971,576	$ (101,974)	$ 869,602

(See Notes on Following Page)

NOTES

(A) The amounts and types of the securities to be issued will be dependent upon, among other things, market conditions prevailing at the time of issuance. The amounts estimated to be issued are the maximum amounts requested in the subject application, together with remaining authorizations in certain previous applications, and are used solely for the purpose of illustrating the effect upon Southern Company consolidated capitalization and earnings. In addition, no assumptions are made in connection with possible refundings.

(B) To give effect to (i) the proposed issuance of $500,000,000 of preferred securities by Alabama Power Company; (ii) the proposed issuance of $310,750,000 of preferred securities by Georgia Power Company; (iii) the proposed issuance of $75,000,000 of preferred securities and $75,000,000 of pollution control obligations by Mississippi Power Company; and (iv) the issuance in January 1998 by Gulf Power Company of $45,000,000 of 7% Trust Preferred Securities and the proposed issuance by Gulf Power Company of $5,000,000 additional preferred securities, $200,000,000 of first mortgage bonds, $200,000,000 of preferred stock and $159,070,000 of pollution control obligations.

(C) To give effect to (i) the proposed issuance of $500,000,000 of preferred securities by Alabama Power Company at an assumed rate of 7.125%; (ii) the proposed issuance of $310,750,000 of preferred securities by Georgia Power Company at an assumed rate of 7.125%; (iii) the proposed issuance by Mississippi Power Company of $75,000,000 of preferred securities at an assumed rate of 7.125% and $75,000,000 of pollution control obligations at an assumed rate of 5.50%; and (iv) the issuance in January 1998 by Gulf Power Company of $45,000,000 of 7% Trust Preferred Securities and the proposed issuance by Gulf Power Company of $5,000,000 additional preferred securities at an assumed rate of 7.125%, $200,000,000 of first mortgage bonds at an assumed rate of 6.75%, $200,000,000 of preferred stock at an assumed rate of 6%, $159,070,000 of pollution control obligations at an assumed rate of 5.50%.

(D) To give effect to the proposed issuance of $350,000,000 of senior notes by Gulf Power Company and the proposed issuance of $400,000,000 senior notes by Mississippi Power Company, both of which are contemplated in this Form U-1 application.

File No. 70-9171

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
FORM U-1
APPLICATION OR DECLARATION
under
The Public Utility Holding Company Act of 1935

GULF POWER COMPANY
500 Bayfront Parkway
Pensacola, Florida 32501

MISSISSIPPI POWER COMPANY
2992 West Beach
Gulfport, Mississippi 39501

(Name of company or companies filing this statement
and addresses of principal executive offices)

THE SOUTHERN COMPANY

(Name of top registered holding company parent of each
applicant or declarant)

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
500 Bayfront Parkway
Pensacola, Florida 32501

Michael W. Southern, Vice President,
Secretary, Treasurer and
Chief Financial Officer
Mississippi Power Company
2992 West Beach
Gulfport, Mississippi 39501

(Names and addresses of agents for service)

The Commission is requested to mail signed copies of all orders,
notices and communications to:

W. L. Westbrook
Financial Vice President
The Southern Company
270 Peachtree Street, N.W.
Atlanta, Georgia 30303

John D. McLanahan, Esq.
Troutman Sanders LLP
600 Peachtree Street, N.E., Suite 5200
Atlanta, Georgia 30308

Item 3. Applicable Statutory Provisions.

Rule 54 Analysis as amended by Amendment No. 1 hereto is hereby amended by adding the following sentence to the sixth paragraph thereto:

"The total windfall profits tax for South Western Electricity was $148 million; however, the $111 million only reflects Southern's 75% ownership."

SIGNATURES

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned companies have duly caused this amendment to be signed on their behalf by the undersigned thereunto duly authorized.

Date: May 12, 1998

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

MISSISSIPPI POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

CERTIFICATE OF NOTIFICATION

Filed by

GULF POWER COMPANY

Pursuant to order of the Securities and Exchange Commission dated May 14, 1998 in the matter of File No. 70-9171.

Gulf Power Company (the "Company") hereby certifies to said Commission, pursuant to Rule 24, as follows:

1. On August 24, 1999, the issuance by the Company of $50,000,000 aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Notes"), pursuant to the Second Supplemental Indenture dated as of August 24, 1999, supplementing the Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee, was carried out in accordance with the terms and conditions of and for the purposes represented by the application, as amended, and of said order with respect thereto.

2. Filed herewith are the following exhibits:

Exhibit A — Prospectus supplement with respect to the Series B Notes, dated August 17, 1999. (Filed electronically August 19, 1999, in File Nos. 333-42033, 333-42033-01 and 333-42033-02.)

Exhibit B — Underwriting Agreement with respect to the Series B Notes dated August 17, 1999. (Designated in Form 8-K dated August 17, 1999 as Exhibit 1.1.)

Exhibit C — Second Supplemental Indenture dated as of August 24, 1999 to the Senior Note Indenture dated as of January 1, 1998 between the Company and The Chase Manhattan Bank, as Trustee. (Designated in Form 8-K dated August 17, 1999, as Exhibit 4.2.)

Exhibit F — Opinion of Beggs & Lane, A Registered Limited Liability Partnership, dated August 29, 1999.

Dated August 29, 1999

GULF POWER COMPANY

By _____
Wayne Boston
Assistant Secretary

Exhibit F

BEGGS & LANE

A REGISTERED LIMITED LIABILITY PARTNERSHIP

ATTORNEYS AND COUNSELLORS AT LAW

POST OFFICE BOX 12950

PENSACOLA, FLORIDA 32576-2950

SEVENTH FLOOR BLOUNT BUILDING
3 WEST GARDEN STREET
PENSACOLA, FLORIDA 32501
TELEPHONE (850) 432-2451
TELECOPIER (850) 469-3330

ROBERT P. GAINES
W. SPENCER MITCHEM
JAMES M. WEBER
JOHN F. WINDHAM
J. NIXON DANIEL, III
RALPH A. PETERSON
GARY B. LEUCHTMAN
JOHN P. DANIEL
JEFFREY A. STONE
JAMES S. CAMPBELL
RUSSELL F. VAN SICKLE
RUSSELL A. BADDERS
MARY JANE THIES
DAVID L. McGEE
CHARLES T. WIGGINS

E. DIXIE BEGGS
Retired

BERT H. LANE
1917-1981

ROBERT L. CRONGEYER
Of Counsel

August 29, 1999

Securities and Exchange Commission
Washington, DC 20549

RE: Statement on Form U-1
of Gulf Power Company
(herein called the "Company") et al.
File No. 70-9171

Ladies and Gentlemen:

We have read the statement on Form U-1, as amended, referred to above and are furnishing this opinion with respect to the issuance and sale by the Company of $50,000,000 aggregate principal amount of its Series B 7.05% Senior Notes due August 15, 2004 (the "Series B Notes").

We are of the opinion that:

(a) the Company is validly organized and duly existing as a corporation under the laws of the State of Maine and is duly admitted to do business as a foreign corporation in the States of Florida, Georgia and Mississippi;

(b) the subject transactions have been consummated in accordance with such statement on Form U-1, as amended;

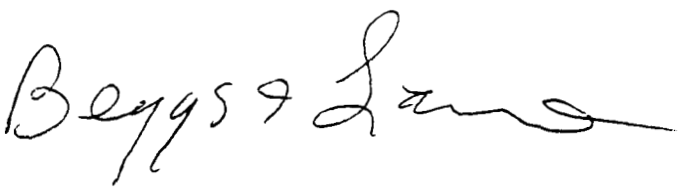
(c) all state laws applicable to the transactions have been complied with;

(d) the Series B Notes are valid and binding obligations of the Company in accordance with their terms; and

(e) the consummation of the transactions did not violate the legal rights of the holders of any securities issued by the Company or any associate company thereof.

We hereby give our written consent to the use of this opinion in connection with the above-mentioned statement on Form U-1, as amended, and to the filing thereof with the Commission at the time of the filing by the Company of its certificate pursuant to Rule 24.

Very truly yours,



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 1998
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-3526	**The Southern Company** (A Delaware Corporation) 270 Peachtree Street, N.W. Atlanta, Georgia 30303 (404) 506-5000	58-0690070
1-3164	**Alabama Power Company** (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	**Georgia Power Company** (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308-3374 (404) 506-6526	58-0257110
0-2429	**Gulf Power Company** (A Maine Corporation) One Energy Place Pensacola, Florida 32520-0102 (850) 444-6111	59-0276810
0-6849	**Mississippi Power Company** (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
1-5072	**Savannah Electric and Power Company** (A Georgia Corporation) 600 East Bay Street Savannah, Georgia 31401 (912) 644-7171	58-0418070

Securities registered pursuant to Section 12(b) of the Act:[1]

Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is registered on the New York Stock Exchange.

Title of each class	Registrant
Common Stock, $5 par value	**The Southern Company**
Company obligated mandatorily redeemable preferred securities, $25 liquidation amount	
7.75% Cumulative Quarterly Income Preferred Securities[2]	
7 1/8% Trust Originated Preferred Securities[3]	
6.875% Cumulative Quarterly Income Preferred Securities[4]	
Class A preferred, cumulative, $25 stated capital	**Alabama Power Company**
5.20% Series	Adjustable Rate (1993 Series)
5.83% Series	
Senior Notes	
7 1/8% Series A	7% Series C
7% Series B	
Company obligated mandatorily redeemable preferred securities, $25 liquidation amount	
7.375% Trust Preferred Securities[5]	
7.60% Trust Originated Preferred Securities[6]	
Senior Notes	**Georgia Power Company**
6 7/8% Series A	
6.60% Series B	
Company obligated mandatorily redeemable preferred securities, $25 liquidation amount	
9% Monthly Income Preferred Securities, Series A[7]	7.75% Trust Preferred Securities[8]
7.60% Trust Preferred Securities[9]	7.75% Quarterly Income Preferred Securities[10]
First mortgage bonds	
6 1/8% Series due 1999	6 7/8% Series due 2002

[1] As of December 31, 1998.
[2] Issued by Southern Company Capital Trust III and guaranteed by The Southern Company.
[3] Issued by Southern Company Capital Trust IV and guaranteed by The Southern Company.
[4] Issued by Southern Company Capital Trust V and guaranteed by The Southern Company.
[5] Issued by Alabama Power Capital Trust I and guaranteed by Alabama Power Company.
[6] Issued by Alabama Power Capital Trust II and guaranteed by Alabama Power Company.
[7] Issued by Georgia Power Capital, L.P. and guaranteed by Georgia Power Company.
[8] Issued by Georgia Power Capital Trust I and guaranteed by Georgia Power Company.
[9] Issued by Georgia Power Capital Trust II and guaranteed by Georgia Power Company.
[10] Issued by Georgia Power Capital Trust III and guaranteed by Georgia Power Company.

Company obligated mandatorily redeemable preferred securities, $25 liquidation amount 7.625% Quarterly Income Preferred Securities[11] 7.00% Quarterly Income Preferred Securities[12]	**Gulf Power Company**
Depositary preferred shares, each representing one-fourth of a share of preferred stock, cumulative, $100 par value 6.32% Series 6.65% Series **Company obligated mandatorily redeemable preferred securities, $25 liquidation amount** 7.75% Trust Originated Preferred Securities[13]	**Mississippi Power Company**
Company obligated mandatorily redeemable preferred securities, $25 liquidation amount 6.85% Trust Preferred Securities[14]	**Savannah Electric and Power Company**

Securities registered pursuant to Section 12(g) of the Act:[15]

Title of each class	Registrant
Preferred stock, cumulative, $100 par value 4.20% Series 4.60% Series 4.72% Series 4.52% Series 4.64% Series 4.92% Series **Class A preferred, cumulative, $100,000 stated capital** Auction (1993 Series) **Class A preferred, cumulative, $100 stated capital** Auction (1988 Series)	**Alabama Power Company**
Preferred stock, cumulative, $100 stated value $4.60 Series $4.72 Series $5.64 Series $4.60 Series (1962) $4.92 Series $6.48 Series $4.60 Series (1963) $4.96 Series $6.60 Series $4.60 Series (1964) $5.00 Series	**Georgia Power Company**

[11] Issued by Gulf Power Capital Trust I and guaranteed by Gulf Power Company.
[12] Issued by Gulf Power Capital Trust II and guaranteed by Gulf Power Company.
[13] Issued by Mississippi Power Capital Trust I and guaranteed by Misissippi Power Company.
[14] Issued by Savannal Electric Capital Trust I and guaranteed by Savannah Electric and Power Company.
[15] As of December 31, 1998.

Preferred stock, cumulative, $100 par value — **Gulf Power Company**

4.64% Series 5.44% Series
5.16% Series

Preferred stock, cumulative, $100 par value — **Mississippi Power Company**

4.40% Series 4.60% Series
4.72% Series 7.00% Series

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes _X_ No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Aggregate market value of voting stock held by non-affiliates of The Southern Company at February 28, 1999: $17.5 billion. Each of such other registrants is a wholly-owned subsidiary of The Southern Company and has no voting stock other than its common stock. A description of registrants' common stock follows:

Registrant	Description of Common Stock	Shares Outstanding at February 28, 1999
The Southern Company	Par Value $5 Per Share	698,630,431
Alabama Power Company	Par Value $40 Per Share	5,608,955
Georgia Power Company	No Par Value	7,761,500
Gulf Power Company	No Par Value	992,717
Mississippi Power Company	Without Par Value	1,121,000
Savannah Electric and Power Company	Par Value $5 Per Share	10,844,635

Documents incorporated by reference: specified portions of The Southern Company's Proxy Statement relating to the 1999 Annual Meeting of Stockholders are incorporated by reference into PART III.

This combined Form 10-K is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

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DEFINITIONS

When used in Items 1 through 5 and Items 10 through 14, the following terms will have the meanings indicated. Other defined terms specific only to Item 11 are found on page III-13.

Term	Meaning
AEC	Alabama Electric Cooperative, Inc.
AFUDC	Allowance for Funds Used During Construction
ALABAMA	Alabama Power Company
Alicurá	Hidroeléctrica Alicurá, S.A. (Argentina)
AMEA	Alabama Municipal Electric Authority
APEA	Applicant Prepared Environmental Assessment
CEMIG	Companhia Energetica de Minas Gerais
CEPA	Consolidated Electric Power Asia
Clean Air Act	Clean Air Act Amendments of 1990
Dalton	City of Dalton, Georgia
DOE	United States Department of Energy
Edelnor	Empresa Electrica del Norte Grande, S.A. (Chile)
EMF	Electromagnetic field
Energy Act	Energy Policy Act of 1992
Energy Solutions	Southern Company Energy Solutions, Inc. (formerly The Southern Development and Investment Group, Inc.)
Entergy Gulf States	Entergy Gulf States Utilities Company
EPA	United States Environmental Protection Agency
EWG	Exempt wholesale generator
FERC	Federal Energy Regulatory Commission
FPC	Florida Power Corporation
FP&L	Florida Power & Light Company
Freeport	Freeport Power Company (Bahamas)
FUCO	Foreign utility company
GEORGIA	Georgia Power Company
GULF	Gulf Power Company
Holding Company Act	Public Utility Holding Company Act of 1935, as amended
IBEW	International Brotherhood of Electrical Workers
IRS	Internal Revenue Service
JEA	Jacksonville Electric Authority
MEAG	Municipal Electric Authority of Georgia
MISSISSIPPI	Mississippi Power Company
Mobile Energy	Mobile Energy Services Company, LLC
NRC	Nuclear Regulatory Commission
OPC	Oglethorpe Power Corporation
operating affiliates	ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH
PSC	Public Service Commission
RUS	Rural Utility Service (formerly Rural Electrification Administration)
SAVANNAH	Savannah Electric and Power Company
SCS	Southern Company Services, Inc.
SEC	Securities and Exchange Commission
SEGCO	Southern Electric Generating Company
SEPA	Southeastern Power Administration
SERC	Southeastern Electric Reliability Council
SMEPA	South Mississippi Electric Power Association
SOUTHERN	The Southern Company
Southern LINC	Southern Communications Services, Inc.
Southern Energy	Southern Energy, Inc. (formerly Southern Electric International, Inc.)
Southern Nuclear	Southern Nuclear Operating Company, Inc.

DEFINITIONS
(continued)

SOUTHERN system	SOUTHERN, the operating affiliates, SEGCO, Southern Energy, Southern Nuclear, SCS, Southern LINC, Energy Solutions and other subsidiaries
SWEB	South Western Electricity plc (United Kingdom)
TVA	Tennessee Valley Authority

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K includes forward-looking and historical information. The registrants caution that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the markets of SOUTHERN's subsidiaries; potential business strategies, including acquisitions or dispositions of assets or internal restructuring, that may be pursued by the registrants; state and federal rate regulation in the United States; Year 2000 issues; changes in or application of environmental and other laws and regulations to which SOUTHERN and its subsidiaries are subject; political, legal and economic conditions and developments in the United States and in foreign countries in which the subsidiaries operate; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities; and other factors discussed elsewhere herein and in other reports filed from time to time by the registrants with the SEC.

PART I

Item 1. BUSINESS

SOUTHERN was incorporated under the laws of Delaware on November 9, 1945. SOUTHERN is domesticated under the laws of Georgia and is qualified to do business as a foreign corporation under the laws of Alabama. SOUTHERN owns all the outstanding common stock of ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH, each of which is an operating public utility company. ALABAMA and GEORGIA each own 50% of the outstanding common stock of SEGCO. The operating affiliates supply electric service in the states of Alabama, Georgia, Florida, Mississippi and Georgia, respectively, and SEGCO owns generating units at a large electric generating station which supplies power to ALABAMA and GEORGIA. More particular information relating to each of the operating affiliates is as follows:

ALABAMA is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company and Houston Power Company. The predecessor Alabama Power Company had had a continuous existence since its incorporation in 1906.

GEORGIA was incorporated under the laws of the State of Georgia on June 26, 1930, and admitted to do business in Alabama on September 15, 1948.

GULF is a corporation which was organized under the laws of the State of Maine on November 2, 1925, and admitted to do business in Florida on January 15, 1926, in Mississippi on October 25, 1976, and in Georgia on November 20, 1984.

MISSISSIPPI was incorporated under the laws of the State of Mississippi on July 12, 1972, was admitted to do business in Alabama on November 28, 1972, and effective December 21, 1972, by the merger into it of the predecessor Mississippi Power Company, succeeded to the business and properties of the latter company. The predecessor Mississippi Power Company was incorporated under the laws of the State of Maine on November 24, 1924, and was admitted to do business in Mississippi on December 23, 1924, and in Alabama on December 7, 1962.

SAVANNAH is a corporation existing under the laws of the State of Georgia; its charter was granted by the Secretary of State on August 5, 1921.

SOUTHERN also owns all the outstanding common stock of Southern Energy, Southern LINC, Southern Nuclear, SCS (the system service company), Energy Solutions and other direct and indirect subsidiaries. Southern Energy is focused on several key international and domestic business lines, including energy distribution, integrated utilities, stand-alone generation, and other energy-related products and services. A further description of Southern Energy's business and organization follows later in this section under "Non-Traditional Business." Southern LINC provides digital wireless communications services to SOUTHERN's operating affiliates and also markets these services to the public within the Southeast. Southern Nuclear provides services to the Southern electric system's nuclear plants. Energy Solutions develops new business opportunities related to energy products and services.

SEGCO owns electric generating units with an aggregate capacity of 1,019,680 kilowatts at Plant Gaston on the Coosa River near Wilsonville, Alabama, and ALABAMA and GEORGIA are each entitled to one-half of SEGCO's capacity and energy. ALABAMA acts as SEGCO's agent in the operation of SEGCO's units and furnishes coal to SEGCO as fuel for its units. SEGCO also owns three 230,000 volt transmission lines extending from Plant Gaston to the Georgia state line at which point connection is made with the GEORGIA transmission line system.

The SOUTHERN System

Traditional Business

The transmission facilities of each of the operating affiliates and SEGCO are connected to the respective company's own generating plants and other sources of power and are interconnected with the transmission facilities of the other operating affiliates and SEGCO by means of heavy-duty high voltage lines. (In the case of GEORGIA's integrated transmission system, see Item 1 - BUSINESS - "Territory Served By Operating Affiliates" herein.)

Operating contracts covering arrangements in effect with principal neighboring utility systems provide for capacity exchanges, capacity purchases and sales, transfers of economy energy and other similar transactions. Additionally, the operating affiliates have entered into voluntary reliability agreements with the subsidiaries of Entergy Corporation, Florida Electric Power Coordinating Group and TVA and with Carolina Power & Light Company, Duke Energy Corporation, South Carolina Electric & Gas Company and Virginia Electric and Power Company, each of which provides for the establishment and periodic review of principles and procedures for planning and operation of generation and transmission facilities, maintenance schedules, load retention programs, emergency operations, and other matters affecting the reliability of bulk power supply. The operating affiliates have joined with other utilities in the Southeast (including those referred to above) to form the SERC to augment further the reliability and adequacy of bulk power supply. Through the SERC, the operating affiliates are represented on the National Electric Reliability Council.

An intra-system interchange agreement provides for coordinating operations of the power producing facilities of the operating affiliates and SEGCO and the capacities available to such companies from non-affiliated sources and for the pooling of surplus energy available for interchange. Coordinated operation of the entire interconnected system is conducted through a central power supply coordination office maintained by SCS. The available sources of energy are allocated to the operating affiliates to provide the most economical sources of power consistent with good operation. The resulting benefits and savings are apportioned among the operating affiliates.

SCS has contracted with SOUTHERN, each operating affiliate, Southern Energy, various of the other subsidiaries, Southern Nuclear and SEGCO to furnish, at cost and upon request, the following services: general executive and advisory services, power pool operations, general engineering, design engineering, purchasing, accounting, finance and treasury, taxes, insurance and pensions, corporate, rates, budgeting, public relations, employee relations, systems and procedures and other services with respect to business and operations. Southern Energy, Energy Solutions and Southern LINC have also secured from the operating affiliates certain services which are furnished at cost.

Southern Nuclear has contracts with ALABAMA to operate the Farley Nuclear Plant, and with GEORGIA to operate Plants Hatch and Vogtle. See Item 1 - BUSINESS - "Regulation - Atomic Energy Act of 1954" herein.

Non-Traditional Business

SOUTHERN continues to consider new business opportunities, particularly those which allow use of the expertise and resources developed through its regulated utility experience. These endeavors began in 1981 and are conducted through Southern Energy and other subsidiaries. SOUTHERN has filed with the SEC an application for authority to invest up to nearly $8 billion in the non-traditional domestic and international business. A consumer group has filed a motion to intervene in this proceeding. The current SEC authority is $3.9 billion, of which $3.6 billion has been invested as of December 31, 1998.

Worldwide, Southern Energy develops and manages electricity and other energy related projects, including domestic energy trading and marketing. As the energy marketplace evolves, Southern Energy continues to position SOUTHERN to become a major competitor. During 1998, Southern Energy further refined its business strategy to focus on a few geographic regions of the world. In Asia, Southern Energy will focus primarily on China, the Philippines and India. In South America, Southern Energy will pursue opportunities in Brazil. In Europe, Southern Energy will concentrate efforts on the European Union countries. And in North America, Southern Energy will target efforts in Northeast, the Midwest, Texas and California. See Item 7 for SOUTHERN's Management's Discussion and Analysis under the heading "Future Earnings Potential" for additional information regarding this strategy.

Reference is also made to Note 14 to the financial statements of SOUTHERN in Item 8 herein for additional information regarding SOUTHERN's segment and related information.

In 1995, SOUTHERN, through its subsidiary Southern Energy, acquired SWEB, one of the United Kingdom's 12 regional electric distribution companies, for approximately $1.8 billion. In July 1996, a 25 percent interest in SWEB was sold to PP&L Resources.

In June 1998, SOUTHERN through its subsidiary Southern Energy sold an additional 26% interest in SWEB to PP&L Resources for $170 million. SWEB is, to a limited extent, involved in power generation and certain non-regulated activities which include gas marketing and telecommunications. In mid-1997, the acquisition of CEPA was completed for a total net investment of $2.1 billion. CEPA is engaged in the business of developing, constructing, owning and operating electric power generation facilities. Its current operations include installed operating capacity of approximately 3,306 megawatts, with projects either completed or under development in the Philippines, the People's Republic of China, and India. (For additional information related to the acquisition of CEPA, reference is made to Note 13 to SOUTHERN's financial statements in Item 8 herein.) In 1997, Southern Energy also acquired a 26% interest in a German utility for approximately $820 million.

In January 1998, Southern Energy entered into a joint venture with Vastar Resources, Inc. The two companies combined their energy trading and marketing operations to form a new full-service energy provider, Southern Company Energy Marketing. The joint venture agreement gives Southern Company Energy Marketing rights to market virtually all of Vastar's natural gas production over the next 10 years.

In December 1998, Southern Energy completed its $537 million purchase of 1,267 megawatts of generating capacity from Commonwealth Electric. In addition, Southern Energy plans to add 685 megawatts of capacity at the plants. In late 1998, Southern Energy announced the $801 million planned acquisition of 3,065 megawatts of generating capacity from Pacific Gas & Electric in northern California. Additionally, Southern Energy announced plans to acquire from Orange and Rockland Utilities Inc. and Consolidated Edison Inc. in New York 1,776 megawatts of capacity for $480 million. These transactions are expected to close during 1999. Further, Southern Energy has announced plans to build or purchase an additional 980 megawatts of capacity in Texas and Wisconsin. Through Southern Company Energy Marketing, Southern Energy has also gained access to additional capacity through marketing agreements. Southern Energy additionally has access to almost 2,000 megawatts of capacity through marketing agreements with Sithe Energies in New York and Brazos Electric Cooperative in Texas.

After refining its international focus and reviewing the financial performance of existing assets, Southern Energy announced plans to sell its holdings in Edelnor in Chile and Alicurá in Argentina. As a result, Southern Energy recorded a write down of $200 million, after taxes, in December 1998 related to these holdings. Because of regulatory and market conditions, these assets did not meet expectations.

In January 1999, Mobile Energy, an indirect subsidiary of SOUTHERN, and its direct parent filed petitions for Chapter 11 bankruptcy relief in the U.S. Bankruptcy Court for the Southern District of Alabama. For additional information regarding this matter, reference is made to Item 3 – LEGAL PROCEEDINGS herein.

See Item 2 - PROPERTIES - "Other Electric Generation Facilities" herein for additional information regarding Southern Energy projects.

Southern Energy and Energy Solutions render consulting services and market SOUTHERN system expertise in the United States and throughout the world. They contract with other public utilities, commercial concerns and government agencies for the rendition of services and the licensing of intellectual property. More specifically, Energy Solutions is focusing on new and existing programs to enhance customer satisfaction and efficiency and stockholder value, such as: Good Cents, an energy efficiency program for electric utility customers; Energy Services, providing total energy solutions to industrial and commercial customers; Heat Pump financing for residential customers; and telecommunications operations and security monitoring for both commercial and residential customers.

In 1995, Southern LINC began serving SOUTHERN's operating affiliates and marketing its services to non-affiliates within the Southeast. Its system covers 122,000 square miles and combines the functions of two-way radio dispatch, cellular phone, short text and numeric messaging and wireless data transfer. In the spring of 1999, Southern LINC will add more than 7,000 square miles to its present coverage area.

These continuing efforts to invest in and develop new business opportunities offer the potential of earning returns which may exceed those of rate-regulated operations. However, these activities also involve a

higher degree of risk. SOUTHERN expects to make substantial investments over the period 1999-2001 in these and other new businesses.

Certain Factors Affecting the Industry

Various factors are currently affecting the electric utility industry in general, including increasing competition and the regulatory changes related thereto, costs required to comply with environmental regulations, and the potential for new business opportunities (with their associated risks) outside of traditional rate-regulated operations. The effects of these and other factors on the SOUTHERN system are described herein. Particular reference is made to Item 1 - BUSINESS - "Non-Traditional Business," "Competition" and "Environmental Regulation."

Construction Programs

The subsidiary companies of SOUTHERN are engaged in continuous construction programs to accommodate existing and estimated future loads on their respective systems. Construction additions or acquisitions of property during 1999 through 2001 by the operating affiliates, SEGCO, SCS, Southern LINC and Southern Energy are estimated as follows: (in millions)

	1999	2000	2001
ALABAMA	$ 875	$ 653	$ 668
GEORGIA	755	734	829
GULF	72	100	262
MISSISSIPPI	67	52	45
SAVANNAH	29	32	31
SEGCO	13	4	5
SCS	66	16	15
Southern LINC	46	19	14
Southern Energy*	630	481	230
Other	15	10	16
SOUTHERN system	$2,568	$2,101	$2,115

*These construction estimates do not include amounts which may be expended by Southern Energy on future power production projects or by any subsidiaries created to effect such future projects. (See Item 1 - BUSINESS - "Non-Traditional Business" herein.)

Estimated construction costs in 1999 are expected to be apportioned approximately as follows: (in millions)

	SOUTHERN system*	ALABAMA	GEORGIA	GULF	MISSISSIPPI	SAVANNAH
Combustion turbines	$ 345	$194	$144	$ -	$ 7	$ -
Other generating facilities including associated plant substations	799	196	93	17	10	5
New business	349	142	160	23	14	10
Transmission	329	136	130	9	12	3
Joint line and substation	42	-	34	8	-	-
Distribution	307	84	63	9	18	9
Nuclear fuel	120	63	57	-	-	-
General plant	277	60	74	6	6	2
	$2,568	$875	$755	$72	$67	$29

*Southern LINC, SCS and Southern Nuclear plan capital additions to general plant in 1999 of $46 million, $66 million and $270 thousand, respectively, while SEGCO plans capital additions of $13 million to generating facilities. Southern Energy plans capital additions of $465 million to generating facilities, $124 million to distribution facilities, $39 million to transmission facilities, and $2 million to general plant. These estimates do not reflect the possibility of Southern Energy's securing a contract(s) to buy or build additional generating facilities. Other non-traditional capital additions planned for 1999 are approximately $15 million. (See Item 1 - BUSINESS - "Non-Traditional Business" herein.)

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; 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.

The operating affiliates have approximately 2,700 megawatts of combined cycle generation scheduled to be placed in service by 2001. In addition, significant construction will continue related to transmission and distribution facilities and the upgrading of generating plants. (See Item 2 - PROPERTIES - "Other Electric Generation Facilities" herein for additional information relating to facilities under development.)

In 1991, the Georgia legislature passed legislation which requires GEORGIA and SAVANNAH each to file an Integrated Resource Plan for approval by the Georgia PSC. Under the plan rules, the Georgia PSC must pre-certify the construction of new power plants and new purchase power contracts. (See Item 1 - BUSINESS - "Rate Matters - Integrated Resource Planning" herein.)

See Item 1 - BUSINESS - "Regulation - Environmental Regulation" herein for information with respect to certain existing and proposed environmental requirements and Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein for additional information concerning ALABAMA's and GEORGIA's joint ownership of certain generating units and related facilities with certain non-affiliated utilities.

Year 2000

Reference is made to each registrant's "Management's Discussion and Analysis – Year 2000" in Item 7 herein for information relating to Year 2000 issues.

Financing Programs

In 1998, SOUTHERN raised net proceeds of $109 million from the issuance of common stock under SOUTHERN's various stock plans. Also in 1998, SOUTHERN issued a total of $350 million in trust preferred securities for the direct benefit of SOUTHERN. SOUTHERN plans to issue additional equity capital in 1999. The amount and timing of additional equity capital to be raised in 1999, as well as subsequent years, will be contingent on SOUTHERN's investment opportunities. Equity capital can be provided from any combination of public offerings, private placements, or SOUTHERN's stock plans. Any portion of the common stock required during 1999 for SOUTHERN's stock plans that is not provided from the issuance of new stock will be acquired on the open market in accordance with the terms of such plans.

The operating affiliates 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. Historically the operating affiliates have relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for their benefit by public authorities, to meet their long-term external financing requirements. Recently, financings have consisted of unsecured debt and trust preferred securities. In this regard, the operating affiliates sought and obtained stockholder approval in 1997 and 1998 to amend their respective corporate charters eliminating restrictions on the amount of unsecured indebtedness they may incur.

Short-term debt is often utilized as appropriate at SOUTHERN and the operating affiliates.

The maximum amounts of short-term or term-loan indebtedness authorized by the appropriate regulatory authorities are shown on the following table:

	Amount	Outstanding at December 31, 1998
	(in millions)	
ALABAMA	$ 750 (1)	$0
GEORGIA	1,700 (2)	340.9
GULF	300(1)	58.5
MISSISSIPPI	350(1)	93.0
SAVANNAH	90(2)	30.0
SOUTHERN	2,000(1)	738.3

Notes:

(1) ALABAMA's authority is based on authorization received from the Alabama PSC, which expires December 31, 2000. No SEC authorization is required for ALABAMA. GULF, MISSISSIPPI and SOUTHERN have received SEC authorization to issue from time to time short-term and/or term-loan notes to banks and commercial paper to dealers in the amounts shown through December 31, 2003, December 31, 2002 and March 31, 2001, respectively.

(2) GEORGIA and SAVANNAH have received SEC authorization to issue from time to time short-term and term-loan notes to banks and commercial paper to dealers in the amounts shown through December 31, 2002. Authorization for term-loan indebtedness is also required by the Georgia PSC. At December 31, 1998, GEORGIA had remaining authority of $920 million expiring December 31, 1999. SAVANNAH has applied for authority from the Georgia PSC for $70 million expiring December 31, 2000.

Reference is made to Note 5 to the financial statements for SOUTHERN, ALABAMA, GULF, MISSISSIPPI and SAVANNAH and Note 9 to the financial statements for GEORGIA in Item 8 herein for information regarding the registrants' credit arrangements.

New projects undertaken by subsidiaries of Southern Energy are generally financed through a combination of equity funds provided by SOUTHERN and non-recourse debt incurred on a project-specific basis.

Fuel Supply

The operating affiliates' and SEGCO's supply of electricity is derived predominantly from coal. The sources of generation for the years 1996 through 1998 and the estimates for 1999 are shown below:

	Coal	Nuclear	Hydro	Oil and Gas
ALABAMA				
1996	72	20	8	*
1997	72	20	8	*
1998	72	18	8	2
1999	72	19	7	2
GEORGIA				
1996	74	22	3	1
1997	75	22	2	1
1998	73	22	3	2
1999	74	22	3	1
GULF				
1996	99	**	**	1
1997	100	**	**	*
1998	98	**	**	2
1999	99	**	**	1
MISSISSIPPI				
1996	85	**	**	15
1997	85	**	**	15
1998	80	**	**	20
1999	83	**	**	17
SAVANNAH				
1996	90	**	**	10
1997	87	**	**	13
1998	76	**	**	24
1999	87	**	**	13
SEGCO				
1996	100	**	**	*
1997	100	**	**	*
1998	100	**	**	*
1999	100	**	**	*
SOUTHERN system* **				
1996	77	17	4	2
1997	77	17	4	2
1998	76	16	4	4
1999	77	17	4	2

*Less than 0.5%.

**Not applicable.

***Amounts shown for the SOUTHERN system are weighted averages of the operating affiliates and SEGCO.

The average costs of fuel in cents per net kilowatt-hour generated for 1996 through 1998 are shown below:

	1996	1997	1998
ALABAMA	1.46	1.49	1.54
GEORGIA	1.35	1.32	1.36
GULF	2.02	1.99	1.69
MISSISSIPPI	1.57	1.54	1.62
SAVANNAH	2.42	2.27	2.33
SEGCO	1.72	1.51	1.53
SOUTHERN System*	1.48	1.46	1.48

* Amounts shown for the SOUTHERN system are weighted averages of the operating affiliates and SEGCO.

See SELECTED FINANCIAL DATA in Item 6 herein for each registrant's source of energy supply.

As of February 12, 1999, the operating affiliates and SEGCO had stockpiles of coal on hand at their respective coal-fired plants which represented an estimated 19 days of recoverable supply for bituminous coal and 24 days for sub-bituminous coal. It is estimated that approximately 68.0 million tons of coal will be consumed in 1999 by the operating affiliates and SEGCO (including those units GEORGIA owns jointly with OPC, MEAG and Dalton and operates for FP&L and JEA and the units ALABAMA owns jointly with AEC). The operating affiliates and SEGCO currently have 45 coal contracts. These contracts cover remaining terms of up to 13 years. Approximately 22% of 1999 estimated coal requirements will be purchased in the spot market. Management has set a goal whereby the spot market should be utilized, absent the transition from coal contract expirations, for 20 to 30% of the SOUTHERN system's coal supply. Additionally, it has been determined that approximately 30 days of recoverable supply is the appropriate level for coal stockpiles. During 1998, the operating affiliates' and SEGCO's average price of coal delivered was approximately $36.39 per ton.

In 1998, the weighted average sulfur content of all coal purchased by the operating affiliates and SEGCO for use in the coal-fired facilities was 0.89% sulfur. This sulfur level allowed the operating affiliates and SEGCO to remain well below the limits as set forth by Phase I of the Clean Air Act Amendments of 1990. With the approach of Phase II of the Clean Air Act in 2000, the operating affiliates and SEGCO have secured sufficient quantities of lower sulfur coal to help meet the more stringent Phase II sulfur requirements. As more and more strict environmental regulations are proposed that impact the utilization of coal, the fuel mix will be monitored to insure that sufficient quantities of the proper type of coal or natural gas are in place to remain in compliance with applicable laws and regulations. See Item 1 - BUSINESS - "Regulation - Environmental Regulation" herein.

Changes in fuel prices are generally reflected in fuel adjustment clauses contained in rate schedules. See Item 1 - BUSINESS - "Rate Matters - Rate Structure" herein.

ALABAMA owns coal lands and mineral rights in the Warrior Coal Field, located northwest of Birmingham in the vicinity of its Gorgas Steam Plant. SEGCO also owns coal reserves in the Warrior Coal Field and in the Cahaba Coal Field, which is located southwest of Birmingham. ALABAMA has agreements with non-affiliated mining firms to mine coal from ALABAMA's reserves, as well as their own reserves, for supply to ALABAMA's generating units.

The operating affiliates have renegotiated, bought out or otherwise terminated various coal supply contracts. For more information on certain of these transactions, see Note 5 to the financial statements of GULF in Item 8 herein.

ALABAMA and GEORGIA have numerous contracts covering a portion of their nuclear fuel needs for uranium, conversion services, enrichment services and fuel fabrication. These contracts have varying expiration dates and most are short to medium term (less than 10 years). Management believes that sufficient capacity for nuclear fuel supplies and processing exists to preclude the impairment of normal operations of the SOUTHERN system's nuclear generating units.

ALABAMA and GEORGIA have contracts with the DOE that provide for the permanent disposal of spent nuclear fuel. Although disposal was scheduled to begin in 1998, the actual year this service will begin is uncertain. The DOE failed to begin disposing of spent fuel in January 1998, as required by the contracts, and the companies are pursuing legal remedies against the government for breach of contract. Sufficient on-site storage capacity currently is available to permit operation into 2003 at Plant Hatch, into 2017 at Plant Vogtle, and into 2009 and 2013 at Plant Farley units 1 and 2, respectively. Plant Vogtle's spent fuel storage capacity includes the installation in 1998 of additional rack capacity. Activities for adding dry cask storage capacity at Plant Hatch by as early as 1999 are in progress.

The Energy Act imposed upon utilities with nuclear plants, including ALABAMA and GEORGIA, obligations for the decontamination and decommissioning of federal nuclear fuel enrichment facilities. See Note 1 to SOUTHERN's, ALABAMA's and GEORGIA's financial statements in Item 8 herein.

Territory Served By Operating Affiliates

The territory in which the operating affiliates provide electric service comprises most of the states of Alabama and Georgia together with the northwestern portion of Florida and southeastern Mississippi. In this territory there are non-affiliated electric distribution systems which obtain some or all of their power requirements either directly or indirectly from the operating affiliates. The territory has an area of approximately 120,000 square miles and an estimated population of approximately 11 million.

ALABAMA is engaged, within the State of Alabama, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in over 1,000 communities (including Anniston, Birmingham, Gadsden, Mobile, Montgomery and Tuscaloosa) and at wholesale to 15 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to AMEA, and two rural distributing cooperative associations. ALABAMA also supplies steam service in downtown Birmingham. ALABAMA owns coal reserves near its steam-electric generating plant at Gorgas and uses the output of coal from these reserves in some of its generating plants. ALABAMA also sells, and cooperates with dealers in promoting the sale of, electric appliances.

GEORGIA is engaged in the generation and purchase of electricity and the distribution and sale of such electricity within the State of Georgia at retail in over 600 communities, as well as in rural areas, and at wholesale currently to OPC, MEAG, the City of Dalton and the City of Hampton.

GULF is engaged, within the northwestern portion of Florida, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in 71 communities (including Pensacola, Panama City and Fort Walton Beach), as well as in rural areas, and at wholesale to a non-affiliated utility and a municipality. GULF also sells electric appliances.

MISSISSIPPI is engaged in the generation and purchase of electricity and the distribution and sale of such energy within the 23 counties of southeastern Mississippi, at retail in 123 communities (including Biloxi, Gulfport, Hattiesburg, Laurel, Meridian and Pascagoula), as well as in rural areas, and at wholesale to one municipality, six rural electric distribution cooperative associations and one generating and transmitting cooperative.

SAVANNAH is engaged, within a five-county area in eastern Georgia, in the generation and purchase of electricity and the distribution and sale of such electricity at retail and, as a member of the SOUTHERN system power pool, the transmission and sale of wholesale energy.

For information relating to kilowatt-hour sales by classification for each registrant, reference is made to "Management's Discussion and Analysis-Revenues" in Item 7 herein. Also, for information relating to the sources of revenues for the Southern system and each of the operating affiliates, reference is made to Item 6 herein.

A portion of the area served by SOUTHERN's operating affiliates adjoins the area served by TVA and its municipal and cooperative distributors. An Act of Congress limits the distribution of TVA power, unless otherwise authorized by Congress, to specified areas or customers which generally were those served on July 1, 1957.

The RUS has authority to make loans to cooperative associations or corporations to enable them to provide electric service to customers in rural sections of the country. There are 71 electric cooperative organizations operating in the territory in which the operating affiliates provide electric service at retail or wholesale.

One of these, AEC, is a generating and transmitting cooperative selling power to several distributing cooperatives, municipal systems and other customers in south Alabama and northwest Florida. AEC owns generating units with approximately 840 megawatts of nameplate capacity, including an undivided ownership interest in ALABAMA's Plant Miller Units 1 and 2. AEC's facilities were financed with RUS loans secured by long-term contracts requiring distributing cooperatives to take their requirements from AEC to the extent such energy is available. Two of the 14 distributing cooperatives operating in ALABAMA's service territory obtain a portion of their power requirements directly from ALABAMA.

Four electric cooperative associations, financed by the RUS, operate within GULF's service area. These cooperatives purchase their full requirements from AEC and SEPA. A non-affiliated utility also operates within GULF's service area and purchases a portion of its requirements from GULF.

ALABAMA and GULF have entered into separate agreements with AEC involving interconnection between the respective systems. The delivery of capacity and energy from AEC to certain distributing cooperatives in the service areas of ALABAMA and GULF is governed by SOUTHERN's AEC Network Transmission Service Agreement. The rates for this service to AEC are based on the negotiated agreement on file with the FERC. See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein for details of ALABAMA's joint-ownership with AEC of a portion of Plant Miller.

MISSISSIPPI has an interchange agreement with SMEPA, a generating and transmitting cooperative, pursuant to which various services are provided, including the furnishing of protective capacity by MISSISSIPPI to SMEPA. SMEPA has a generating capacity of 739,000 kilowatts and a transmission system estimated to be 1,357 miles in length.

There are 43 electric cooperative organizations operating in, or in areas adjoining, territory in the State of Georgia in which GEORGIA provides electric service at retail or wholesale. Three of these organizations obtain their power from TVA and one from other sources. Since July 1, 1975, OPC has supplied the requirements of the remaining 39 of these cooperative organizations from self-owned generation acquired from GEORGIA and, until September 1991, through partial requirements purchases from GEORGIA. GEORGIA entered into a power coordination agreement with OPC pursuant to which, effective in September 1991, OPC ceased to be a partial requirements wholesale customer of GEORGIA. Instead, OPC began the purchase of 1,250 megawatts of capacity from GEORGIA through 1999, subject to reduction or extension by OPC, and may satisfy the balance of its needs through purchases from others. OPC decreased its purchases of capacity by 250 megawatts each in September 1996, 1997 and 1998 and has notified GEORGIA of its intent to decrease purchases of capacity by an additional 250 megawatts in September 1999 and 125 megawatts in September 2000. In December 1997, a revised power coordination agreement was implemented between GEORGIA and OPC. Under the amended 1995 Integrated Resource Plan approved by the Georgia PSC in March 1997, the resources associated with the decreased purchases by OPC in 1996, 1997 and 1998 will be used to meet the needs of GEORGIA's retail customers through 2004.

There are 65 municipally-owned electric distribution systems operating in the territory in which SOUTHERN's operating affiliates provide electric service at retail or wholesale.

AMEA was organized under an act of the Alabama legislature and is comprised of 11 municipalities. In 1986, ALABAMA entered into a firm power purchase contract with AMEA entitling AMEA to scheduled amounts of capacity (to a maximum of 100 megawatts) for a period of 15 years commencing September 1, 1986. In October 1991, ALABAMA entered into a second firm power purchase contract with AMEA entitling AMEA to scheduled amounts of additional capacity (to a maximum 80 megawatts) for a period of 15 years commencing October 1, 1991. In both contracts the power will be sold to AMEA for its member municipalities that previously were served directly by ALABAMA as wholesale customers. Under the terms of the contracts, ALABAMA received payments from AMEA representing the net present value of the revenues associated with the respective capacity entitlements. See Note 7 to ALABAMA's financial statements in Item 8 herein for further information on these contracts.

Forty-eight municipally-owned electric distribution systems and one county-owned system receive their requirements through MEAG, which was established by a state statute in 1975. MEAG serves these requirements from self-owned generation facilities acquired from GEORGIA and purchases from others. In August 1997, a power coordination agreement was implemented between GEORGIA and MEAG that replaced the partial requirements tariff pursuant to which GEORGIA previously sold wholesale energy to MEAG. Since 1977, Dalton has filled its requirements from generation facilities acquired from GEORGIA and through partial requirements purchases. One municipally-owned electric distribution system's full requirements are served under a market-based contract by GEORGIA. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.)

GULF and MISSISSIPPI provide wholesale requirements for one municipal system each.

GEORGIA has entered into substantially similar agreements with Georgia Transmission Corporation (formerly OPC's transmission division), MEAG and Dalton providing for the establishment of an integrated transmission system to carry the power and energy of each. The agreements require an investment by each party in the integrated transmission system in proportion to its respective share of the aggregate system load. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.)

SCS, acting on behalf of ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH, also has a contract with SEPA (a federal power marketing agency) providing for the use of those companies' facilities at government expense to deliver to certain cooperatives and municipalities, entitled by federal statute to preference in the purchase of power from SEPA, quantities of power equivalent to the amounts of power allocated to them by SEPA from certain United States Government hydroelectric projects.

The retail service rights of all electric suppliers in the State of Georgia are regulated by the 1973 State Territorial Electric Service Act. Pursuant to the provisions of this Act, all areas within existing municipal limits were assigned to the primary electric supplier therein on March 29, 1973 (451 municipalities, including Atlanta, Columbus, Macon, Augusta, Athens, Rome and Valdosta, to GEORGIA; 115 to electric cooperatives; and 50 to publicly-owned systems). Areas outside of such municipal limits were either to be assigned or to be declared open for customer choice of supplier by action of the Georgia PSC pursuant to standards set forth in the Act. Consistent with such standards, the Georgia PSC has assigned substantially all of the land area in the state to a supplier. Notwithstanding such assignments, the Act provides that any new customer locating outside of 1973 municipal limits and having a connected load of at least 900 kilowatts may receive electric service from the supplier of its choice. (See also Item 1 - BUSINESS - "Competition" herein.)

Under and subject to the provisions of its franchises and concessions and the 1973 State Territorial Electric Service Act, SAVANNAH has the full but nonexclusive right to serve the City of Savannah, the Towns of Bloomingdale, Pooler, Garden City, Guyton, Newington, Oliver, Port Wentworth, Rincon, Tybee Island, Springfield, Thunderbolt, Vernonburg, and in conjunction with a secondary supplier, the Town of Richmond Hill. In addition, SAVANNAH has been assigned certain unincorporated areas in Chatham, Effingham, Bryan, Bulloch and Screven Counties by the Georgia PSC. (See also Item 1 - BUSINESS - "Competition" herein.)

Pursuant to the 1956 Utility Act, the Mississippi PSC issued "Grandfather Certificates" of public convenience and necessity to MISSISSIPPI and to six distribution rural cooperatives operating in southeastern Mississippi, then served in whole or in part by MISSISSIPPI, authorizing them to distribute electricity in certain specified geographically described areas of the state. The six cooperatives serve approximately 300,000 retail customers in a certificated area of approximately 10,300 square miles. In areas included in a "Grandfather Certificate," the utility holding such certificate may, without further certification, extend its lines up to five miles; other extensions within that area by such utility, or by other utilities, may not be made except upon a showing of, and a grant of a certificate of, public convenience and necessity. Areas included in such a certificate which are subsequently annexed to municipalities may continue to be served by the holder of the certificate, irrespective of whether it has a franchise in the annexing municipality. On the other hand, the holder of the municipal franchise may not extend service into such newly annexed area without authorization by the Mississippi PSC.

Long-Term Power Sales Agreements

Reference is made to Note 7 to the financial statements for SOUTHERN, ALABAMA, GEORGIA, GULF and MISSISSIPPI in Item 8 herein for information regarding contracts for the sales of capacity and energy to non-territorial customers.

Competition

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. SOUTHERN is aggressively working to maintain and expand its share of wholesale sales in the Southeastern power markets.

Although the Energy Act does not permit retail customer access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. 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 or are being discussed in Alabama, Florida, Georgia, and Mississippi, none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. The inability of an operating company to recover its investments, including the regulatory assets described in Note 1 to each registrant's respective financial statements, could have a material adverse effect on the financial condition of that operating company. The operating companies are attempting to minimize or reduce their cost exposure. Reference is made to Note 3 to the financial statements for SOUTHERN for information regarding these efforts.

Continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless SOUTHERN remains a low-cost producer and provides quality service, the company's retail energy sales growth could be limited, and this could significantly erode earnings. Reference is made to each registrant's "Management's Discussion and Analysis - Future Earnings Potential" in Item 7 herein for further discussion of competition.

To adapt to a less regulated, more competitive environment, SOUTHERN 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 may engage in other 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. (See Item 1 - BUSINESS - "Non-Traditional Business" herein.)

As a result of the foregoing factors, SOUTHERN has experienced increasing competition for available off-system sales of capacity and energy from neighboring utilities and alternative sources of energy. Additionally, the future effect of cogeneration and small-power production facilities on the SOUTHERN system cannot currently be determined but may be adverse.

ALABAMA currently has cogeneration contracts in effect with eleven industrial customers. Under the terms of these contracts, ALABAMA purchases excess generation of such companies. During 1998, ALABAMA purchased approximately 60 million kilowatt-hours from such companies at a cost of $1.2 million.

GEORGIA currently has contracts in effect with six small power producers whereby GEORGIA purchases their excess generation. During 1998, GEORGIA purchased 5.0 million kilowatt-hours from such companies at a cost of $277,510. GEORGIA has entered into a 30-year purchase power agreement, which began in June 1998, for electricity from a 300-megawatt

cogeneration facility. Payments are subject to reductions for failure to meet minimum capacity output. During 1998, GEORGIA purchased 732.8 million kilowatt-hours at a cost of $33 million from this facility. Reference is made to Note 4 to the financial statements for GEORGIA in Item 8 herein for information regarding purchase power commitments.

GULF currently has agreements in effect with four industrial customers pursuant to which GULF purchases "as available" energy from customer-owned generation. During 1998, GULF purchased 151 million kilowatt-hours from such companies for $4.2 million.

In 1996, MISSISSIPPI entered into agreements to purchase options for summer peaking power for the years 1997 through 2000. Also, MISSISSIPPI has purchased options from power marketers. Reference is made to Note 5 to the financial statements for MISSISSIPPI in Item 8 herein for information regarding fuel and purchased power commitments.

SAVANNAH currently has cogeneration contracts in effect with six large customers. Under the terms of these contracts, SAVANNAH purchases excess generation of such companies. During 1998, SAVANNAH purchased 23 million kilowatt-hours from such companies at a cost of $1.3 million.

The competition for retail energy sales among competing suppliers of energy is influenced by various factors, including price, availability, technological advancements and reliability. These factors are, in turn, affected by, among other influences, regulatory, political and environmental considerations, taxation and supply.

The operating affiliates have experienced, and expect to continue to experience, competition in their respective retail service territories in varying degrees as the result of self-generation (as described above) and fuel switching by customers and other factors. (See also Item 1 - BUSINESS - "Territory Served By Operating Affiliates" herein for information concerning suppliers of electricity operating within or near the areas served at retail by the operating affiliates.)

Regulation

State Commissions

The operating affiliates are subject to the jurisdiction of their respective state regulatory commissions, which have broad powers of supervision and regulation over public utilities operating in the respective states, including their rates, service regulations, sales of securities (except for the Mississippi PSC) and, in the cases of the Georgia PSC and Mississippi PSC, in part, retail service territories. (See Item 1 - BUSINESS - "Rate Matters" and "Territory Served By Operating Affiliates" herein.)

In early 1999, the Florida PSC staff initiated informal discussions with GULF related to its authorized return on equity and the outstanding balances of certain regulatory assets. On March 2, 1999, GULF filed a petition with the Florida PSC proposing a reduction in its authorized return; the sharing of revenues above a certain earnings level, which included credits on customers' bills; and the write-off of certain regulatory assets. A recommendation by the Florida PSC staff was also filed with the Commission relating to the same issues. At the March 16, 1999, agenda conference, the Commission directed GULF and the Florida PSC staff to reconvene their discussions, working within a framework established by the Commission, and pursue a compromise to be presented at the April 20, 1999, agenda conference or shortly thereafter.

Holding Company Act

SOUTHERN is registered as a holding company under the Holding Company Act, and it and its subsidiary companies are subject to the regulatory provisions of said Act, including provisions relating to the issuance of securities, sales and acquisitions of securities and utility assets, services performed by SCS and Southern Nuclear, and the activities of certain of SOUTHERN's special purpose subsidiaries.

While various proposals have been introduced in Congress regarding the Holding Company Act, the prospects for legislative reform or repeal are uncertain at this time.

Federal Power Act

The Federal Power Act subjects the operating affiliates and SEGCO to regulation by the FERC as companies engaged in the transmission or sale at wholesale of electric energy in interstate commerce, including regulation of accounting policies and practices.

Reference is made to Note 3 to each registrant's financial statements (except SAVANNAH) in Item 8 herein for further information regarding FERC Reviews of Equity Returns.

ALABAMA and GEORGIA are also subject to the provisions of the Federal Power Act or the earlier Federal Water Power Act applicable to licensees with respect to their hydroelectric developments. Among the hydroelectric projects subject to licensing by the FERC are 14 existing ALABAMA generating stations having an aggregate installed capacity of 1,582,725 kilowatts and 18 existing GEORGIA generating stations having an aggregate installed capacity of 1,074,696 kilowatts.

GEORGIA filed, in September, 1996, with the FERC, a notice of its intent to seek a new license for the Flint River Project. GEORGIA is required to file a new license by September 1999. GEORGIA filed an application for a new license for the Flint River Project (FERC Project Number 1218) in November 1998 with the FERC. The application contained an APEA. The FERC noticed the application in the Federal Register on January 15, 1999. Comments on the APEA are due by March 1999. Since all outstanding issues were resolved prior to the submittal of the APEA, GEORGIA anticipates that a license will be issued by the FERC by the summer or fall of 1999.

GEORGIA has also started the relicensing process for the Middle Chattahoochee Project (FERC Project Number 2177). This project consists of the Goat Rock, Oliver, and North Highlands facilities. GEORGIA again plans to use the APEA process. Initial scoping and stakeholder involvement has occurred. GEORGIA is developing its final scoping document that outlines the proposed environmental studies. Initial field work is anticipated to start in the second quarter of 1999.

GEORGIA and OPC also have a license, expiring in 2027, for the Rocky Mountain Plant, a pure pumped storage facility of 847,800 kilowatt capacity which began commercial operation in 1995. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein and Note 3 to SOUTHERN's and GEORGIA's financial statements in Item 8 herein for additional information.)

Licenses for all projects, excluding those discussed above, expire in the period 2007-2033 in the case of ALABAMA's projects and in the period 2005-2036 in the case of GEORGIA's projects.

Upon or after the expiration of each license, the United States Government, by act of Congress, may take over the project, or the FERC may relicense the project either to the original licensee or to a new licensee. In the event of takeover or relicensing to another, the original licensee is to be compensated in accordance with the provisions of the Federal Power Act, such compensation to reflect the net investment of the licensee in the project, not in excess of the fair value of the property taken, plus reasonable damages to other property of the licensee resulting from the severance therefrom of the property taken.

Atomic Energy Act of 1954

ALABAMA, GEORGIA and Southern Nuclear are subject to the provisions of the Atomic Energy Act of 1954, as amended, which vests jurisdiction in the NRC over the construction and operation of nuclear reactors, particularly with regard to certain public health and safety and antitrust matters. The National Environmental Policy Act has been construed to expand the jurisdiction of the NRC to consider the environmental impact of a facility licensed under the Atomic Energy Act of 1954, as amended.

NRC operating licenses currently expire in June 2017 and March 2021 for Plant Farley units 1 and 2, respectively, in August 2014 and June 2018 for Plant Hatch units 1 and 2, respectively, and in January 2027 and February 2029 for Plant Vogtle units 1 and 2, respectively.

Reference is made to Notes 1 and 12 to SOUTHERN's, Notes 1 and 12 to ALABAMA's and Notes 1 and 5 to GEORGIA's financial statements in Item 8 herein for information on nuclear decommissioning costs and nuclear insurance. Additionally, Note 3 to GEORGIA's financial statements contains information

regarding nuclear performance standards imposed by the Georgia PSC that may impact retail rates.

Environmental Regulation

The operating affiliates and SEGCO are subject to federal, state and local environmental requirements which, among other things, control emissions of particulates, sulfur dioxide and nitrogen oxides into the air; the use, transportation, storage and disposal of hazardous and toxic waste; and discharges of pollutants, including thermal discharges, into waters of the United States. The operating affiliates and SEGCO expect to comply with such requirements, which generally are becoming increasingly stringent, through technical improvements, the use of appropriate combinations of low-sulfur fuel and chemicals, addition of environmental control facilities, changes in control techniques and reduction of the operating levels of generating facilities. Failure to comply with such requirements could result in the complete shutdown of individual facilities not in compliance as well as the imposition of civil and criminal penalties.

Reference is made to each registrant's "Management's Discussion and Analysis" in Item 7 herein for a discussion of the Clean Air Act and other environmental legislation and proceedings.

The operating affiliates' and SEGCO's estimated capital expenditures for environmental quality control facilities for the years 1999, 2000 and 2001 are as follows: (in millions)

	1999	2000	2001
ALABAMA	$61.9	$57.6	$ 75.7
GEORGIA	32.2	53.3	102.8
GULF	4.5	4.3	1.2
MISSISSIPPI	9.0	-	-
SAVANNAH	0.1	0.2	-
SEGCO	10.0	-	-
Total	$117.7	$115.4	$179.7

*The foregoing estimates are included in the current construction programs. (See Item 1 - BUSINESS - "Construction Programs" herein.)

Additionally, each operating affiliate and SEGCO has incurred costs for environmental remediation of various sites. Reference is made to each registrant's "Management's Discussion and Analysis" in Item 7 herein for information regarding the registrants' environmental remediation efforts. Also, see Note 3 to SOUTHERN's and GEORGIA's financial statements in Item 8 herein for information regarding the identification of sites that may require environmental remediation by GEORGIA and Note 3 to MISSISSIPPI's financial statements in Item 8 herein for information regarding a site that will require environmental remediation by MISSISSIPPI.

The operating affiliates and SEGCO are unable to predict at this time what additional steps they may be required to take as a result of the implementation of existing or future quality control requirements for air, water and hazardous or toxic materials, but such steps could adversely affect system operations and result in substantial additional costs.

The outcome of the matters mentioned above under "Regulation" cannot now be determined, except that these developments may result in delays in obtaining appropriate licenses for generating facilities, increased construction and operating costs, or reduced generation, the nature and extent of which, while not determinable at this time, could be substantial.

Rate Matters

Rate Structure

The rates and service regulations of the operating affiliates are uniform for each class of service throughout their respective service areas. Rates for residential electric service are generally of the block type based upon kilowatt-hours used and include minimum charges.

Residential and other rates contain separate customer charges. Rates for commercial service are presently of the block type and, for large customers, the billing demand is generally used to determine capacity and minimum bill charges. These large customers' rates are generally based upon usage by the customer including those with special features to encourage off-peak usage. Additionally, the operating affiliates are allowed by their respective PSCs to negotiate the terms and compensation of service to large customers. Such terms and

compensation of service, however, are subject to final PSC approval. ALABAMA, GEORGIA and SAVANNAH are allowed by state law to recover fuel and net purchased energy costs through fuel cost recovery provisions which are adjusted to reflect increases or decreases in such costs. GULF recovers from retail customers costs of fuel, net purchased power, energy conservation and environmental compliance through provisions which are adjusted to reflect increases or decreases in such costs. GULF's recovery of these costs is based upon an annual projection - any over/under recovery during such period is reflected in a subsequent annual period with interest. With respect to MISSISSIPPI's retail rates, fuel and purchased power costs above base levels included in the various rate schedules are billed to such customers under the fuel and energy adjustment clause. The adjustment factors for MISSISSIPPI's retail and wholesale rates are generally levelized based on the estimated energy cost for the year, adjusted for any actual over/under collection from the previous year. However, in January 1998, MISSISSIPPI received approval from the Mississippi PSC to levelize and fix its Fuel Adjustment Factors for January 1998 through December 2000. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current rates.

Rate Proceedings

Reference is made to Note 3 to each registrant's financial statements in Item 8 herein for a discussion of rate matters. For each registrant (except SAVANNAH), such Note 3 includes a discussion of proceedings relating to the reasonableness of certain of the Southern electric system's wholesale rate schedules and contracts.

Integrated Resource Planning

In 1991, the Georgia legislature passed certain legislation under which both GEORGIA and SAVANNAH must file Integrated Resource Plans for approval by the Georgia PSC. The plans must specify how GEORGIA and SAVANNAH each intends to meet the future electrical needs of their customers through a combination of demand-side and supply-side resources. The Georgia PSC must pre-certify these new resources. Once certified, all prudently incurred construction costs and purchased power costs will be recoverable through rates.

In March 1997, the Georgia PSC approved amendments to GEORGIA's 1995 Integrated Resource Plan. Pursuant to the amended plan, the Georgia PSC certified a five-year purchase power agreement scheduled to begin in June 2000 for approximately 215 megawatts. Capacity and fixed operation and maintenance payments are estimated to be between $7 million and $8 million each year. Also under the amended plan, resources associated with decreased purchases of 250 megawatts each in 1996, 1997 and 1998 by OPC under a power supply agreement will be used to meet the needs of GEORGIA's retail customers through 2004.

In July 1998, the Georgia PSC approved GEORGIA's and SAVANNAH's 1998 Integrated Resource Plans as filed, with minor modifications. The approved plans identify resource needs of approximately 800 megawatts to 1,200 megawatts starting in the summer of 2002. As a result, GEORGIA and SAVANNAH issued a joint request for proposals for their collective needs of 800 megawatts to 1,200 megawatts for 2002 and 2003. The bids will be evaluated against self-build options, and a Certification Filing for the selected resources is expected to be filed with the Georgia PSC in August 1999.

Environmental Cost Recovery Plans

GULF and MISSISSIPPI both have retail rate mechanisms that provide for recovery of environmental compliance costs. For a description of these plans, see Note 3 to GULF's and MISSISSIPPI's financial statements in Item 8 herein.

Employee Relations

The companies of the SOUTHERN system had a total of 31,848 employees on their payrolls at December 31, 1998.

	Employees at December 31, 1998
ALABAMA	6,631
GEORGIA	8,371
GULF	1,328
MISSISSIPPI	1,230
SAVANNAH	542
SCS	3,445
Southern Energy*	6,642
Southern Nuclear	3,054
Other	605
Total	31,848

*Includes 5,670 employees on international payrolls.

The operating affiliates have separate agreements with local unions of the IBEW generally covering wages, working conditions and procedures for handling grievances and arbitration. These agreements apply with certain exceptions to operating, maintenance and construction employees.

ALABAMA has agreements with the IBEW on a three-year contract extending to August 14, 2001. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

GEORGIA has an agreement with the IBEW covering wages and working conditions, which is in effect through June 30, 1999.

GULF has an agreement with the IBEW on a three-year contract extending to August 15, 2001.

MISSISSIPPI has an agreement with the IBEW on a four-year contract extending to August 16, 2002.

SAVANNAH has three-year labor agreements with the IBEW and the Office and Professional Employees International Union that expire April 16, 1999 and December 1, 1999, respectively. Currently, SAVANNAH is in negotiations with the IBEW.

Southern Energy has a 5-year labor agreement with the IBEW extending to October 31, 2002, and the United Paperworkers International Union extending to June 1, 2002, covering employees of Mobile Energy. At its State Line facility in Hammond, Indiana, Southern Energy has a labor contract with the United Steel Workers that extends to January 1, 2004.

Southern Energy Canal located in Sandwich, Massachusetts, and Southern Energy Kendall located in Cambridge, Massachusetts, both subsidiaries of Southern Energy, have contracts with the Utilities Workers' Union of America which expire on June 1, 2001 and March 1, 2001, respectively.

Southern Nuclear has agreements with the IBEW on separate three-year contracts extending to August 15, 2001 for Plant Farley and to July 1, 1999 for Plants Hatch and Vogtle. Upon notice given at least 60 days prior to these dates, negotiations may be initiated with respect to agreement terms to be effective after such dates.

Southern Nuclear also has an agreement with the United Plant Guard Workers of America for security officers at Plant Hatch extending to September 30, 2001. Upon notice given at least 60 days prior to that date, negotiations may be initiated with respect to agreement terms to be effective after such date.

The agreements also subject the terms of the pension plans for the companies discussed above to collective bargaining with the unions at five-year intervals.

Item 2. PROPERTIES

Electric Properties

The operating affiliates and SEGCO, at December 31, 1998, operated 33 hydroelectric generating stations, 33 fossil fuel generating stations and three nuclear generating stations. The amounts of capacity owned by each company are shown in the table below.

Generating Station	Location	Nameplate Capacity (1) (Kilowatts)
Fossil Steam		
Gadsden	Gadsden, AL	120,000
Gorgas	Jasper, AL	1,221,250
Barry	Mobile, AL	1,525,000
Chickasaw	Chickasaw, AL	40,000
Greene County	Demopolis, AL	300,000 (2)
Gaston Unit 5	Wilsonville, AL	880,000
Miller	Birmingham, AL	2,532,288 (3)
ALABAMA Total		6,618,538
Arkwright	Macon, GA	160,000
Atkinson	Atlanta, GA	180,000
Bowen	Cartersville, GA	3,160,000
Branch	Milledgeville, GA	1,539,700
Hammond	Rome, GA	800,000
McDonough	Atlanta, GA	490,000
McManus	Brunswick, GA	115,000
Mitchell	Albany, GA	170,000
Scherer	Macon, GA	750,924 (4)
Wansley	Carrollton, GA	925,550 (5)
Yates	Newnan, GA	1,250,000
GEORGIA Total		9,541,174
Crist	Pensacola, FL	1,045,000
Lansing Smith	Panama City, FL	305,000
Scholz	Chattahoochee, FL	80,000
Daniel	Pascagoula, MS	500,000 (6)
Scherer Unit 3	Macon, GA	204,500 (4)
GULF Total		2,134,500
Eaton	Hattiesburg, MS	67,500
Sweatt	Meridian, MS	80,000
Watson	Gulfport, MS	1,012,000
Daniel	Pascagoula, MS	500,000 (6)
Greene County	Demopolis, AL	200,000 (2)
MISSISSIPPI Total		1,859,500
McIntosh	Effingham County, GA	163,117
Kraft	Port Wentworth, GA	281,136
Riverside	Savannah, GA	102,278
SAVANNAH Total		546,531
Gaston Units 1-4	Wilsonville, AL	
SEGCO Total		1,000,000 (7)
Total Fossil Steam		21,700,243
Nuclear Steam		
Farley	Dothan, AL	
ALABAMA Total		1,720,000
Hatch	Baxley, GA	862,669 (8)
Vogtle	Augusta, GA	1,060,240 (9)
GEORGIA Total		1,922,909
Total Nuclear Steam		3,642,909
Combustion Turbines		
Greene County	Demopolis, AL	
ALABAMA Total		720,000
Arkwright	Macon, GA	30,580
Atkinson	Atlanta, GA	78,720
Bowen	Cartersville, GA	39,400
Intercession City	Intercession City, FL	47,333 (10)
McDonough	Atlanta, GA	78,800
McIntosh Units 1,2,3,4,7,8	Effingham County, GA	480,000
McManus	Brunswick, GA	481,700
Mitchell	Albany, GA	118,200
Robins	Warner Robins, GA	160,000
Wilson	Augusta, GA	354,100
Wansley	Carrollton, GA	26,322 (5)
GEORGIA Total		1,895,155
Lansing Smith Unit A	Panama City, FL	39,400
Pea Ridge Units 1-3	Pea Ridge, FL	14,250
GULF Total		53,650
Chevron Cogenerating Station	Pascagoula, MS	147,292 (11)
Sweatt	Meridian, MS	39,400
Watson	Gulfport, MS	39,360
MISSISSIPPI Total		226,052

Generating Station	Location	Nameplate Capacity (Kilowatts)
Boulevard	Savannah, GA	59,100
Kraft	Port Wentworth, GA	22,000
McIntosh Units 5&6	Effingham County, GA	160,000
SAVANNAH Total		241,100
Gaston (**SEGCO**)	Wilsonville, AL	19,680 (7)
Total Combustion Turbines		3,155,637
Hydroelectric Facilities		
Weiss	Leesburg, AL	87,750
Henry	Ohatchee, AL	72,900
Logan Martin	Vincent, AL	128,250
Lay	Clanton, AL	177,000
Mitchell	Verbena, AL	170,000
Jordan	Wetumpka, AL	100,000
Bouldin	Wetumpka, AL	225,000
Harris	Wedowee, AL	135,000
Martin	Dadeville, AL	154,200
Yates	Tallassee, AL	32,000
Thurlow	Tallassee, AL	58,000
Lewis Smith	Jasper, AL	157,500
Bankhead	Holt, AL	45,125
Holt	Holt, AL	40,000
ALABAMA Total		1,582,725
Barnett Shoals (Leased)	Athens, GA	2,800
Bartletts Ferry	Columbus, GA	173,000
Goat Rock	Columbus, GA	26,000
Lloyd Shoals	Jackson, GA	14,400
Morgan Falls	Atlanta, GA	16,800
North Highlands	Columbus, GA	29,600
Oliver Dam	Columbus, GA	60,000
Rocky Mountain	Rome, GA	215,256 (12)
Sinclair Dam	Milledgeville, GA	45,000
Tallulah Falls	Clayton, GA	72,000
Terrora	Clayton, GA	16,000
Tugalo	Clayton, GA	45,000
Wallace Dam	Eatonton, GA	321,300
Yonah	Toccoa, GA	22,500
6 Other Plants		18,080
GEORGIA Total		1,077,736
Total Hydroelectric Facilities		2,660,461
Total Generating Capacity		31,159,250

Notes:

(1) For additional information regarding facilities jointly-owned with non-affiliated parties, see Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.

(2) Owned by ALABAMA and MISSISSIPPI as tenants in common in the proportions of 60% and 40%, respectively.

(3) Excludes the capacity owned by AEC.

(4) Capacity shown for GEORGIA is 8.4% of Units 1 and 2 and 75% of Unit 3. Capacity shown for GULF is 25% of Unit 3.

(5) Capacity shown is GEORGIA's portion (53.5%) of total plant capacity.

(6) Represents 50% of the plant which is owned as tenants in common by GULF and MISSISSIPPI.

(7) SEGCO is jointly-owned by ALABAMA and GEORGIA. (See Item 1 - BUSINESS herein.)

(8) Capacity shown is GEORGIA's portion (50.1%) of total plant capacity.

(9) Capacity shown is GEORGIA's portion (45.7%) of total plant capacity.

(10) Capacity shown represents 33-1/3% of total plant capacity. GEORGIA owns a 1/3 interest in the unit with 100% use of the unit from June through September. FPC operates the unit.

(11) Generation is dedicated to a single industrial customer.

(12) Capacity shown is GEORGIA's portion (25.4%) of total plant capacity. OPC operates the plant.

Except as discussed below under "Titles to Property," the principal plants and other important units of the operating affiliates and SEGCO are owned in fee by the respective companies. It is the opinion of management of each such company that its operating properties are adequately maintained and are substantially in good operating condition.

MISSISSIPPI owns a 79-mile length of 500-kilovolt transmission line which is leased to Entergy Gulf States. The line, completed in 1984, extends from Plant Daniel to the Louisiana state line. Entergy Gulf States is paying a use fee over a forty-year period covering all expenses and the amortization of the original $57 million cost of the line. At December 31, 1998, the unamortized portion of this cost was $37 million.

The all-time maximum demand on the operating affiliates and SEGCO was 28,933,700 kilowatts and occurred in June 1998. This amount excludes demand

served by capacity retained by MEAG and Dalton and excludes demand associated with power purchased from OPC and SEPA by its preference customers. The reserve margin for the operating affiliates and SEGCO at that time was 12.8%. For additional information on peak demands, reference is made to Item 6 - SELECTED FINANCIAL DATA herein.

ALABAMA and GEORGIA will incur significant costs in decommissioning their nuclear units at the end of their useful lives. (See Item 1 - BUSINESS - "Regulation - Atomic Energy Act of 1954" and Note 1 to SOUTHERN's, ALABAMA's and GEORGIA's financial statements in Item 8 herein.)

Other Electric Generation Facilities

Through special purpose subsidiaries, SOUTHERN owns interests in or operates independent power production facilities and foreign utility companies. The generating capacity of these utilities (or facilities) at December 31, 1998, was as follows:

Facilities in Operation

Facility	Location	Units	Megawatts of Capacity Owned	Megawatts of Capacity Operated	Percent Ownership	Type
Alicura'	Argentina	4	551 (1)	1,000	55.14 (1)	Hydro
BEWAG	Germany	18	443	-	26.00	Coal
BEWAG	Germany	17	375	-	26.00	Oil & Gas
Birchwood	Virginia	1	111	222	50.00	Coal (2)
CEPA	China	3	634	- (3)	32.00	Coal
CEPA	Philippines	2	641	735	87.22	Coal
CEPA	Philippines	3	189	210	90.00	Oil
CEPA	Philippines	13	381	381	100.00	Oil
CEMIG	Brazil	33	193	-	3.60	Hydro
CEMIG	Brazil	2	5	-	3.60	Thermal
CEMIG	Brazil	1	-	-	3.60	Wind
Edelnor	Chile	2	281	341	82.34	Coal
Edelnor	Chile	37	95	115	82.34	Oil
Edelnor	Chile	2	8	10	82.34	Hydro
Freeport	Grand Bahamas	8	79	126	62.50	Oil & Gas
Mobile Energy	Alabama	3	111	111	100.00	Waste/Biomass (2)
Penal	Trinidad and Tobago	5	92	236	39.00	Gas
Port of Spain	Trinidad and Tobago	6	120	308	39.00	Gas
Pt. Lisas	Trinidad and Tobago	10	247	634	39.00	Gas
State Line	Indiana	2	490	490	100.00	Coal
SWEB	United Kingdom	8	71	- (3)	3.77	Gas
SWEB	United Kingdom	12	8	16	49.00	Oil & Gas
SWEB	United Kingdom	3	3	- (3)	18.62	Wind
SWEB	United Kingdom	3	-	-	12.25	Landfill Gas
SE New England	Maine	8	1,267	1,267	100.00	Oil & Gas
Total Capacity			6,395	6,202 (3)		

Notes: (1) Represents megawatts of capacity under a concession agreement expiring in the year 2023.
(2) Cogeneration facility.
(3) Does not include Shajiao C (1,980 MW) or UK power plants (150 MW) that are partially owned but not operated by CEPA and SWEB, respectively.

Facilities Under Development

Facility	Location	Units	Megawatts of Capacity Own	Megawatts of Capacity Operate	Percent Ownership	Type
CEMIG	Brazil	1	1	-	3.60	Hydro
CEPA	Philippines	2	1,121	1,218	92.00	Coal
Edelnor	Chile	1	206	250	82.34	Gas
Total Capacity			1,328	1,468		

Jointly-Owned Facilities

ALABAMA and GEORGIA have sold and GEORGIA has purchased undivided interests in certain generating plants and other related facilities to or from non-affiliated parties. The percentages of ownership resulting from these transactions are as follows:

	Total Capacity (Megawatts)	Percentage Ownership ALABAMA	AEC	GEORGIA	OPC	MEAG	DALTON	FPC
Plant Miller Units 1 and 2	1,320	91.8%	8.2%	-%	-%	-%	-%	-%
Plant Hatch	1,722	-	-	50.1	30.0	17.7	2.2	-
Plant Vogtle	2,320	-	-	45.7	30.0	22.7	1.6	-
Plant Scherer Units 1 and 2	1,636	-	-	8.4	60.0	30.2	1.4	-
Plant Wansley	1,779	-	-	53.5	30.0	15.1	1.4	-
Rocky Mountain	848	-	-	25.4	74.6	-	-	-
Intercession City, FL	142	-	-	33.3	-	-	-	66.7

ALABAMA and GEORGIA have contracted to operate and maintain the respective units in which each has an interest (other than Rocky Mountain and Intercession City, as described below) as agent for the joint owners.

In connection with the joint ownership arrangements for Plant Vogtle, GEORGIA made commitments to purchase portions of OPC's and MEAG's capacity and energy from this plant. Declining commitments were in effect during periods of up to seven years following commercial operation and ended in 1996. In addition, the Company has commitments regarding a portion of a 5 percent interest in Plant Vogtle owned by MEAG that are in effect until the later of retirement of the plant or the latest stated maturity date of MEAG's bonds issued to finance such ownership interest. The payments for capacity are required whether any capacity is available. The energy cost is a function of each unit's variable operating costs. Except for the portion of the capacity payments related to the 1987 and 1990 write-offs of Plant Vogtle costs, the cost of such capacity and energy is included in purchased power from non-affiliates in GEORGIA's Statements of Income in Item 8 herein.

In December 1988, GEORGIA and OPC entered into a joint ownership agreement for the Rocky Mountain plant under which GEORGIA agreed to

retain its present investment in the project and OPC agreed to finance, complete and operate the facility. In 1995, the plant went into commercial operation. GEORGIA's ownership is 25.4 percent. On January 14, 1998, the GPSC ordered that the Company be allowed approximately $108 million of its $142 million investment in the plant in rate base as of December 31, 1998. GEORGIA appealed the GPSC's order. Under the rate order approved by the GPSC on December 18, 1998, GEORGIA voluntarily dismissed the appeal. As a result, in December 1998, GEORGIA recorded a charge to earnings of $21 million, after taxes, associated with the write-down of the plant. Reference is made to Note 3 to SOUTHERN's and GEORGIA's financial statements in Item 8 herein for additional information regarding the Rocky Mountain plant.

In 1994, GEORGIA and FPC entered into a joint ownership agreement regarding the Intercession City combustion turbine unit. The unit began commercial operation in January 1997, and is operated by FPC. GEORGIA owns a one-third interest in the unit, with use of 100% of the capacity from June through September. FPC has the capacity the remainder of the year.

Titles to Property

The operating affiliates' and SEGCO's interests in the principal plants (other than certain pollution control facilities, one small hydroelectric generating station leased by GEORGIA and the land on which five combustion turbine generators of MISSISSIPPI are located, which is held by easement) and other important units of the respective companies are owned in fee by such companies, subject only to the liens of applicable mortgage indentures (except for SEGCO) and to excepted encumbrances as defined therein. The operating affiliates own the fee interests in certain of their principal plants as tenants in common. (See Item 2 - PROPERTIES - "Jointly-Owned Facilities" herein.) Properties such as electric transmission and distribution lines and steam heating mains are constructed principally on rights-of-way which are maintained under franchise or are held by easement only. A substantial portion of lands submerged by reservoirs is held under flood right easements. In substantially all of its coal reserve lands, SEGCO owns or will own the coal only, with adequate rights for the mining and removal thereof.

Property Additions and Retirements

During the period from January 1, 1994 to December 31, 1998, the operating affiliates, SEGCO, SCS, Southern Nuclear, Southern LINC and Southern Energy recorded gross property additions and retirements as follows:

	Gross Property Additions	Retirements
	(in millions)	
ALABAMA	$2,576	$ 426
GEORGIA (1)	2,522	1,263
GULF	327	131
MISSISSIPPI	357	98
SAVANNAH	122	13
SEGCO	27	8
SCS	108	171
Southern Nuclear	4	6
Southern LINC	300	48
Southern Energy	1,677	54
Other	10	-
SOUTHERN system	$8,030	$2,218

Notes:

(1) Includes approximately $229 million attributable to sales of Plant Scherer Unit 4 to FP&L and JEA.

Item 3. LEGAL PROCEEDINGS

(1) **Frost v. ALABAMA**
(Circuit Court of Jefferson County, Alabama)

Reference is made to Note 3 to SOUTHERN's and ALABAMA's financial statements in Item 8 herein under the captions "Alabama Power Appliance Warranty Litigation" and "Appliance Warranty Litigation", respectively.

(2) **Sullivan v. ALABAMA et al.**
(Circuit Court of Jefferson County, Alabama)

Reference is made to Note 3 to SOUTHERN's and ALABAMA's financial statements in Item 8 herein under the captions "Alabama Power Environmental Litigation" and "Environmental Litigation", respectively.

(3) GEORGIA has been designated as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act with respect to a site in Brunswick, Georgia.

Reference is made to Note 3 to SOUTHERN's and GEORGIA's financial statements in Item 8 herein under the captions "Georgia Power Potentially Responsible Party Status" and "Certain Environmental Contingencies," respectively.

(4) **In re: Mobile Energy Services Company, LLC; In re: Mobile Energy Services Holdings, Inc.**
(U.S. Bankruptcy Court for the Southern District of Alabama).

In January 1999, Mobile Energy, an indirect subsidiary of SOUTHERN, and its direct parent filed petitions for Chapter 11 bankruptcy relief in the U.S. Bankruptcy Court for the Southern District of Alabama. For additional information regarding this matter, reference is made to Note 3 to SOUTHERN's financial statements in Item 8 herein. In March 1999, SOUTHERN paid a total of approximately $36 million in respect of guaranty and reimbursement agreements previously entered into by it for the benefit of Mobile Energy creditors.

See Item 1 - BUSINESS - "Construction Programs," "Fuel Supply," "Regulation - Federal Power Act" and "Rate Matters" as well as Note 3 to each registrant's financial statements in Item 8 herein for a description of certain other administrative and legal proceedings discussed therein.

Additionally, each of the operating affiliates, Southern Energy, SCS, Southern Nuclear, Energy Solutions and Southern LINC are, in the normal course of business, engaged in litigation or administrative proceedings that include, but are not limited to, acquisition of property, injuries and damages claims, and complaints by present and former employees.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Item 3. LEGAL PROCEEDINGS

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(Circuit Court of Jefferson County, Alabama)

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The common stock of SOUTHERN is listed and traded on the New York Stock Exchange. The stock is also traded on regional exchanges across the United States. High and low stock prices, per the New York Stock Exchange Composite Tape during each quarter for the past two years were as follows:

	High	Low
1998		
First Quarter	$28-11/16	$23-15/16
Second Quarter	29	25-1/16
Third Quarter	29-13/16	25-1/4
Fourth Quarter	31-9/16	27-3/16
1997		
First Quarter	$23-3/8	$20-3/4
Second Quarter	22-1/4	19-7/8
Third Quarter	23	20-13/16
Fourth Quarter	26-1/4	22

There is no market for the other registrants' common stock, all of which is owned by SOUTHERN. On February 28, 1999, the closing price of SOUTHERN's common stock was $25.0625.

(b) Number of SOUTHERN's common stockholders at December 31, 1998:

187,053

Each of the other registrants have one common stockholder, SOUTHERN.

(c) Dividends on each registrant's common stock are payable at the discretion of their respective board of directors. The dividends on common stock paid and/or declared by SOUTHERN and the operating affiliates to their stockholder(s) for the past two years were as follows: (in thousands)

Registrant	Quarter	1998	1997
SOUTHERN	First	$232,449	$220,194
	Second	233,623	221,544
	Third	233,763	222,980
	Fourth	233,506	224,287
ALABAMA	First	90,400	80,100
	Second	90,500	85,600
	Third	90,800	86,100
	Fourth	95,400	87,800
GEORGIA	First	132,100	122,700
	Second	132,300	131,000
	Third	132,700	131,800
	Fourth	139,500	134,500
GULF	First	14,100	12,900
	Second	14,100	13,800
	Third	14,100	13,800
	Fourth	14,900	24,100
MISSISSIPPI	First	12,700	11,300
	Second	12,800	12,100
	Third	12,800	12,200
	Fourth	13,400	13,800
SAVANNAH	First	5,800	5,100
	Second	5,800	5,400
	Third	5,800	5,500
	Fourth	6,100	4,500

The dividend paid per share by SOUTHERN was 32.5¢ for each quarter of 1997 and 33.5¢ for each quarter of 1998. The dividend paid on SOUTHERN's common stock for the first quarter of 1999 was 33.5¢ per share.

The amount of dividends on their common stock that may be paid by the subsidiary registrants is restricted in accordance with their first mortgage bond indenture. The amounts of earnings retained in the business and the amounts restricted against the payment of cash dividends on common stock at December 31, 1998, were as follows:

	Retained Earnings	Restricted Amount
	(in millions)	
ALABAMA	$1,225	$ 796
GEORGIA	1,780	897
GULF	171	127
MISSISSIPPI	174	118
SAVANNAH	113	68
Consolidated	3,878	2,003

Item 6. SELECTED FINANCIAL DATA

SOUTHERN. Reference is made to information under the heading "Selected Consolidated Financial and Operating Data," contained herein at pages II-45 through II-48.

ALABAMA. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-80 through II-83.

GEORGIA. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-118 through II-121.

GULF. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-151 through II-154.

MISSISSIPPI. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-183 through II-186.

SAVANNAH. Reference is made to information under the heading "Selected Financial and Operating Data," contained herein at pages II-211 through II-214.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

SOUTHERN. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-8 through II-19.

ALABAMA. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-52 through II-60.

GEORGIA. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-87 through II-96.

GULF. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-125 through II-133.

MISSISSIPPI. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-158 through II-166.

SAVANNAH. Reference is made to information under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition," contained herein at pages II-190 through II-197.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to information in SOUTHERN's "Management's Discussion and Analysis - Derivative Financial Instruments" and to Note 1 to SOUTHERN's financial statements under the headings "Financial Instruments for Non-Trading Activities" and "Financial Instruments for Trading Activities" contained herein on pages II-15 through II-16; and pages II-30 through II-32, respectively.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

FINANCIAL SECTION

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 generally accepted accounting principles appropriate in the circumstances 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 books and 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 five directors who are not employees, 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 generally accepted accounting principles.

A. W. Dahlberg
Chairman, President, and Chief Executive Officer

W. L. Westbrook
Financial Vice President, Chief Financial Officer, and Treasurer

February 10, 1999

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, 1998 and 1997, and the related consolidated statements of income, comprehensive income, retained earnings, paid-in capital, accumulated other comprehensive income, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 II-20 through II-44) referred to above present fairly, in all material respects, the financial position of Southern Company and subsidiary companies as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

RESULTS OF OPERATIONS

Earnings and Dividends

Southern Company's 1998 earnings of $1.2 billion -- excluding non-recurring items -- established a new record high. Earnings were driven by higher energy sales and from growth in the non-traditional business. However, reported earnings in both 1998 and 1997 reflected significant charges. Reported earnings for 1998 were $977 million or $1.40 per share compared with $972 million or $1.42 per share in 1997. The traditional core business of selling electricity in the southeastern United States remained strong, while the non-traditional business results were adversely affected by a $200 million, after tax, write down of assets in South America in 1998 and by a $111 million windfall profits tax assessed in the United Kingdom in 1997. Southern Company's subsidiary that owns and manages its international and domestic non-traditional electric power production and delivery facilities is Southern Energy, Inc. (Southern Energy). After excluding these non-recurring charges, Southern Energy accounted for approximately 20 percent and 10 percent of Southern Company's reported net income in 1998 and 1997, respectively.

A reconciliation of reported earnings to earnings excluding non-recurring items and explanations are as follows:

	Consolidated Net Income		Earnings Per Share	
	1998	1997	**1998**	1997
	(in millions)			
Earnings as reported	**$ 977**	$ 972	**$1.40**	$1.42
Write down of assets:				
South American investments	**200**	-	**.29**	-
Rocky Mountain plant	**21**	-	**.03**	-
Windfall profits tax	**-**	111	**-**	.16
Work force reduction programs	**20**	31	**.03**	.05
Other	**7**	16	**.01**	.02
Total non-recurring	**248**	158	**.36**	.23
Earnings excluding non-recurring items	**$1,225**	$1,130	**$1.76**	$1.65
Amount and percent change	**$95**	8.4%	**$0.11**	6.7%

Southern Energy's 1998 write down is related to its investments in Argentina and Chile not meeting financial expectations, which resulted in an announced plan to sell these assets. In 1997, Southern Energy -- as well as other utilities in the United Kingdom -- was assessed a one-time tax on profits. In 1998, Georgia Power resolved a long-term issue related to its investment in the Rocky Mountain pumped storage hydroelectric plant. The write down resulted from a settlement of Georgia Power's 1998 retail rate proceeding. Also, work force reduction programs in the traditional core business were implemented in 1998 and 1997. These costs are expected to be recovered through future savings within approximately two years following each program's implementation.

Dividends paid on common stock during 1998 were $1.34 per share or 33 1/2 cents per quarter. During 1997 and 1996, dividends paid per share were $1.30 and $1.26, respectively. In January 1999, Southern Company maintained the quarterly dividend at 33 1/2 cents per quarter or $1.34 annually. Southern Company has modified its dividend policy from a targeted 75 percent payout ratio to a lower ratio over time. This policy supports Southern Company's strategic goal to become the best investment in the electric utility industry.

Revenues

Operating revenues changed in 1998 and 1997 as a result of the following factors:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
		(in millions)	
Retail --			
Growth and price change	**$ 258**	$ 105	$ 124
Weather	**178**	(110)	(64)
Fuel cost recovery and other	**189**	(13)	2
Total retail	**625**	(18)	62
Sales for resale –			
Within service area	**(2)**	(33)	10
Outside service area	**12**	81	14
Total sales for resale	**10**	48	24
Southern Energy	**(1,934)**	2,154	1,040
Other operating revenues	**91**	69	52
Total operating revenues	**$(1,208)**	$2,253	$1,178
Percent change	**(9.6)%**	21.8%	12.8%

Retail revenues of $8.3 billion increased sharply, up 8.2 percent compared with last year. Continued growth

in the traditional service area and the positive impact of weather on energy sales were the predominant factors causing the rise in revenues. In 1997, retail revenues decreased by 0.2 percent compared with the year 1996. Under fuel cost recovery provisions, fuel revenues generally equal fuel expenses -- including the fuel component of purchased energy -- and do not affect net income.

Sales for resale revenues within the service area were $374 million in 1998, down 0.7 percent from the prior year. Revenues from sales for resale within the service area were $376 million in 1997, down 8.1 percent from the prior year. This sharp decline resulted primarily from supplying less electricity under contractual agreements with certain wholesale customers in 1997.

Revenues from sales to utilities outside the service area under long-term contracts consist of 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 were as follows:

	1998	1997	1996
		(in millions)	
Capacity	**$196**	$203	$217
Energy	**152**	183	176
Total	**$348**	$386	$393

Capacity revenues in 1998 slightly declined as a result of adjustments and true-ups related to contractual pricing. In 1997, capacity revenues decreased because the amount of capacity under contract declined during 1996. Additional declines in capacity are not scheduled until after 1999.

In 1998, Southern Energy's revenues declined because its energy trading and marketing operations were deconsolidated on January 1, 1998, when Southern Energy's joint venture with Vastar Resources, Inc. (Vastar) became effective. Because of Vastar's significant participation rights in the joint venture, the equity method of accounting is required. This results in Southern Energy's share of the joint venture's earnings being reported in other income in 1998. In 1997, Southern Energy reported energy trading and marketing revenues of $2.0 billion. Southern Energy's revenues in 1998 of $1.9 billion increased $48 million compared with comparable revenues in 1997 that exclude energy trading and marketing. This increase results primarily from operations of assets obtained in domestic acquisitions. In 1997, Southern Energy's revenues rose to $3.8 billion. This increase was primarily attributable to the development and growth of energy trading and marketing activities. In 1997, energy trading and marketing revenues increased $1.9 billion compared with amounts recorded in 1996. However, these revenues were substantially offset by purchased power expenses incurred in completing these trading and marketing transactions. Energy trading and marketing -- similar to other low-margin sales activities -- is dependent on huge volumes for profitability.

Energy Sales

Changes in traditional core business revenues are influenced heavily by the amount of energy sold each year. Kilowatt-hour sales for 1998 and the percent change by year were as follows:

(billions of	Amount	Percent Change		
kilowatt-hours)	**1998**	**1998**	1997	1996
Residential	**43.5**	**10.9%**	(2.2)%	2.5%
Commercial	**41.7**	**7.2**	2.5	5.7
Industrial	**55.3**	**2.1**	2.6	2.2
Other	**1.0**	**3.1**	(1.1)	5.7
Total retail	**141.5**	**6.2**	1.1	3.3
Sales for resale --				
Within service area	**9.8**	**(0.4)**	(9.6)	15.4
Outside service area	**13.0**	**(5.6)**	27.7	17.9
Total	**164.3**	**4.7**	2.2	5.0

The rate of growth in 1998 retail energy sales was the highest one-year increase since 1986. Residential energy sales registered the highest annual increase in over two decades as a result of hotter-than-normal weather and the addition of 57,000 new customers. Commercial sales were also affected by the warm weather. Commercial and industrial sales, both in 1998 and 1997, continued to show slight gains in excess of the national averages. This reflects the strength of business and economic conditions in Southern Company's traditional service area. Energy sales to retail customers are projected to increase at an average annual rate of 2.1 percent during the period 1999 through 2009.

Energy sales for resale outside the service area are predominantly unit power sales under long-term contracts to Florida utilities. Economy sales and amounts sold under short-term contracts are also sold for resale outside the service area. Sales to customers outside the service area declined by 5.6 percent in 1998 and increased by 27.7 percent in 1997 when compared

with the respective prior year. The wide variances in sales were influenced by fluctuations in prices for oil and natural gas, the primary fuel sources for utilities with which the company has long-term contracts. When oil and gas prices fall below a certain level, these customers can generate electricity to meet their requirements more economically. However, these fluctuations in energy sales under long-term contracts have minimal effects on earnings because Southern Company is paid for dedicating specific amounts of its generating capacity to these utilities outside the service area.

Expenses

Total operating expenses of $9.4 billion -- before write downs -- for 1998 decreased $1.2 billion compared with the prior year. Traditional core business expenses increased $679 million. Southern Energy's expenses decreased $2.0 billion. The decline for Southern Energy corresponds to the decrease in revenues resulting primarily from the deconsolidation of the energy trading and marketing operations as discussed earlier. Approximately $2.0 billion of these expenses were recorded in 1997 purchased power expenses. The costs to produce and deliver electricity for the traditional core business in 1998 increased by $359 million to meet higher energy demands. Non-production operation and maintenance expenses increased $192 million in 1998. Traditional core business depreciation expenses and taxes other than income taxes increased by $142 million as a result of additional utility plant being placed into service and increased accelerated depreciation of certain assets.

In 1997, operating expenses of $10.7 billion increased $2.2 billion compared with 1996. Traditional core business expenses increased $69 million. Southern Energy's expenses increased $2.1 billion. The large increase for Southern Energy resulted primarily from two factors. First, the acquisition of CEPA was first reflected in 1997 expenses. Second, $2.0 billion of energy trading and marketing expenses were included in purchased power expenses. The costs to produce and deliver electricity for the traditional core business in 1997 increased by $37 million to meet higher energy demands. Also, costs related to work force reduction programs decreased in 1997 by $35 million. Traditional core business depreciation expenses and taxes other than income taxes increased by $136 million as a result of additional utility plant being placed into service and increased accelerated depreciation of certain assets.

Fuel costs constitute the single largest expense for Southern Company's traditional core business. 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 core business service area -- were as follows:

	1998	1997	1996
Total generation (billions of kilowatt-hours)	**164**	160	156
Sources of generation (percent) --			
Coal	**77**	77	77
Nuclear	**16**	17	17
Hydro	**4**	4	4
Oil and gas	**3**	2	2
Average cost of fuel per net kilowatt-hour generated (cents) --	**1.48**	1.46	1.48

Total fuel and purchased power costs of $3.6 billion in 1998 decreased $1.7 billion compared with 1997. The traditional core business increased $299 million and Southern Energy decreased $2.0 billion. Southern Energy's reduction in fuel and purchased power costs resulted from $2.0 billion associated with energy trading and marketing expenses recorded in 1997 and from no energy trading costs recorded in purchased power in 1998 as a result of the joint venture with Vastar discussed earlier. The traditional core business's total energy sales rose by 7.4 billion kilowatt-hours more than in 1997. Fuel and purchased power expenses of $5.3 billion in 1997 increased $2.0 billion compared with the prior year. These expenses for traditional core business increased $32 million, and Southern Energy's portion increased $1.9 billion. Southern Energy's increase in expenses escalated as a result of energy trading and marketing activities discussed earlier. The traditional core business's total energy sales went up by 3.4 billion kilowatt-hours more than in 1996. The additional cost to meet the demand was offset slightly by a lower average cost of fuel per net kilowatt-hour generated.

Total interest charges and other financing costs increased $91 million from amounts reported in the previous year. These costs for the traditional core business increased $48 million compared with the reported amounts in 1997. Southern Energy's costs increased $47 million related primarily to financing of acquisitions. In 1997, these same costs for traditional core business were flat, but Southern Energy's interest charges increased $205 million as a result of acquisitions.

Effects of Inflation

Southern Company's traditional core business is 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 life. 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

The results of 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. Two major factors are: achieving energy sales growth in a less regulated, more competitive environment; and operating non-traditional business activities successfully.

Southern Company continues to position its business to meet the challenges of a new competitive environment. Work force reduction programs have reduced earnings by $20 million, $31 million, and $53 million for the years 1998, 1997, and 1996, respectively. These actions -- in conjunction with other cost containment programs -- will assist efforts to continue being a low-cost provider of electricity.

The operating companies currently operate as vertically integrated companies providing electricity to customers within the traditional service area of the southeastern United States. Prices for electricity provided by the operating companies to retail customers are set by state public service commissions under cost-based regulatory principles.

Rates for Alabama Power and Mississippi Power are adjusted periodically within certain limitations based on earned retail rate of return compared with an allowed return. In December 1998, Georgia Power received a new three-year retail rate order. As a result of the rate order, Georgia Power recorded in 1998 a write down of $34 million -- $21 million after taxes -- related to its investment in the Rocky Mountain pumped storage hydroelectric plant. This long-standing issue is now resolved. See Note 3 to the financial statements for additional information about these matters and other retail and wholesale regulatory matters.

Future earnings for the operating companies in the near term will depend upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the company's service area.

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. Southern Company is aggressively working to maintain and expand its share of wholesale sales in the Southeastern power markets.

Although the Energy Act does not permit retail customer access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. 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 or are being discussed in Alabama, Florida, Georgia, and Mississippi, none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. The inability of an operating company to recover its investments, including the regulatory assets described in Note 1 to the financial statements, could have a material adverse effect on the financial condition of that operating company. The operating companies are attempting to minimize or reduce their cost exposure. See Note 3 to the financial statements for information regarding these efforts.

Continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless Southern Company remains a low-cost producer and provides quality service, the company's retail 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 other 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 utility companies to sell power largely free of regulation under PUHCA. These entities are able to sell power to affiliates -- under certain restrictions -- and to own and operate power generating facilities in other domestic and international markets. To take advantage of existing and evolving opportunities, Southern Energy -- founded in 1981 -- is focused on several key international and domestic business lines, including energy distribution, integrated utilities, stand-alone generation, and other energy-related products and services. As the energy marketplace evolves, Southern Energy continues to position the company to become a major competitor. At December 31, 1998, Southern Energy's total assets amounted to $12 billion.

During 1998, Southern Energy further refined its business strategy to focus on a few geographic regions of the world. In Asia, Southern Energy will focus primarily on China, the Philippines, and India. In South America, the company will pursue opportunities in Brazil. In Europe, Southern Energy will concentrate efforts on the European Union countries. And in North America, the company will target efforts in the Northeast, the Midwest, Texas, and California. Southern Energy announced in 1998 plans to acquire, build, or gain access to some 20,000 megawatts of generating capacity in North America over the next several years in order to be competitive in the country's evolving competitive energy supply business. These assets will be closely linked with Southern Energy's energy trading and marketing business. In January 1998, Southern Energy entered into a joint venture with Vastar. The two companies combined their energy trading and marketing operations to form a new full-service energy provider, Southern Company Energy Marketing. The joint venture agreement gives Southern Company Energy Marketing rights to market virtually all of Vastar's natural gas production over the next 10 years.

In December 1998, Southern Energy completed its $537 million purchase of 1,267 megawatts of generating capacity from Commonwealth Electric. In addition, Southern Energy plans to add 685 megawatts of capacity at the plants. In late 1998, Southern Energy announced the $801 million planned acquisition of 3,065 megawatts of generating capacity from Pacific Gas & Electric in northern California. Additionally, the company announced plans to acquire from Orange and Rockland Utilities Inc. and Consolidated Edison Inc. in New York 1,776 megawatts of capacity for $480 million. These transactions are expected to close during 1999. Additionally, Southern Energy has announced plans to build or purchase an additional 680 megawatts of capacity in Texas and Wisconsin. Through Southern Company Energy Marketing, the company has also gained access to additional capacity through marketing agreements. The company has access to almost 2,000 megawatts of capacity through marketing agreements with Sithe Energies in New York and Brazos Electric Cooperative in Texas.

After refining its international focus and reviewing the financial performance of existing assets, Southern Energy announced plans to sell its holdings in EDELNOR in Chile and Alicurá in Argentina. As a result, Southern Energy recorded a write down of $200 million, after tax, in December 1998 related to these holdings. Because of regulatory and market conditions, these assets did not meet earnings expectations.

Southern Company has filed with the Securities and Exchange Commission (SEC) a request to invest up to nearly $8 billion in the non-traditional domestic and international business. The current SEC authority is $3.9 billion, of which $3.6 billion has been invested as of December 31, 1998.

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."

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry -- including Southern Company's -- regarding the recognition, measurement, and classification in the financial statements of decommissioning costs for nuclear generating facilities. In response to these questions, the Financial Accounting Standards Board (FASB) has decided to review the accounting for liabilities related to the retirement of long-lived assets, including nuclear decommissioning. If the FASB issues new accounting rules, the estimated costs of retiring Southern Company's nuclear and other facilities may be required to be recorded as liabilities in the Consolidated Balance Sheets. Also, the annual provisions for such costs could change. Because of the company's current ability to recover asset retirement costs through rates, these changes would not have a significant adverse effect on results of operations. See Note 1 to the financial statements under "Depreciation and Nuclear Decommissioning" for additional information.

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

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments -- including certain derivative instruments embedded in other contracts -- and for hedging activities. Southern Company has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings and other comprehensive income.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. Southern Company adopted this statement in January 1999, and it is not expected to have a material impact on the consolidated financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Cost of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. Southern Company adopted this statement in January 1999, and it is not expected to have a material impact on the consolidated financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, with gains and losses reflected rather than revenues and purchased power. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. Southern Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the consolidated financial statements.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space, was used until the mid-1990s. Unless corrected before the Year 2000, affected software systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

Southern Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. Southern Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond.

Critical systems include, but are not limited to, reactor control systems, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

Southern Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed on a monthly basis by a steering committee of Southern Company executives.

Southern Company's traditional business refers to the integrated utility services within Alabama, Florida, Georgia, and Mississippi. For this traditional business, the work was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the Year 2000.

For the traditional business, Southern Company has completed more than 70 percent of the activities contained in its work plan. The percentage of completion and projected completion by function are as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

For the non-traditional business located in the United States and several countries throughout the world, Year 2000 readiness is generally scheduled to follow the traditional business. In a number of the business units outside the United States, Southern Company is neither the majority owner nor the managing concern. In these circumstances, Southern Company is providing technical assistance but does not control the schedule or progress.

Year 2000 Costs

For the traditional business, current projected total costs for Year 2000 readiness are approximately $91 million, which includes $6 million of cost billed to non-affiliated companies. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through December 31, 1998, the Year 2000 program costs, recognized primarily as expense, amounted to $56 million based on Southern Company's ownership interest. In addition to the traditional business costs, current projections for Year 2000 program costs are approximately $24 million for the non-traditional business -- based on Southern Company's ownership interest -- of which $9 million has been spent through December 31, 1998.

Year 2000 Risks

Southern Company is implementing a detailed process to minimize the possibility of service interruptions related to the Year 2000. The company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operations. The company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the traditional business service territory to be isolated and short in duration.

Southern Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its traditional business service territory. The company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, Southern Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council-coordinated national drills during 1999.

Southern Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to Southern Company's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to Southern Company are being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their own Year 2000 issues. The risk associated with the progress of some operations outside the United States is a function of the local regulatory environment and the priorities of the entities with management control. Year 2000 issues are included in the list of due diligence activities associated with acquisitions; there is some risk associated with the subsequent validation of any given seller's representations.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the traditional business is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, Southern Company is drawing on that experience to make risk assessments and is developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. Southern Company is identifying critical operational locations, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the traditional business service territory isolated and short in duration.

Contingency planning efforts for the non-traditional business are generally in the initial phase.

FINANCIAL CONDITION

Overview

Southern Company's financial condition continues to remain strong. The company's common stock closed 1998 with the highest year-end closing price in history. Consolidated net income of $1.2 billion -- excluding non-recurring charges -- in 1998 increased $95 million compared with the prior year. In January 1999, Southern Company modified its dividend policy to lower, over time, the previously targeted payout ratio of approximately 75 percent. The quarterly dividend declared was maintained at 33 1/2 cents per share or $1.34 annually. This action allows more internally generated funds to be reinvested in the company, which is expected to increase long-term shareholder value.

Gross property additions to utility plant were $2.0 billion in 1998. The majority of funds needed for gross property additions since 1995 has been provided from operating activities. Southern Energy acquired $670 million of generating assets in 1998 and sold an additional 26 percent interest in its United Kingdom subsidiary for $170 million. The Consolidated Statements of Cash Flows provide additional details.

Derivative Financial Instruments

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. Generally, company policy is that derivatives are to be used only for hedging purposes. Derivative positions are monitored using techniques that include market value and sensitivity analysis.

The company's market risk exposures relative to interest rate changes and currency exchange fluctuations, as discussed later, have not changed materially versus the previous reporting period. In addition, the company is not aware of any facts or circumstances that would significantly impact such exposures in the near-term.

Interest rate swaps are used to hedge underlying debt obligations. These swaps hedge specific debt issuances and qualify for hedge accounting. The interest rate differential is reflected as an adjustment to interest expense over the life of the instruments. Additionally, the company has interest rate swaps in foreign currencies. These swaps are designated as hedges of the company's related debt issuance in the same currency.

If the company sustained a 100 basis point change in interest rates for all variable rate debt in all currencies, the change would affect annualized interest expense by approximately $35 million at December 31, 1998. Based on the company's overall interest rate exposure at December 31, 1998, 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.

The company has investments in the United Kingdom and Germany. For these investments, the company uses long-term cross-currency agreements to reduce a substantial portion of its exposure to fluctuations in the British pound sterling and German Deutschemark. These instruments are used to hedge the net investments in these countries. As a result of these swaps, a 10 percent

sustained decline of the British pound sterling and German Deutschemark versus the U.S. dollar would not materially affect the consolidated financial statements.

The company also has investments in various emerging market countries where the net investments are not hedged, including Argentina, Brazil, Chile, Trinidad, Bahamas, Philippines, and China. The company relies on either currency pegs or contractual or regulatory links to the U.S. dollar to mitigate currency risk attributable to these investments. The company does not believe it has a material exposure to changes in exchange rates between the U.S. dollar and the currencies of these countries.

Based on availability and economics, the company also uses currency swaps and forward agreements to hedge dollar-denominated debt issued by subsidiaries with a functional currency other than the U.S. dollar. These swaps offset the dollar cash flows, thereby effectively converting debt to the respective company's reporting currency. Gains and losses related to qualified hedges of foreign currency firm commitments are deferred and included in the basis of the underlying transactions. To the extent that a qualifying hedge is terminated or ceases to be effective as a hedge, any deferred gains and losses to that point continue to be deferred and are included in the basis of the underlying transaction.

In addition to the non-trading activities, the company is exposed to market risks through its electricity and natural gas commodity trading business, which is primarily conducted through the company's joint venture relationship with Vastar. While this joint venture relationship is accounted for under the equity method of accounting, Southern Company -- through guarantees it has made jointly with Vastar -- is exposed to market risk. Southern Company and Vastar have agreed to indemnify each other against losses under such guarantees in proportion to their respective ownership shares of the joint venture. At December 31, 1998, outstanding guarantees related to the estimated fair value of net contractual commitments were approximately $152 million. Based upon the joint venture's statistical analysis of its credit risk, Southern Company's potential exposure under these contractual commitments would not materially differ from the estimated fair value. The joint venture's gross revenues and cost of sales for 1998 were $9.2 billion and $9.1 billion, respectively.

To estimate and manage the market risk of its trading and marketing portfolio, the joint venture employs a daily Value at Risk (VAR) methodology. VAR is used to describe a probabilistic approach to measuring the exposure to market risk. VAR models are relatively sophisticated. However, the quantitative risk information is limited by the parameters established in creating the model. The instruments being evaluated may have features that may trigger a potential loss in excess of calculated amounts if the changes in commodity prices exceed the confidence level of the model used. The calculation utilizes the standard deviation of seasonally adjusted historical changes in the value of the market risk sensitive commodity-based financial instruments to estimate the amount of change (i.e., volatility) in the current value of these instruments that could occur at a specified confidence level over a specified holding interval. The parameters used in the calculation include holding intervals ranging from five to 20 days, depending upon the type of instrument, the term of the instrument, the liquidity of the underlying market, and other factors. The models employ a 95 percent confidence level based on historical price movement. Based on the joint venture's VAR analysis of its overall commodity price risk exposure at December 31, 1998, management does not anticipate a materially adverse effect on the company's consolidated financial statements as a result of market fluctuations.

In the United Kingdom, the company utilizes contracts to mitigate its exposure to volatility in the prices of electricity purchased through the wholesale electricity market. These contracts allow the company to effectively convert the majority of its anticipated wholesale electricity purchases from market prices to fixed prices. The gains and losses on these contracts are deferred and recognized as electricity is purchased. Recently, a market has developed for trading these contracts in the United Kingdom. However, due to the immaturity of this market and the complexity of the company's existing contracts, it is not practicable to estimate the fair value of these contracts.

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, the operating companies enter into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1998, exposure from these activities was not material to the consolidated financial statements.

For additional information, see Note 1 to the financial statements under "Financial Instruments for Non-Trading and Trading Activities."

Capital Structure

Southern Company achieved a ratio of common equity to total capitalization -- including short-term debt -- of 37.4 percent in 1998, compared with 38.6 percent in 1997, and 45.1 percent in 1996.

During 1998, the subsidiary companies sold, through public authorities, $210 million of pollution control revenue bonds. In addition, preferred stock of $200 million and capital and preferred securities of $435 million were issued in 1998. The companies continued to reduce financing costs by retiring higher-cost bonds and preferred stock. Retirements, including maturities, of bonds totaled $1.7 billion during 1998, $507 million during 1997, and $600 million during 1996. As a result, the composite interest rate on long-term debt decreased from 7.1 percent at December 31, 1995 to 6.42 percent at December 31, 1998. Retirements of preferred stock totaled $239 million during 1998, $660 million during 1997, and $179 million during 1996.

In 1998, Southern Company raised net proceeds of $109 million from the issuance of common stock under the company's various stock plans. At the close of 1998, the company's common stock had a market value of 29 1/16 per share, compared with a book value of $14.04 per share. The market-to-book value ratio was 207 percent at the end of 1998, compared with 186 percent at year-end 1997, and 166 percent at year-end 1996.

Capital Requirements for Construction

The construction program of Southern Company is budgeted at $2.6 billion for 1999, $2.1 billion for 2000, and $2.1 billion for 2001. 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.

The operating companies have approximately 2,700 megawatts of combined cycle generation scheduled to be placed in service by 2001. Southern Energy has under construction some 1,300 megawatts of owned capacity. Significant construction of transmission and distribution facilities and upgrading of generating plants will be continuing for the core business in the Southeast.

Other Capital Requirements

In addition to the funds needed for the construction program, approximately $2.6 billion will be required by the end of 2001 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.

In late 1998, Southern Energy announced plans to acquire $801 million and $480 million of generating assets in California and New York, respectively. These transactions are expected to close in 1999.

Environmental Matters

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act -- the acid rain compliance provision of the law -- significantly affected Southern Company. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating units of Southern Company. As a result of the company's compliance strategy, an additional 22 generating units were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected plants by switching to low-sulfur coal, which required some equipment upgrades. Construction expenditures for Phase I compliance totaled approximately $300 million.

For Phase II sulfur dioxide compliance, Southern Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Also, equipment to control nitrogen oxide emissions will be installed on additional system fossil-fired units as necessary to meet Phase II limits and ozone non-attainment requirements for metropolitan Atlanta through 2000. Current compliance strategy for Phase II and ozone non-attainment could require total estimated construction expenditures of approximately $70 million, of which $16 million remains to be spent.

A significant portion of costs related to the acid rain provision 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.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the new rules. The final rules affect 22 states including Alabama and Georgia. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various other matters including: nitrogen oxide emission control strategies for ozone non-attainment areas; additional controls for hazardous air pollutant emissions; control strategies to reduce regional haze; and hazardous waste disposal requirements. The impact of 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 costs and have recognized in their respective financial statements costs to clean up known sites. These costs for Southern Company amounted to $6 million in 1998 and $4 million in 1997. In 1996, the company was reimbursed $6 million for amounts previously expensed. 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 a site in Brunswick, Georgia.

Several major pieces of environmental legislation are being 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 1999 -- 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. Any portion of the common stock required during 1999 for the company's stock plans that is not provided from the issuance of new stock will be acquired on the open market in accordance with the terms of such plans.

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.

The operating companies historically have relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for their benefit by public authorities, to meet their long-term external financing requirements. Recently, the operating companies' financings have consisted of unsecured debt and trust preferred securities. In this regard, the operating companies sought and obtained stockholder approval in 1997 or 1998 to amend their respective corporate charters eliminating restrictions on the amounts of unsecured indebtedness they may incur.

To meet short-term cash needs and contingencies, Southern Company had approximately $872 million of cash and cash equivalents and $4.6 billion of unused credit arrangements with banks at the beginning of 1999.

Cautionary Statement Regarding Forward-Looking Information

Southern Company's 1998 Annual Report contains forward-looking and historical information. The company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information;

accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the markets of the subsidiary companies; potential business strategies -- including acquisitions or dispositions of assets or internal restructuring -- that may be pursued by the company; state and federal rate regulation in the United States; Year 2000 issues; changes in or application of environmental and other laws and regulations to which the company and its subsidiaries are subject; political, legal and economic conditions and developments in the United States and in foreign countries in which the subsidiaries operate; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities; and other factors discussed in the reports -- including Form 10-K -- filed from time to time by the company with the SEC.

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 1998, 1997, and 1996
Southern Company and Subsidiary Companies 1998 Annual Report

	1998	1997	1996
		(in millions)	
Operating Revenues	**$11,403**	$12,611	$10,358
Operating Expenses:			
Operation --			
Fuel	**2,371**	2,281	2,245
Purchased power	**1,243**	3,033	1,103
Other	**2,112**	1,930	1,860
Maintenance	**887**	763	782
Depreciation and amortization	**1,539**	1,367	1,133
Taxes other than income taxes	**599**	572	634
Income taxes	**678**	725	747
Write down of South American assets (Note 5)	**308**	-	-
Write down of Rocky Mountain plant (Note 3)	**34**	-	-
Income tax benefit for write down of assets	**(121)**	-	-
Total operating expenses	**9,650**	10,671	8,504
Operating Income	**1,753**	1,940	1,854
Other Income:			
Interest income	**243**	152	54
Equity in earnings of unconsolidated subsidiaries	**123**	35	6
Other, net	**57**	24	40
Income tax benefits (expenses) applicable to other income	**8**	34	(10)
Windfall profits tax assessed in United Kingdom (Note 8)	**-**	(148)	-
Income Before Interest Charges	**2,184**	2,037	1,944
Interest Charges and Other:			
Interest on long-term debt	**712**	678	530
Interest on notes payable	**108**	112	107
Amortization of debt discount, premium, and expense, net	**65**	34	33
Other interest charges	**68**	49	27
Minority interests in subsidiaries	**80**	29	13
Distributions on capital and preferred securities of subsidiary companies	**149**	120	22
Preferred dividends of subsidiary companies	**25**	43	85
Interest charges and other, net	**1,207**	1,065	817
Consolidated Net Income	**$ 977**	$ 972	$ 1,127
Common Stock Data: (Note 9)			
Average number of shares of common stock outstanding (in millions)	**697**	685	673
Basic and diluted earnings per share of common stock	**$1.40**	$1.42	$1.68
Cash dividends paid per share of common stock	**$1.34**	$1.30	$1.26

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1998, 1997, and 1996
Southern Company and Subsidiary Companies 1998 Annual Report

	1998	1997	1996
		(in millions)	
Operating Activities:			
Consolidated net income	**$ 977**	$ 972	$ 1,127
Adjustments to reconcile consolidated net income to net cash provided from operating activities --			
Depreciation and amortization	**1,773**	1,592	1,338
Deferred income taxes and investment tax credits	**(22)**	(5)	57
Gain on asset sales	**(61)**	(25)	(59)
Write down of South American assets	**308**	-	-
Write down of Rocky Mountain plant	**34**	-	-
Other, net	**(199)**	(64)	50
Changes in certain current assets and liabilities excluding effects from acquisitions --			
Receivables, net	**151**	(229)	(25)
Fossil fuel stock	**(35)**	53	57
Materials and supplies	**(10)**	21	47
Accounts payable	**(17)**	138	19
Other	**(151)**	172	(210)
Net cash provided from operating activities	**2,748**	2,625	2,401
Investing Activities:			
Gross property additions	**(2,005)**	(1,859)	(1,229)
Southern Energy business acquisitions, net of cash acquired	**(998)**	(2,925)	-
Sales of property	**281**	32	211
Other	**86**	(13)	(275)
Net cash used for investing activities	**(2,636)**	(4,765)	(1,293)
Financing Activities:			
Proceeds --			
Common stock	**234**	360	171
Preferred stock	**200**	-	-
Capital and preferred securities	**435**	1,321	322
First mortgage bonds	**-**	-	85
Other long-term debt	**2,973**	2,499	1,570
Redemptions --			
Common stock repurchased	**(125)**	-	-
Preferred stock	**(239)**	(660)	(179)
First mortgage bonds	**(1,487)**	(168)	(426)
Other long-term debt	**(599)**	(802)	(1,754)
Increase (decrease) in notes payable, net	**(353)**	509	(268)
Payment of common stock dividends	**(933)**	(889)	(846)
Miscellaneous	**53**	126	(110)
Net cash provided from (used for) financing activities	**159**	2,296	(1,435)
Net Increase (Decrease) in Cash and Cash Equivalents	**271**	156	(327)
Cash and Cash Equivalents at Beginning of Year	**601**	445	772
Cash and Cash Equivalents at End of Year	**$ 872**	$ 601	$ 445
Supplemental Cash Flow Information:			
Cash paid during the year for --			
Interest (net of amount capitalized)	**$998**	$876	$677
Income taxes	**$839**	$823	$706
Southern Energy business acquisitions --			
Fair value of assets acquired	**$1,072**	$4,768	$-
Less cash paid for common stock	**998**	2,925	-
Liabilities assumed	**$ 74**	$1,843	$-

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS
At December 31, 1998 and 1997
Southern Company and Subsidiary Companies 1998 Annual Report

Assets	1998	1997
		(in millions)
Utility Plant:		
Plant in service (Note 1)	**$35,364**	$34,044
Less accumulated provision for depreciation	**13,239**	11,934
	22,125	22,110
Nuclear fuel, at amortized cost	**217**	230
Construction work in progress (Note 4)	**1,782**	1,312
Total	**24,124**	23,652
Other Property and Investments:		
Goodwill, net of accumulated amortization of $106 million in 1998 and $55 million in 1997 (Note 13)	**2,067**	1,888
Property rights, net of accumulated amortization of $169 million in 1998 and $108 million in 1997	**1,185**	1,389
Equity investments in unconsolidated subsidiaries	**1,560**	1,168
Nuclear decommissioning trusts	**516**	387
Miscellaneous	**644**	742
Total	**5,972**	5,574
Current Assets:		
Cash and cash equivalents	**872**	601
Special deposits	**87**	103
Receivables, less accumulated provisions for uncollectible accounts of $113 million in 1998 and $77 million in 1997	**1,797**	2,007
Fossil fuel stock, at average cost	**252**	218
Materials and supplies, at average cost	**515**	493
Prepayments	**102**	98
Vacation pay deferred	**81**	79
Total	**3,706**	3,599
Deferred Charges and Other Assets:		
Deferred charges related to income taxes (Note 8)	**1,036**	1,142
Prepaid pension costs	**491**	383
Debt expense, being amortized	**129**	101
Premium on reacquired debt, being amortized	**294**	285
Miscellaneous	**440**	519
Total	**2,390**	2,430
Total Assets	**$36,192**	$35,255

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

Capitalization and Liabilities	1998	1997
		(in millions)
Capitalization (See accompanying statements):		
Common stock equity	**$ 9,797**	$ 9,647
Preferred stock of subsidiaries	**369**	493
Company or subsidiary obligated mandatorily redeemable capital and preferred securities	**2,179**	1,744
Long-term debt	**10,472**	10,274
Total	**22,817**	22,158
Current Liabilities:		
Amount of securities due within one year	**1,526**	784
Notes payable	**1,828**	2,064
Accounts payable	**1,027**	1,049
Customer deposits	**125**	133
Taxes accrued --		
Federal and state income	**50**	120
Other	**299**	259
Interest accrued	**233**	262
Vacation pay accrued	**112**	108
Miscellaneous	**542**	608
Total	**5,742**	5,387
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 8)	**4,481**	4,650
Deferred credits related to income taxes (Note 8)	**715**	746
Accumulated deferred investment tax credits	**723**	754
Employee benefits provisions	**474**	431
Minority interests in subsidiaries	**535**	435
Prepaid capacity revenues	**96**	110
Department of Energy assessments	**64**	72
Disallowed Plant Vogtle capacity buyback costs	**54**	56
Storm damage reserves	**24**	38
Miscellaneous	**467**	418
Total	**7,633**	7,710
Commitments and Contingent Matters (Notes 1, 2, 3, 4, 5, 7, 12, and 13)		
Total Capitalization and Liabilities	**$36,192**	$35,255

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION
At December 31, 1998 and 1997
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		1998	1997	**1998**	1997
			(in millions)		(percent of total)
Common Stock Equity:					
Common stock, par value $5 per share --					
Authorized -- 1 billion shares					
Issued -- 1998: 700 million shares					
-- 1997: 693 million shares					
Par value		**$ 3,499**	$ 3,467		
Paid-in capital		**2,463**	2,331		
Treasury, at cost (Note 9)		**(58)**	-		
Retained earnings (Note 9)		**3,878**	3,842		
Accumulated other comprehensive income		**15**	7		
Total common stock equity		**9,797**	9,647	**42.9%**	43.5%
Cumulative Preferred Stock of Subsidiaries:					
$100 par or stated value --					
4.20% to 7.00%		**135**	136		
$25 par or stated value --					
5.20% to 6.80%		**200**	131		
Adjustable and auction rates -- at 1/1/99:					
4.00% to 4.30%		**120**	226		
Total (annual dividend requirement -- $23 million)		**455**	493		
Less amount due within one year		**86**	-		
Total excluding amount due within one year		**369**	493	**1.6**	2.2
Company or Subsidiary Obligated Mandatorily Redeemable Capital and Preferred Securities (Note 10):					
$25 liquidation value --					
6.85% to 7.00%		**235**	-		
7.13% to 7.38%		**297**	97		
7.60% to 7.63%		**415**	415		
7.75%		**649**	649		
8.14% to 9.00%		**583**	583		
Total (annual distribution requirement -- $168 million)		**2,179**	1,744	**9.6**	7.9
Long-Term Debt of Subsidiaries:					
First mortgage bonds --					
Maturity	Interest Rates				
1998	5.00% to 8.67%	**-**	238		
1999	6.13% to 8.67%	**373**	373		
2000	6.00% to 8.67%	**209**	349		
2001	8.67%	**9**	9		
2002	6.85% to 8.67%	**10**	260		
2003	6.13% to 8.67%	**635**	635		
2004 through 2008	6.07% to 8.67%	**197**	372		
2009 through 2013	8.67%	**75**	75		
2014 through 2018	8.67%	**56**	56		
2019 through 2023	7.30% to 8.75%	**614**	1,298		
2024 through 2028	6.88% to 9.00%	**287**	287		

CONSOLIDATED STATEMENTS OF CAPITALIZATION (continued)

At December 31, 1998 and 1997

Southern Company and Subsidiary Companies 1998 Annual Report

	1998	1997	1998	1997
	(in millions)		(percent of total)	
Other long-term debt --				
Pollution control revenue bonds --				
Collateralized:				
4.38% to 6.75% due 2000-2026	**954**	1,154		
Variable rates (3.10% to 5.25% at 1/1/99) due 2011-2025	**639**	639		
Non-collateralized:				
6.75% to 7.25% due 2003-2020	**110**	110		
5.80% due 2022	**-**	10		
Variable rates (3.15% to 5.33% at 1/1/99) due 2021-2037	**880**	670		
Long-term notes payable --				
5.21% to 11.00% due 1998-2002	**-**	481		
6.13% to 11.00% due 1999-2002	**437**	-		
5.35% to 10.00% due 2003-2004	**361**	47		
5.49% to 10.50% due 2005	**551**	73		
6.80% to 8.14% due 2006	**582**	578		
7.16% to 10.25% due 2007	**447**	475		
3.66% to 10.56% due 2008-2015	**959**	362		
6.38% to 8.12% due 2018-2038	**803**	20		
6.88% to 7.13% due 2047-2048	**729**	194		
Adjustable rates (5.23% to 7.10% at 1/1/99) due 1998-2001	**397**	710		
Adjustable rates (6.58% at 1/1/99) due 2002	**793**	847		
Adjustable rates (3.96% at 1/1/99) due 2004	**516**	478		
Adjustable rates (6.93% to 7.57% at 1/1/99) due 2005-2007	**252**	201		
Capitalized lease obligations	**135**	142		
Unamortized debt premium (discount), net	**(98)**	(85)		
Total long-term debt (annual interest requirement -- $771 million)	**11,912**	11,058		
Less amount due within one year (Note 11)	**1,440**	784		
Long-term debt excluding amount due within one year	**10,472**	10,274	**45.9**	46.4
Total Capitalization	**$22,817**	$22,158	**100.0%**	100.0%

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 1998, 1997, and 1996
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	1998	1997	1996
		(in millions)	
Consolidated Net Income	**$977**	$972	$1,127
Other comprehensive income:			
Foreign currency translation adjustments	**12**	(10)	31
Gain on investments realized in net income	**-**	-	(42)
Less applicable income taxes (benefits)	**4**	(3)	(4)
Consolidated Comprehensive Income	**$985**	$965	$1,120

CONSOLIDATED STATEMENTS OF PAID-IN CAPITAL
For the Years Ended December 31, 1998, 1997, and 1996

	1998	1997	1996
		(in millions)	
Balance at Beginning of Year	**$2,331**	$2,053	$1,920
Proceeds from sales of common stock over the par value -- 6.3 million, 16.4 million, and 7.5 million shares in 1998, 1997, and 1996, respectively	**132**	278	133
Balance at End of Year	**$2,463**	$2,331	$2,053

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Years Ended December 31, 1998, 1997, and 1996

	1998	1997	1996
		(in millions)	
Balance at Beginning of Year	**$3,842**	$3,764	$3,483
Consolidated net income	**977**	972	1,127
	4,819	4,736	4,610
Cash dividends on common stock	**933**	889	846
Capital and preferred stock transactions, net	**8**	5	-
Balance at End of Year (Note 9)	**$3,878**	$3,842	$3,764

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME
For the Years Ended December 31, 1998, 1997, and 1996

	1998	1997	1996
		(in millions)	
Balance at Beginning of Year	**$ 7**	$14	$ 21
Change during the year	**8**	(7)	(7)
Balance at End of Year	**$15**	$ 7	$14

The accompanying notes are an integral part of these statements.

1. 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 Company Energy Solutions, Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), 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 -- dealing with 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 (SEC). 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 Company Energy Solutions develops new business opportunities related to energy products and services. Worldwide, Southern Energy develops and manages electricity and other energy related projects, including domestic energy trading and marketing. Southern Nuclear provides services to Southern Company's nuclear power plants.

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 generally accepted accounting principles and comply with the accounting policies and practices prescribed by their respective commissions. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates, and the actual results may differ from those estimates. All material intercompany items have been eliminated in consolidation.

The consolidated financial statements reflect investments in controlled subsidiaries on a consolidated basis and other investments on an equity basis. Certain prior years' data presented in the consolidated financial statements have been reclassified to conform with the current year presentation.

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 to the operating companies 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:

	1998	1997
	(in millions)	
Deferred income taxes	**$1,036**	$1,142
Deferred Plant Vogtle costs	**-**	50
Premium on reacquired debt	**294**	285
Demand-side programs	**-**	11
Department of Energy assessments	**57**	63
Vacation pay	**81**	79
Deferred fuel charges	**-**	4
Postretirement benefits	**36**	38
Work force reduction costs	**17**	37
Deferred income tax credits	**(715)**	(746)
Storm damage reserves	**(24)**	(36)
Other, net	**145**	152
Total	**$ 927**	$1,079

In the event that a portion of an operating company's operations is no longer subject to the provisions of FASB Statement No. 71, the company would be required to write off related net 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.

Revenues and Fuel Costs

The operating companies accrue revenues for service rendered but unbilled at the end of each fiscal period. Fuel costs are expensed as the fuel is used. The operating companies' electric rates 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 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 1998, $144 million in 1997, and $142 million in 1996. 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. Although disposal was scheduled to begin in 1998, the actual year this service will begin is uncertain. The DOE failed to begin disposing of spent fuel in January 1998, as required by the contracts, and the companies are pursuing legal remedies against the government for breach of contract. Sufficient storage capacity currently is available to permit operation into 2003 at Plant Hatch, into 2017 at Plant Vogtle, and into 2009 and 2013 at Plant Farley units 1 and 2, respectively. Plant Vogtle's spent fuel storage capacity includes the installation in 1998 of additional rack capacity. Activities for adding dry cask storage capacity at Plant Hatch by as early as 1999 are in progress.

Also, the Energy Policy Act of 1992 required the establishment in 1993 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, 1998, under this law to be approximately $31 million and $24 million. These obligations are recorded in the Consolidated Balance Sheets.

Depreciation and Nuclear Decommissioning

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.4 percent in 1998, 3.4 percent in 1997, and 3.3 percent in 1996. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost -- together with the cost of removal, less salvage -- is charged to the accumulated provision for 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 additional depreciation of electric plant amounting to $316 million in 1998, $159 million in 1997, and $24 million in 1996. The accumulated depreciation related to these charges is $505 million at December 31, 1998. See Note 3 under "Georgia Power 1998 Retail Rate Order" for additional information.

The Nuclear Regulatory Commission (NRC) requires all licensees operating commercial 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 of December 31, 1998, for Alabama Power's Plant Farley

and Georgia Power's ownership interests in plants Hatch and Vogtle were as follows:

	Plant Farley	Plant Hatch	Plant Vogtle
Site study basis (year)	1998	1997	1997
Decommissioning periods:			
Beginning year	2017	2014	2027
Completion year	2031	2027	2038
		(in millions)	
Site study costs:			
Radiated structures	$629	$372	$317
Non-radiated structures	60	33	44
Total	$689	$405	$361
		(in millions)	
Ultimate costs:			
Radiated structures	$1,868	$722	$ 922
Non-radiated structures	178	65	129
Total	$2,046	$787	$1,051
Significant assumptions:			
Inflation rate	4.5%	3.6%	3.6%
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 1998 and fund balances were as follows:

	Plant Farley	Plant Hatch	Plant Vogtle
		(in millions)	
Amount expensed in 1998	**$ 18**	**$ 11**	**$ 9**
Accumulated provisions:			
Balance in external trust funds	$232	$172	$112
Balance in internal reserves	42	19	12
Total	$274	$191	$124

Alabama Power's decommissioning costs for ratemaking are based on the site study. For Georgia Power effective January 1, 1999, the GPSC increased the annual provision for decommissioning expenses to $26 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 1997. The estimates are $526 million and $438 million for plants Hatch and Vogtle, respectively. The ultimate costs associated with the 1997 NRC minimum funding requirements are $1.1 billion and $1.3 billion for plants Hatch and Vogtle, respectively. Significant assumptions include an estimated inflation rate of 3.6 percent and an estimated trust earnings rate of 6.5 percent. 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.

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.

Utility Plant

Utility plant is stated at original cost less regulatory disallowances. 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 maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property -- exclusive of minor items of property -- is charged to utility plant.

Property Rights

Included in property rights are leasehold interests in Southern Energy's power generation facilities that are developed under build, operate, and transfer agreements with foreign governments. Southern Energy's construction costs are initially recorded as construction work in progress, and -- after completion -- these costs are recorded as leasehold interests. These costs are amortized over the length of time the facility is operated before transferring ownership to the local government. Also included in property rights is a concession agreement assigned in 1993 by the Argentine government to Southern Energy for the operation of a hydroelectric plant.

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.

Foreign Currency Translation

Assets and liabilities of Southern Company's international operations, where the local currency is the functional currency, have been translated at year-end exchange rates, and revenues and expenses have been translated using average exchange rates prevailing during the year. Adjustments resulting from translation have been recorded in other comprehensive income. The financial statements of international operations, where the U.S. dollar is the functional currency, reflect certain transactions denominated in the local currency that have been remeasured in U.S. dollars. The remeasurement of local currencies into U.S. dollars creates gains and losses from foreign currency transactions that are included in consolidated net income. Foreign exchange gains and losses are not material for all periods presented.

Comprehensive Income

In 1998, Southern Company adopted FASB Statement No. 130, Reporting Comprehensive Income. This statement establishes rules for the reporting and display of comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the consolidated financial statements. The objective of the statement 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 for Non-Trading Activities

Non-trading derivative financial instruments are used 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 when the hedged transaction occurs.

The company utilizes interest rate swaps and cross currency interest rate swaps to minimize borrowing costs by changing the interest rate and currency of the original borrowing. For qualifying hedges, the interest rate differential is reflected as an adjustment to interest expense over the life of the swaps.

Southern Company's international operations are exposed to the effects of foreign currency exchange rate fluctuations. To protect against this exposure, the company utilizes currency swaps to hedge its net investment in certain foreign subsidiaries, which has the effect of converting foreign currency cash inflows into U.S. dollars at fixed exchange rates. Gains or losses on these currency swaps, designated as hedges of net investments, are offset against the translation effects reflected in other comprehensive income, net of tax.

Non-trading financial derivative instruments held at December 31, 1998, were as follows:

Type	Year of Maturity or Termination	Notional Amount	Unrecognized Gain (Loss)
		(in millions)	
Interest rate swaps:	2002-2016	**$928**	**$(69)**
	2001-2012	**£600**	**$(130)**
	2002-2007	**DM691**	**$(30)**
Cross currency swaps	2001-2007	**£429**	**$11**
Cross currency swaption	2003	**DM555**	**$(18)**

£ - Denotes British pound sterling.
DM - Denotes Deutschemark.

The 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 company is unaware of any counterparties that will fail to meet their obligations.

In the United Kingdom, the company utilizes contracts to mitigate its exposure to volatility in the prices of electricity purchased through the wholesale electricity market. These contracts allow the company to effectively convert the majority of its anticipated wholesale electricity purchases from market prices to fixed prices. The gains and losses on these contracts are deferred and recognized as electricity is purchased. Recently, a market has developed for trading these contracts in the United Kingdom. However, due to the immaturity of this market and the complexity of the company's existing contracts, it is not practicable to estimate the fair value of these contracts.

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

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
At December 31, 1998	**$11,777**	**$11,626**
At December 31, 1997	10,916	11,160
Capital and preferred securities:		
At December 31, 1998	**2,179**	**2,288**
At December 31, 1997	1,744	1,826

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.

Financial Instruments for Trading Activities

Effective in January 1998, Southern Energy and Vastar Resources, Inc. (Vastar) combined their energy trading and marketing activities to form a joint venture. Southern Energy's investment in the joint venture is accounted for under the equity method of accounting. See Note 5 under "Energy Trading and Marketing Commitments" for additional information. Financial statement disclosure related to Southern Energy's energy trading and marketing activities for 1997 -- prior to the formation of the joint venture was presented as follows:

Derivative financial instruments used for trading purposes primarily relate to commodities associated with the energy sector, such as electricity, natural gas, and crude oil. These instruments were recorded at fair value for balance sheet purposes. The determination of fair value considers various factors, such as closing exchange prices, broker price quotations, and model pricing. Model pricing considers time value and volatility factors underlying any options and contractual commitments. These transactions were accounted for using the mark-to-market method of accounting in which the unrealized gains or losses resulting from the impact of price movements are recognized as net gains or losses in the consolidated statements of income. If the company has a master netting agreement with counterparties, net positions were recognized for consolidated balance sheet and income statement purposes.

In 1997, the company provided price risk management services by entering into a variety of contractual commitments such as price cap and floor agreements, futures contracts, forward purchase and sale agreements, and option contracts. These contracts generally require future settlement, and are either executed on an exchange or traded as over-the-counter (OTC) instruments. Contractual commitments had widely varying terms and durations that ranged from a few hours to a number of years depending on the instrument. The majority of the company's transactions at December 31, 1997, were short-term in duration, with a weighted average maturity of approximately 1.3 years.

All contractual commitments used for trading purposes were recorded at fair value. Contracts in a net receivable position, as well as options held, were reported as assets. Similarly, contractual commitments in a net payable position, as well as options written, were reported as liabilities. The net unrealized gain from risk management services amounted to $8 million at December 31, 1997. Contractual commitments reflected in the Consolidated Balance Sheets at December 31, 1997 were as follows:

1997	Net Notional Amounts (Kilowatt-Hours)	Fair Value	
		Assets	Liabilities
		(in millions)	
Exchange-issued products:			
Futures contracts	904	$14	$15
Other	958	1	1
Total	1,862	15	16
OTC products:			
Forward contracts	2,643	69	62
Swaps	(473)	1	-
Other	639	9	8
Total	2,809	79	70
Total	4,671	$94	$86

Notional amounts -- stated in equivalent millions of kilowatt-hours -- are indicative only of the volume of activity and are not a measure of market risk. Notional amounts of natural gas and crude oil positions are reflected in equivalent kilowatt-hours based on standard conversion rates.

The annual average gross balances of the company's options and contractual commitments used for trading purposes, based on month-end balances were as follows:

1997	Average Fair Value Assets	Liabilities
	(in millions)	
Commodity instruments:		
Electricity	$97	$94
Gas	6	6
Other	7	6

2. RETIREMENT BENEFITS

Southern Company has defined benefit, trusteed, pension plans that cover substantially all employees. In the United States, Southern Company provides certain medical care and life insurance benefits for retired employees. Substantially all these employees may become eligible for such benefits when they retire. The operating companies fund trusts to the extent deductible under federal income tax regulations or to the extent required by their respective regulatory commissions. In 1998, Southern Company adopted FASB Statement No. 132 Employers' Disclosure about Pensions and Other Postretirement Benefits. The measurement date is September 30 for each year.

Pension Plans

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

	Projected Benefit Obligations **1998**	1997
	(in millions)	
Balance at beginning of year	**$3,701**	$3,624
Service cost	**99**	94
Interest cost	**273**	271
Benefits paid	**(201)**	(163)
Actuarial (gain) loss	**298**	(125)
Balance at end of year	**$4,170**	$3,701

	Plan Assets **1998**	1997
	(in millions)	
Balance at beginning of year	**$5,931**	$5,212
Actual return on plan assets	**223**	911
Employer contributions	**4**	9
Benefits paid	**(180)**	(201)
Balance at end of year	**$5,978**	$5,931

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

	1998	1997
	(in millions)	
Funded status	**$ 1,808**	$ 2,230
Unrecognized transition obligation	**(89)**	(101)
Unrecognized prior service cost	**119**	126
Unrecognized net gain	**(1,347)**	(1,874)
Fourth quarter contributions	**-**	2
Prepaid asset recognized in the Consolidated Balance Sheets	**$ 491**	$ 383

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in millions)		
Service cost	**$ 99**	$ 94	$ 99
Interest cost	**273**	271	267
Expected return on plan assets	**(425)**	(394)	(378)
Recognized net gain	**(47)**	(42)	(29)
Net amortization	**(9)**	(9)	(12)
Net pension cost (income)	**$(109)**	$ (80)	$ (53)

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

	1998	1997
Discount	**6.75%**	7.50%
Annual salary increase	**4.25**	5.00
Long-term return on plan assets	**8.50**	8.50

Postretirement Benefits

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

	Projected Benefit Obligations **1998**	1997
	(in millions)	
Balance at beginning of year	**$ 935**	$870
Service cost	**18**	18
Interest cost	**69**	67
Benefits paid	**(35)**	(27)
Actuarial (gain) loss	**50**	7
Balance at end of year	**$1,037**	$935

	Plan Assets	
	1998	1997
	(in millions)	
Balance at beginning of year	**$294**	$260
Actual return on plan assets	**8**	32
Employer contributions	**69**	29
Benefits paid	**(35)**	(27)
Balance at end of year	**$336**	$294

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

	1998	1997
	(in millions)	
Funded status	**$(701)**	$(641)
Unrecognized transition obligation	**219**	233
Unrecognized prior service cost	**-**	(4)
Unrecognized net loss (gain)	**117**	68
Fourth quarter contributions	**30**	41
Accrued liability recognized in the Consolidated Balance Sheets	**$(335)**	$(303)

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
		(in millions)	
Service cost	**$ 18**	$ 18	$ 20
Interest cost	**69**	66	60
Expected return on plan assets	**(21)**	(18)	(14)
Recognized net gain	**2**	3	3
Net amortization	**14**	17	15
Net postretirement cost	**$ 82**	$ 86	$ 84

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005, 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, 1998 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	**$75**	**$(63)**
Service and interest costs	**7**	**(6)**

Work Force Reduction Programs

Southern Company has incurred additional costs for work force reduction programs. The costs related to these programs were $32 million, $50 million, and $85 million, for the years 1998, 1997, and 1996, respectively. In addition, certain costs of these programs were deferred and are being amortized in accordance with regulatory treatment. The unamortized balance of these costs was $17 million at December 31, 1998.

3. LITIGATION AND REGULATORY MATTERS

Alabama Power Appliance Warranty Litigation

In 1996, a class action against Alabama Power was filed charging Alabama Power with fraud and non-compliance with regulatory statutes relating to the offer, sale, and financing of "extended service contracts" in connection with the sale of electric appliances. The plaintiffs seek damages in an unspecified amount. Alabama Power has offered extended service agreements to its customers since January 1984, and approximately 175,000 extended service agreements could be involved in these proceedings. The trial court has granted partial summary judgment in favor of the plaintiffs. Alabama Power has appealed this decision to the Supreme Court of Alabama. The final outcome of this case cannot now be determined.

Alabama Power Environmental Litigation

On November 30, 1998, total judgments of nearly $53 million were entered in favor of five plaintiffs against Alabama Power and two large textile manufacturers. The plaintiffs alleged that the manufacturers had discharged certain polluting substances into a stream that empties into Lake Martin, a hydroelectric reservoir owned by Alabama Power, and that such discharges had reduced the value of the plaintiffs' residential lots on Lake Martin. Of the total amount of the judgments, $155 thousand was compensatory damages and the remainder was punitive damages. The damages were assessed against all three defendants jointly. Post-trial motions have been filed, and, if relief is not granted at the trial court level, Alabama Power will appeal these judgments to the Supreme Court of Alabama. While Alabama Power believes that these judgments should be reversed or set aside, the final outcome of this matter cannot now be determined.

Georgia Power Potentially Responsible Party Status

In January 1995, Georgia Power and four other unrelated entities were notified by the Environmental Protection Agency (EPA) that they have been designated as potentially responsible parties under the Comprehensive Environmental Response, Compensation, and Liability Act with respect to a site in Brunswick, Georgia. As of December 31, 1998, Georgia Power had recorded approximately $5 million in cumulative expenses associated with the site. This represents Georgia Power's agreed-upon share of the removal and remedial investigation and feasibility study costs.

The final outcome of this matter cannot now be determined. However, based on the nature and extent of Georgia Power's activities relating to the site, management believes that the company's portion of any remaining remediation costs should not be material to the financial statements.

FERC Review of Equity Returns

On September 21, 1998, the FERC entered separate orders affirming the outcome of the administrative law judge's opinions in two proceedings in which the return on common equity component of formula rates contained in substantially all of the operating companies' wholesale power contracts was being challenged as unreasonably high. These orders resulted in no change in the wholesale power contracts that were the subject of such proceedings. The FERC also dismissed a complaint filed by three customers under long-term power sales agreements seeking to lower the equity return component in such agreements. These customers have filed applications for rehearing regarding each FERC order. In response to a requirement of the September 1998 FERC orders, Southern Company filed a new equity return component on the long-term power sales contracts, to be effective January 5, 1999. The proposed equity return was lowered from 13.75 percent to 12.50 percent. If the filed equity return is approved, the estimated impact on Southern Company's revenues will be approximately $7 million annually. The FERC placed the new rates into effect subject to refund. Also, this filing was consolidated with the new proceeding discussed below.

On December 28, 1998, the FERC staff filed a motion asking the FERC to initiate a new proceeding regarding the equity return and other issues involving the operating companies' formula rate contracts. The motion was submitted pursuant to review procedures applicable to these contracts, and would be applicable to billings under such contracts on and after January 1, 1999.

Southern Company Tax Litigation

In August 1997, Southern Company and the Internal Revenue Service (IRS) entered into a settlement agreement related to tax issues for the years 1984 through 1987. The agreement received final approval by the Joint Congressional Committee on Taxation in June 1998 and as a result, Alabama Power and Georgia Power recognized interest income in 1998 of $14 million and $69 million, respectively. The refund by the IRS has been received and this matter is now concluded.

Mobile Energy Services Petition for Bankruptcy

On January 14, 1999, Mobile Energy Services Company, LLC (MESC) -- an indirect subsidiary of Southern Company -- filed a petition for Chapter 11 bankruptcy relief in the U.S. Bankruptcy Court for the Southern District of Alabama. MESC 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. This action is in response to Kimberly-Clark Tissue Company's announcement in May 1998 of plans to close its pulp mill, effective September 1, 1999. As a part of the filing, MESC also is seeking payment for damages from Kimberly-Clark Tissue Company. MESC will continue to operate the facility as debtors-in possession, subject to the supervision and orders of the bankruptcy court. A reorganization plan has not yet been filed by MESC.

Southern Company's equity investment in MESC was $20 million and MESC's total assets were $392 million at December 31, 1998. MESC contributed $4 million and $6 million to consolidated net income in 1998 and 1997, respectively. At December 31, 1998, MESC had senior debt outstanding of $234 million of first mortgage bonds and $85 million related to tax-exempt bonds. MESC paid in January 1999 its regular semi-annual payment of $17 million to its bondholders. The final outcome of this matter 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. 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.

In June 1995, the APSC issued a rate order granting Alabama Power's request for gradual adjustments to move toward parity among customer classes. This order also calls for a moratorium on any periodic retail rate increases (but not decreases) until July 2001.

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. In April 1997, the APSC issued an additional order authorizing Alabama Power to reduce balance sheet asset items. This order authorizes the reduction of such items up to an amount equal to five times the total estimated annual revenue reduction resulting from future rate reductions initiated by Alabama Power. In 1998, Alabama Power -- in accordance with the 1995 rate order -- recorded $33 million of additional amortization of premium on reacquired debt.

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

Georgia Power Investment in Rocky Mountain

In its 1985 financing order, the GPSC concluded that completion of the Rocky Mountain pumped storage hydroelectric plant in 1991 as then planned was not economically justifiable and reasonable and withheld authorization for Georgia Power to spend funds from approved securities issuances on that plant. In 1988, Georgia Power and Oglethorpe Power Corporation (OPC) entered into a joint ownership agreement for OPC to assume responsibility for the construction and operation of the plant. The plant went into commercial operation in 1995.

In June 1996, the GPSC initiated a review of this plant. On January 14, 1998, the GPSC ordered that Georgia Power be allowed to include approximately $108 million of its $142 million investment in rate base as of December 31, 1998. In December 1998, Georgia Power recorded a write down of $34 million -- $21 million after taxes -- on its investment in Rocky Mountain as a result of the GPSC's 1998 retail rate order discussed later. This matter is now concluded.

Georgia Power 1998 Retail Rate Order

As required by the GPSC, Georgia Power filed a general rate case in 1998. On December 18, 1998, the GPSC approved a new three-year rate order for Georgia Power. Under the terms of the order, Georgia Power's earnings will continue to be evaluated against a retail return on common equity range of 10 percent to 12.5 percent. Georgia Power's annual retail rates will be decreased by $262 million effective January 1, 1999, and by an additional $24 million effective January 1, 2000. The order further provides for $85 million each year, and up to an additional $50 million annually in 2000 and 2001 of any earnings in excess of the 12.5 percent return, to be applied to accelerated amortization or depreciation of assets. Two-thirds of any additional earnings in excess of the 12.5 percent return in any year will be applied to rate reductions and the remaining one-third retained by Georgia Power. During the term of the order, 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, 2001. At that time, the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

4. CONSTRUCTION PROGRAM

Southern Company is engaged in continuous construction programs, currently estimated to total some $2.6 billion in 1999, $2.1 billion in 2000, and $2.1 billion in 2001. 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, 1998, significant purchase commitments were outstanding in connection with the construction program. The operating companies have approximately 2,700 megawatts of combined cycle generation scheduled to be placed in service by 2001. Southern Energy has under construction some 1,300 megawatts of owned capacity. In addition, significant construction will continue related to transmission and distribution facilities and the upgrading of generating plants.

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.

5. INVESTMENTS, FINANCING, AND COMMITMENTS

Investments

In December 1998, Southern Energy designed and implemented a plan to dispose of its Argentinean and

Chilean investments by December 31, 1999. As a result, Southern Energy recorded an after-tax write down of approximately $200 million in 1998 to reflect the difference between the carrying value of these assets and the estimated fair value of the businesses. Southern Energy estimated the fair value of the businesses held for sale based upon bids received from prospective buyers, if available, or the discounted expected future cash flows to be generated by the assets. The adjusted carrying value of these assets held for disposal at December 31, 1998 was $90 million. These assets impacted the Consolidated Statements of Income as follows:

Year	Operating Revenues	Operating Income	Consolidated Net Income
		(in millions)	
1998	**$180**	**$39**	**$ 5**
1997	180	38	5
1996	157	20	(5)

Depreciation expense was suspended beginning January 1999, and the after-tax amount of depreciation recorded in 1998 was $16 million. Southern Energy is actively pursuing and/or negotiating with potential buyers. However at this time, a definitive agreement has not been entered into.

Southern Energy acquired $670 million of generating assets in 1998 and sold an additional 26 percent interest in its United Kingdom subsidiary for $170 million. In late 1998, Southern Energy announced plans to acquire $801 million and $480 million of generating assets in California and New York, respectively. These transactions are expected to close in 1999. At December 31, 1998, Southern Energy's total assets amounted to $12 billion.

Financing

The amount and timing of additional equity capital to be raised in 1999 -- 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.

The operating companies' construction programs are expected to be financed primarily from internal sources. Short-term debt is often utilized and the amounts available are discussed below. The companies may issue additional long-term debt and preferred securities primarily for debt maturities and for redeeming higher-cost securities if market conditions permit.

Bank Credit Arrangements

At the beginning of 1999, unused credit arrangements with banks totaled $4.6 billion, of which $2.7 billion expires during 1999, $304 million during 2000 to 2001, $1.0 billion during 2002, and $593 million during 2003 and 2004. The following table outlines the credit arrangements by company:

Company	Amount of Credit		Expires	
	Total	Unused	1999	2000 & beyond
	(in millions)			
Alabama Power	**$ 758**	**$ 758**	**$ 678**	**$ 80**
Georgia Power	**1,252**	**1,252**	**722**	**530**
Gulf Power	**103**	**97**	**97**	**-**
Mississippi Power	**96**	**76**	**56**	**20**
Savannah Electric	**61**	**61**	**41**	**20**
Southern Company	**2,000**	**2,000**	**1,000**	**1,000**
Southern Energy	**907**	**340**	**71**	**269**
Other	**70**	**54**	**54**	**-**
Total	**$5,247**	**$4,638**	**$2,719**	**$1,919**

Approximately $2.0 billion of the credit facilities 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. Of the total $4.6 billion in unused credit, $1.7 billion and $1.0 billion are syndicated credit arrangements of Southern Company and Georgia Power, respectively. These facilities also require the payment of agent fees.

A portion of the $4.6 billion unused credit with banks is allocated to provide liquidity support to the companies' variable rate pollution control bonds. At December 31, 1998, the amount of the credit lines allocated for this purpose was $1.4 billion.

In addition, the companies from time to time borrow under uncommitted lines of credit with banks. Also, Southern Company, Alabama Power, Georgia Power, and Southern Energy borrow through commercial paper programs that have the liquidity support of committed bank credit arrangements.

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. Also, Southern Company has entered into various long-term commitments for the purchase of electricity. Total estimated long-term obligations at December 31, 1998, were as follows:

Year	Fuel	Purchased Power
	(in millions)	
1999	$1,674	$ 161
2000	1,248	168
2001	1,048	170
2002	860	173
2003	824	177
2004 and thereafter	3,464	1,522
Total commitments	$9,118	$2,371

Operating Leases

Southern Company has operating lease agreements with various terms and expiration dates. These expenses totaled $50 million, $33 million, and $25 million for 1998, 1997, and 1996, respectively. At December 31, 1998, estimated minimum rental commitments for noncancelable operating leases were as follows:

Year	Amounts
	(in millions)
1999	$ 46
2000	39
2001	31
2002	30
2003	29
2004 and thereafter	304
Total minimum payments	$479

Energy Trading and Marketing Commitments

In January 1998, Southern Energy and Vastar combined their energy trading and marketing activities to form a joint venture, Southern Company Energy Marketing (SCEM). Southern Company and Vastar have separately made guarantees to certain counterparties regarding performance of contractual commitments by the joint venture. Southern Company and Vastar have agreed to indemnify each other against losses under such guarantees in proportion to their respective ownership shares of SCEM. Southern Company's ownership interest is 60 percent. At December 31, 1998, outstanding guarantees related to the estimated fair value of net contractual commitments were approximately $152 million. Based upon the SCEM's statistical analysis of its credit risk, Southern Company's potential exposure under these contractual commitments would not materially differ from the estimated fair value. SCEM's gross revenues and cost of sales for 1998 were $9.2 billion and $9.1 billion, respectively.

Southern Energy has guaranteed certain minimum annual cash distributions, subject to exclusions, payable by SCEM to Vastar. These distributions before adjustments total $105 million for the period 1999-2002.

Vastar has the right -- exercisable in the period from December 1, 2002 through the first business day of 2003 -- to sell its remaining interest in SCEM to Southern Energy. The price will range from $130 million to $210 million depending on the interest owned by Vastar at that time, plus certain other contractual considerations.

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. 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.

6. FACILITY SALES AND 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, together with transmission facilities, jointly with OPC, the Municipal Electric Authority of Georgia, and the city of Dalton, Georgia. In addition, Georgia Power has joint

ownership agreements with OPC for the Rocky Mountain project and with Florida Power Corporation (FPC) for a combustion turbine unit at Intercession City, Florida.

At December 31, 1998, 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:

	Jointly Owned Facilities		
	Percent Ownership	Amount of Investment	Accumulated Depreciation
		(in millions)	
Plant Vogtle (nuclear)	**45.7%**	**$3,296**	**$1,514**
Plant Hatch (nuclear)	**50.1**	**840**	**538**
Plant Miller (coal) Units 1 and 2	**91.8**	**717**	**330**
Plant Scherer (coal) Units 1 and 2	**8.4**	**112**	**48**
Plant Wansley (coal)	**53.5**	**298**	**141**
Rocky Mountain (pumped storage)	**25.4**	**169**	**61**
Intercession City (combustion turbine)	**33.3**	**12**	*

**Less than $1 million.*

Alabama Power and Georgia 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.

7. LONG-TERM POWER SALES AGREEMENTS

The operating companies have long-term contractual agreements for the sale of capacity and energy to certain non-affiliated utilities located outside the system's service area. These agreements -- expiring at various dates discussed below -- are firm and pertain to capacity related to specific generating units. Because the energy is generally sold at cost under these agreements, profitability is primarily affected by revenues from capacity sales. The capacity revenues amounted to $196 million in 1998, $203 million in 1997, and $217 million in 1996.

Unit power from specific generating plants is currently being sold to Florida Power & Light Company (FP&L), FPC, Jacksonville Electric Authority (JEA), and the city of Tallahassee, Florida. Under these agreements, approximately 1,600 megawatts of capacity is scheduled to be sold in 1999. Thereafter, these sales will decline to some 1,500 megawatts and remain at that approximate level -- unless reduced by FP&L, FPC, and JEA for the periods after 1999 with a minimum of three years notice -- until the expiration of the contracts in 2010.

8. INCOME TAXES

At December 31, 1998, the tax-related regulatory assets and liabilities were $1.0 billion and $715 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of income tax provisions are as follows:

	1998	1997	1996
		(in millions)	
Total provision for income taxes:			
Federal --			
Currently payable	**$ 451**	$ 547	$569
Deferred -- current year	**195**	188	116
-- reversal of prior years	**(208)**	(160)	(74)
	438	575	611
State --			
Currently payable	**106**	104	82
Deferred -- current year	**28**	15	23
-- reversal of prior years	**(31)**	(19)	(9)
	103	100	96
International --			
Windfall profits tax assessed in United Kingdom	**-**	148	-
Other	**8**	16	50
Total	**549**	839	757
Less income taxes charged (credited) to other income	**(8)**	114	10
Total income taxes charged to operations	**$ 557**	$ 725	$747

The first half of the windfall profits tax assessed in the United Kingdom was paid in December 1997, and the remainder in December 1998.

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:

	1998	1997
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	**$3,315**	$3,345
Property basis differences	**1,667**	1,756
Other	**403**	269
Total	**5,385**	5,370
Deferred tax assets:		
Federal effect of state deferred taxes	**104**	108
Other property basis differences	**239**	245
Deferred costs	**132**	116
Pension and other benefits	**79**	72
Other	**293**	197
Total	**847**	738
Net deferred tax liabilities	**4,538**	4,632
Portion included in current assets, net	**(57)**	18
Accumulated deferred income taxes in the Consolidated Balance Sheets	**$4,481**	$4,650

Deferred investment tax credits are amortized over the life 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 $38 million in 1998, $30 million in 1997, and $33 million in 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal deduction	**4.1**	3.4	3.2
Non-deductible book depreciation	**4.1**	2.3	1.8
International tax credits	**(6.4)**	-	-
Windfall profits tax	**-**	8.0	-
Difference in prior years' deferred and current tax rate	**(1.3)**	(1.5)	(1.0)
Other	**(1.8)**	(1.9)	(0.5)
Effective income tax rate	**33.7%**	45.3%	38.5%

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. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

The undistributed earnings of certain foreign subsidiaries aggregated $251 million as of December 31, 1998, which, under existing tax law, will not be subject to U.S. income tax until distributed. Because the earnings have been or are intended to be indefinitely reinvested, no provision has been made for any taxes that may be applicable. It is not practicable to estimate the amount of unrecognized deferred U.S. income taxes on undistributed earnings.

9. COMMON STOCK

Treasury Stock

In July 1998, Southern Company's Board of Directors authorized the company to make open market purchases of its common stock in an aggregate amount not to exceed $300 million through March 31, 1999. The purpose of the program is to provide shares of common stock for the purchase requirements of Southern Company's various stockholder, employee, and outside director stock purchase plans. Under the program, 4.4 million shares have been repurchased and 2.4 million shares were reissued through December 31, 1998.

Shares Reserved

At December 31, 1998, a total of 45 million shares was reserved for issuance pursuant to the Southern Investment Plan, the Employee Savings Plan, the Outside Directors Stock Plan, and the Performance Stock Plan.

Performance Stock Plan

As of December 31, 1998, 302 current and former employees participated in the Performance Stock Plan. The maximum number of shares of common stock that may be issued under the new plan may not exceed 40 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 four 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 activity in 1997 and 1998 for the plan is summarized below:

	Shares Subject To Option	Average Option Price Per Share
Balance at December 31, 1996	3,825,164	$21.11
Options granted	1,776,094	21.25
Options canceled	(64,326)	22.10
Options exercised	(137,426)	19.72
Balance at December 31, 1997	5,399,506	21.15
Options granted	1,659,519	27.03
Options canceled	(23,495)	23.18
Options exercised	(603,195)	20.92
Balance at December 31, 1998	**6,432,335**	**$23.92**
Shares reserved for future grants:		
At December 31, 1996	668,062	
At December 31, 1997	38,241,376	
At December 31, 1998	**36,598,001**	
Options exercisable:		
At December 31, 1997	2,006,511	
At December 31, 1998	**2,653,591**	

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 pro forma impact on earnings of fair-value accounting for options granted -- as required by FASB Statement No. 123, Accounting for Stock-Based Compensation -- is less than 1 cent per share and is not significant to the consolidated financial statements.

Earnings Per Share

FASB Statement No. 128, Earnings per Share simplifies the methodology for computing both basic and diluted earnings per share. The only difference in the two methods for computing Southern Company's per share amounts is attributable to outstanding options under the Performance Stock Plan. The effect of the stock options was determined using the treasury stock method. Consolidated net income as reported was not affected. Shares used to compute diluted earnings per share are as follows:

	Average Common Stock Shares		
	1998	1997	1996
		(in thousands)	
As reported shares	**696,944**	685,033	672,590
Effect of options	**739**	201	200
Diluted shares	**697,683**	685,234	672,790

Common Stock Dividend Restrictions

The income of Southern Company is derived primarily from equity in earnings of its subsidiaries. At December 31, 1998, consolidated retained earnings included $3.4 billion of undistributed retained earnings of the subsidiaries. Of this amount, $2.0 billion was restricted against the payment by the subsidiary companies of cash dividends on common stock under terms of bond indentures.

10. 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, 1998, capital securities of $950 million and preferred securities of $1.2 billion were outstanding. Southern Company guarantees the notes related to $950 million of capital securities issued on its behalf.

11. 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:

	1998	1997
	(in millions)	
Bond improvement fund requirements	**$ 23**	$ 38
Less:		
Portion to be satisfied by certifying property additions	**14**	3
Cash requirements	**9**	35
First mortgage bond maturities and redemptions	**868**	349
Other long-term debt maturities	**563**	400
Total	**$1,440**	$784

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 2003 applicable to other long-term debt are as follows: $563 million in 1999; $385 million in 2000; $433 million in 2001; $1,035 million in 2002; and $387 million in 2003.

12. 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 $9.7 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 private insurance, 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 buyback 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 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 be insured against increased costs of replacement power in an amount up to $3.5 million per week -- starting 17 weeks after the outage -- for one year and up to $2.8 million per week for the second and third 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 $21 million and $25 million, respectively.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies issued or renewed on or after April 2, 1991, 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.

13. PURCHASE METHOD ACQUISITION

Southern Energy completed in 1997 the acquisition of a 100 percent interest in Consolidated Electric Power Asia (CEPA) for a total net investment of some $2.1 billion. CEPA is the largest independent power producer in Asia. The CEPA acquisition has been accounted for

under the purchase method of accounting. The acquisition cost exceeded the fair market value of net assets by approximately $1.6 billion. This amount is considered goodwill and is being amortized on a straight-line basis over 40 years.

CEPA has been included in the consolidated financial statements since January 29, 1997. The following unaudited pro forma results of operations have been prepared assuming the acquisition of CEPA, effective January 1, 1996. The pro forma results assume acquisition financing of $716 million of short-term borrowings, $792 million of long-term notes, and $600 million of capital securities. Southern Company's assumed effective composite interest rate on these obligations for each period was 6.82 percent.

These unaudited pro forma results are not necessarily indicative of the actual results that would have been realized had the acquisition occurred on the assumed dates, nor are they necessarily indicative of future results. Pro forma operating results are for information purposes only and are as follows:

	1997		1996	
	As Reported	Pro Forma	As Reported	Pro Forma
Operating revenues (in millions)	$12,611	$12,632	$10,358	$10,506
Consolidated net income (in millions)	$972	$977	$1,127	$1,109
Earnings per share	$1.42	$1.43	$1.68	$1.65

14. SEGMENT AND RELATED INFORMATION

Effective December 31, 1997, Southern Company adopted FASB Statement No. 131, Disclosure About Segments of an Enterprise and Related Information. Southern Company's principal business segment -- or its traditional core business -- is the five regulated electric utility operating companies that provide electric service in four southeastern states. The other reportable business segment is non-traditional energy services to retail and wholesale customers provided by Southern Energy, which develops and manages electricity and other energy-related projects both in the United States and abroad including domestic energy trading and marketing for 1997 and 1996. Intersegment revenues are not material. Financial data for business segments, products and services, and geographic areas are as follows:

Business Segments

Year	Regulated Domestic Electric Utilities	Southern Energy Non-Traditional Services			All Other (Note)	Reconciling Eliminations	Consolidated
		International	Domestic	Total			
				(in millions)			
1998							
Operating revenues	**$ 9,363**	**$1,766**	**$ 137**	**$ 1,903**	**$ 166**	**$ (29)**	**$11,403**
Depreciation and amortization	**1,289**	**216**	**18**	**234**	**16**	**-**	**1,539**
Interest income	**150**	**86**	**61**	**147**	**57**	**(111)**	**243**
Net interest charges	**654**	**318**	**91**	**409**	**97**	**(58)**	**1,102**
Income taxes from operations	**721**	**(123)**	**(4)**	**(127)**	**(18)**	**(19)**	**557**
Write down of generating assets	**34**	**308**	**-**	**308**	**-**	**-**	**342**
Net income from equity method subsidiaries	**2**	**126**	**(5)**	**121**	**-**	**-**	**123**
Segment net income (loss)	**1,083**	**23**	**16**	**39**	**(110)**	**(35)**	**977**
Total assets	**24,476**	**9,578**	**2,869**	**12,447**	**1,428**	**(2,159)**	**36,192**
Investments in equity method subsidiaries	**10**	**1,363**	**176**	**1,539**	**-**	**11**	**1,560**
Gross property additions	**1,298**	**586**	**63**	**649**	**58**	**-**	**2,005**
Increase in goodwill	**-**	**30**	**200**	**230**	**-**	**-**	**230**

Year	Regulated Domestic Electric Utilities	Southern Energy Non-Traditional Services			All Other (Note)	Reconciling Eliminations	Consolidated
		International	Domestic	Total			
			(in millions)				
1997							
Operating revenues	$ 8,688	$1,748	$2,089	$ 3,837	$ 98	$ (12)	$12,611
Depreciation and amortization	1,156	179	15	194	17	-	1,367
Interest income	51	96	42	138	21	(58)	152
Net interest charges	588	289	73	362	84	(41)	993
Income taxes from operations	735	24	(11)	13	(17)	(6)	725
Windfall profits tax	-	148	-	148	-	-	148
Net income from equity method subsidiaries	1	41	7	48	-	(14)	35
Segment net income (loss)	1,105	(4)	5	1	(123)	(11)	972
Total assets	24,555	9,225	1,832	11,057	1,224	(1,581)	35,255
Investments in equity method subsidiaries	10	1,023	135	1,158	-	-	1,168
Gross property additions	1,080	720	1	721	58	-	1,859
Increase in goodwill	-	1,649	-	1,649	-	-	1,649

Year	Regulated Domestic Electric Utilities	Southern Energy Non-Traditional Services			All Other (Note)	Reconciling Eliminations	Consolidated
		International	Domestic	Total			
			(in millions)				
1996							
Operating revenues	$ 8,639	$1,506	$177	$1,683	$ 50	$(14)	$10,358
Depreciation and amortization	1,019	95	13	108	6	-	1,133
Interest income	36	15	2	17	20	(19)	54
Net interest charges	546	126	31	157	18	(2)	719
Income taxes from operations	755	16	(4)	12	(14)	(6)	747
Net income from equity method subsidiaries	1	11	-	11	-	(6)	6
Segment net income (loss)	1,086	88	4	92	(40)	(11)	1,127
Total assets	24,899	4,320	604	4,924	450	(87)	30,186
Investments in equity method subsidiaries	8	227	-	227	-	(8)	227
Gross property additions	1,033	157	8	165	31	-	1,229
Increase in goodwill	-	-	-	-	-	-	-

(Note) 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 a wireless communication company and a developmental company for energy products and services. Non-traditional services exclude interest expense to parent Southern Company.

Products and Services

	Revenues								
	Regulated Domestic Electric Utilities				Southern Energy Non-Traditional Energy Services				
Year	Retail	Wholesale	Other	Total	Generation	Distribution	Energy Trading Marketing	Other	Total
					(in millions)				
1998	**$8,272**	**$896**	**$195**	**$9,363**	**$578**	**$1,273**	**$ -**	**$52**	**$1,903**
1997	7,647	886	155	8,688	513	1,282	1,982	60	3,837
1996	7,665	838	136	8,639	242	1,309	77	55	1,683

Geographic Areas

	Revenues					
		International				
Year	Domestic	United Kingdom	Southeast Asia	All Other	Total	Consolidated
			(in millions)			
1998	**$9,637**	**$1,273**	**$273**	**$220**	**$1,766**	**$11,403**
1997	10,863	1,282	247	219	1,748	12,611
1996	8,852	1,309	-	197	1,506	10,358

	Long-Lived Assets					
		International				
Year	Domestic	United Kingdom	Southeast Asia	All Other	Total	Consolidated
			(in millions)			
1998	**$22,005**	**$2,463**	**$3,772**	**$1,856**	**$8,091**	**$30,096**
1997	21,282	2,428	3,628	1,888	7,944	29,226
1996	21,190	2,473	108	999	3,580	24,770

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for 1998 and 1997 are as follows:

				Per Common Share			
						Price Range	
Quarter Ended	Operating Revenues	Operating Income	Consolidated Net Income	Earnings	Dividends	High	Low
		(in millions)					
March 1998	**$2,495**	**$437**	**$242**	**$0.35**	**$0.335**	**28 11/16**	**23 15/16**
June 1998	**2,913**	**490**	**270**	**0.39**	**0.335**	**29**	**25 1/16**
September 1998	**3,457**	**752**	**517**	**0.74**	**0.335**	**29 13/16**	**25 1/4**
December 1998	**2,538**	**74**	**(52)**	**(0.08)**	**0.335**	**31 9/16**	**27 3/16**
March 1997	$2,585	$397	$187	$0.28	$0.325	23 3/8	20 3/4
June 1997	2,717	429	215	0.31	0.325	22 1/4	19 7/8
September 1997	4,071	720	375	0.55	0.325	23	20 13/16
December 1997	3,238	394	195	0.28	0.325	26 1/4	22

Southern Company's business is influenced by seasonal weather conditions.
Earnings for the fourth quarter 1998 declined by $221 million, or 32 cents per share, as a result of write downs in certain generating assets as discussed in Notes 3 and 5.
Earnings for the third quarter 1997 declined by $111 million, or 16 cents per share, as a result of a windfall profits tax being assessed in the United Kingdom.

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 1988-1998

Southern Company and Subsidiary Companies 1998 Annual Report

	1998	1997	1996
Operating Revenues (in millions)	**$11,403**	$12,611	$10,358
Consolidated Net Income (in millions)	**$977**	$972	$1,127
Basic and Diluted Earnings Per Share of Common Stock	**$1.40**	$1.42	$1.68
Cash Dividends Paid Per Share of Common Stock	**$1.34**	$1.30	$1.26
Return on Average Common Equity (percent)	**10.04**	10.30	12.53
Total Assets (in millions)	**$36,192**	$35,255	$30,230
Gross Property Additions (in millions)	**$2,005**	$1,859	$1,229
Capitalization (in millions):			
Common stock equity	**$ 9,797**	$ 9,647	$ 9,216
Preferred stock and securities	**2,548**	2,237	1,402
Long-term debt	**10,472**	10,274	7,938
Total excluding amounts due within one year	**$22,817**	$22,158	$18,556
Capitalization Ratios (percent):			
Common stock equity	**42.9**	43.5	49.7
Preferred stock and securities	**11.2**	10.1	7.6
Long-term debt	**45.9**	46.4	42.7
Total excluding amounts due within one year	**100.0**	100.0	100.0
Other Common Stock Data:			
Book value per share (year-end)	**$14.04**	$13.91	$13.61
Market price per share:			
High	**31 9/16**	26 1/4	25 7/8
Low	**23 15/16**	19 7/8	21 1/8
Close	**29 1/16**	25 7/8	22 5/8
Market-to-book ratio (year-end) (percent)	**207.0**	186.0	166.2
Price-earnings ratio (year-end) (times)	**20.8**	18.2	13.5
Dividends paid (in millions)	**$933**	$889	$846
Dividend yield (year-end) (percent)	**4.6**	5.0	5.6
Dividend payout ratio (percent)	**95.6**	91.5	75.1
Cash coverage of dividends (year-end) (times)	**3.2**	2.8	2.9
Proceeds from sales of stock (in millions)	**$234**	$360	$171
Shares outstanding (in thousands):			
Average	**696,944**	685,033	672,590
Year-end	**697,805**	693,423	677,036
Stockholders of record (year-end)	**187,053**	200,508	215,246
First Mortgage Bonds (in millions):			
Issued	**$-**	$-	$85
Retired	**1,487**	168	426
Preferred Stock and Capital and Preferred Securities (in millions):			
Issued	**$635**	$1,321	$322
Retired	**239**	660	179
Traditional Core Business Customers (year-end) (in thousands):			
Residential	**3,277**	3,220	3,157
Commercial	**497**	479	464
Industrial	**15**	16	17
Other	**5**	5	5
Total	**3,794**	3,720	3,643
Employees (year-end):			
Traditional core business	**25,206**	24,682	25,034
Southern Energy	**6,642**	5,620	3,743
Total	**31,848**	30,302	28,777

1995	1994	1993	1992	1991	1990	1989	1988
$9,180	$8,297	$8,489	$8,073	$8,050	$8,053	$7,620	$7,287
$1,103	$989	$1,002	$953	$876	$604	$846	$846
$1.66	$1.52	$1.57	$1.51	$1.39	$0.96	$1.34	$1.36
$1.22	$1.18	$1.14	$1.10	$1.07	$1.07	$1.07	$1.07
13.01	12.47	13.43	13.42	12.74	8.85	12.49	13.03
$30,522	$27,042	$25,911	$20,038	$19,863	$19,955	$20,092	$19,731
$1,401	$1,536	$1,441	$1,105	$1,123	$1,185	$1,346	$1,754
$ 8,772	$ 8,186	$ 7,684	$ 7,234	$ 6,976	$ 6,783	$ 6,861	$ 6,686
1,432	1,432	1,333	1,359	1,333	1,358	1,400	1,465
8,274	7,593	7,412	7,241	7,992	8,458	8,575	8,433
$18,478	$17,211	$16,429	$15,834	$16,301	$16,599	$16,836	$16,584
47.5	47.6	46.8	45.7	42.8	40.9	40.8	40.3
7.7	8.3	8.1	8.6	8.2	8.2	8.3	8.8
44.8	44.1	45.1	45.7	49.0	50.9	50.9	50.9
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
$13.10	$12.47	$11.96	$11.43	$11.05	$10.74	$10.87	$10.60
25	22	23 5/8	19 1/2	17 3/8	14 5/8	14 7/8	12 1/8
19 3/8	17	18 3/8	15 1/8	12 7/8	11 1/2	11	10 1/8
24 5/8	20	22	19 1/4	17 1/8	13 7/8	14 1/2	11 1/8
188.0	160.4	183.9	168.4	155.5	129.7	134.0	105.5
14.8	13.2	14.0	12.7	12.4	14.6	10.9	8.2
$811	$766	$726	$695	$676	$676	$675	$661
5.0	5.9	5.2	5.7	6.2	7.7	7.3	9.6
73.5	77.5	72.4	72.9	77.1	111.8	79.8	78.1
2.9	2.7	2.9	2.8	2.5	2.8	2.6	2.3
$277	$279	$204	$30	$-	$-	$4	$194
665,064	649,927	637,319	631,844	631,307	631,307	631,303	622,292
669,543	656,528	642,662	632,917	631,307	631,307	631,307	630,898
225,739	234,927	237,105	247,378	254,568	263,046	273,751	290,725
$375	$185	$2,185	$1,815	$380	$300	$280	$335
538	241	2,178	2,575	881	146	201	273
$-	$100	$426	$410	$100	$-	$-	$120
1	1	516	326	125	96	21	10
3,100	3,046	2,996	2,950	2,903	2,865	2,824	2,781
450	439	427	414	403	396	392	384
17	17	18	18	18	18	18	18
5	5	4	4	4	4	4	4
3,572	3,507	3,445	3,386	3,328	3,283	3,238	3,187
26,452	27,480	28,516	28,872	30,144	30,087	30,368	32,366
5,430	1,400	745	213	258	176	162	157
31,882	28,880	29,261	29,085	30,402	30,263	30,530	32,523

	1998	1997	1996
Operating Revenues (in millions):			
Residential	**$ 3,163**	$ 2,837	$ 2,894
Commercial	**2,763**	2,595	2,559
Industrial	**2,267**	2,139	2,136
Other	**79**	76	76
Total retail	**8,272**	7,647	7,665
Sales for resale within service area	**374**	376	409
Sales for resale outside service area	**522**	510	429
Total revenues from sales of electricity	**9,168**	8,533	8,503
Southern Energy	**1,903**	3,837	1,683
Other revenues	**332**	241	172
Total	**$11,403**	$12,611	$10,358
Kilowatt-Hour Sales (in millions):			
Residential	**43,503**	39,217	40,117
Commercial	**41,737**	38,926	37,993
Industrial	**55,331**	54,196	52,798
Other	**929**	903	911
Total retail	**141,500**	133,242	131,819
Sales for resale within service area	**9,847**	9,884	10,935
Sales for resale outside service area	**12,988**	13,761	10,777
Total	**164,335**	156,887	153,531
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**7.27**	7.23	7.21
Commercial	**6.62**	6.67	6.74
Industrial	**4.10**	3.95	4.04
Total retail	**5.85**	5.74	5.81
Sales for resale	**3.92**	3.75	3.86
Total sales	**5.58**	5.44	5.54
Average Annual Kilowatt-Hour Use Per Residential Customer	**13,379**	12,296	12,824
Average Annual Revenue Per Residential Customer	**$972.89**	$889.50	$925.12
Plant Nameplate Capacity Owned (year-end) (megawatts)	**31,161**	31,146	31,076
Maximum Peak-Hour Demand (megawatts):			
Winter	**21,108**	22,969	22,631
Summer	**28,934**	27,334	27,190
System Reserve Margin (at peak) (percent)	**12.8**	15.0	14.0
Annual Load Factor (percent)	**60.0**	59.4	62.3
Plant Availability (percent):			
Fossil-steam	**85.2**	88.2	86.4
Nuclear	**87.8**	88.8	89.7
Source of Energy Supply (percent):			
Coal	**72.8**	74.7	73.3
Nuclear	**15.4**	16.5	16.7
Hydro	**3.9**	4.3	4.1
Oil and gas	**3.3**	1.7	1.5
Purchased power	**4.6**	2.8	4.4
Total	**100.0**	100.0	100.0
Total Fuel Economy Data:			
BTU per net kilowatt-hour generated	**9,690**	10,035	10,257
Cost of fuel per million BTU (cents)	**152.89**	145.81	144.02
Average cost of fuel per net kilowatt-hour generated (cents)	**1.48**	1.46	1.48

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA 1988-1998 (continued)

Southern Company and Subsidiary Companies 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$2,840	$2,560	$2,696	$2,402	$2,391	$2,342	$2,194	$2,103
2,485	2,357	2,313	2,181	2,122	2,062	1,965	1,835
2,206	2,162	2,200	2,126	2,088	2,085	2,011	1,945
72	70	68	64	65	64	60	56
7,603	7,149	7,277	6,773	6,666	6,553	6,230	5,939
399	360	447	409	417	412	401	480
415	505	613	797	884	977	928	777
8,417	8,014	8,337	7,979	7,967	7,942	7,559	7,196
643	185	54	-	-	-	-	-
120	98	98	94	83	111	61	91
$9,180	$8,297	$8,489	$8,073	$8,050	$8,053	$7,620	$7,287
39,147	35,836	36,807	33,627	33,622	33,118	31,627	31,041
35,938	34,080	32,847	31,025	30,379	29,658	28,454	27,005
51,644	50,311	48,738	47,816	46,050	45,974	45,022	43,675
863	844	814	777	817	806	787	763
127,592	121,071	119,206	113,245	110,868	109,556	105,890	102,484
9,472	8,151	13,258	12,107	12,320	11,134	11,419	14,806
9,143	10,769	12,445	16,632	19,839	24,402	24,228	15,860
146,207	139,991	144,909	141,984	143,027	145,092	141,537	133,150
7.25	7.14	7.32	7.14	7.11	7.07	6.94	6.77
6.91	6.92	7.04	7.03	6.99	6.96	6.91	6.79
4.27	4.30	4.51	4.45	4.53	4.53	4.47	4.45
5.96	5.90	6.10	5.98	6.01	5.98	5.88	5.80
4.38	4.57	4.12	4.20	4.05	3.91	3.73	4.10
5.76	5.72	5.75	5.62	5.57	5.47	5.34	5.40
12,722	11,851	12,378	11,490	11,659	11,637	11,287	11,255
$922.83	$846.48	$906.60	$820.67	$829.18	$822.93	$782.90	$762.42
30,733	29,932	29,513	29,830	29,915	29,532	29,532	27,552
21,422	22,254	19,432	19,121	19,166	17,629	20,772	18,685
27,420	24,546	25,937	24,146	25,261	25,981	24,399	23,641
9.4	19.3	13.2	14.3	16.5	14.0	21.0	15.0
59.5	63.5	59.4	60.3	58.3	56.6	58.6	59.8
86.7	85.2	87.9	88.6	91.3	91.9	92.2	91.3
88.3	89.8	85.9	85.2	83.4	83.0	87.0	78.4
72.5	70.8	73.0	71.7	72.6	72.1	71.5	77.7
16.4	17.9	16.3	16.2	16.2	15.6	15.7	14.5
4.1	4.7	3.9	4.6	4.4	4.4	5.2	2.3
1.7	0.9	0.9	0.5	0.6	1.3	1.1	0.7
5.3	5.7	5.9	7.0	6.2	6.6	6.5	4.8
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,099	10,010	9,994	9,976	10,022	10,065	10,086	10,094
151.70	155.81	166.85	162.58	168.28	172.81	171.00	170.36
1.53	1.56	1.67	1.62	1.69	1.74	1.72	1.72

ALABAMA POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT

Alabama Power Company 1998 Annual Report

The management of Alabama Power Company has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances 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 books and 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.

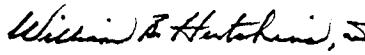
The Company's system of internal accounting controls is evaluated on an ongoing basis by the Company's internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing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

The audit committee of the board of directors, composed of directors who are not employees, 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 financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Alabama Power Company in conformity with generally accepted accounting principles.

Elmer B. Harris
President
and Chief Executive Officer



William B. Hutchins, III
Executive Vice President,
Chief Financial Officer, and Treasurer

February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Alabama Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Alabama Power Company (an Alabama corporation and a wholly owned subsidiary of Southern Company) as of December 31, 1998 and 1997, and the related statements of income, retained earnings, paid-in capital, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial statements (pages II-61 through II-79) referred to above present fairly, in all material respects, the financial position of Alabama Power Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Birmingham, Alabama
February 10, 1999

RESULTS OF OPERATIONS

Earnings

Alabama Power Company's 1998 net income after dividends on preferred stock was $377 million, representing a $1.3 million (0.3 percent) increase from the prior year. This improvement can be attributed primarily to increased retail energy sales as a result of hot weather in the second quarter of 1998, compared to very mild weather for the same period in 1997 and a strong economy in the Company's service territory. However, earnings were offset by an increase in non-fuel operation and maintenance expenses and an increase in the amortization of debt discount, premium, and expense, net pursuant to an Alabama Public Service Commission (APSC) order. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional details.

In 1997, earnings were $376 million, representing a 1.2 percent increase from the prior year. This increase was due to lower non-fuel related operating expenses. Despite the mild weather experienced during 1997, retail kilowatt-hour (KWH) sales increased approximately 2 percent. However, the expected net income effect was offset by the effect of reductions in certain industrial and commercial prices.

The return on average common equity for 1998 was 13.63 percent compared to 13.76 percent in 1997, and 13.75 percent in 1996.

Revenues

Operating revenues for 1998 were $3.4 billion, reflecting a 7.5 percent increase from 1997. The following table summarizes the principal factors that affected operating revenues for the past three years:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
	(in thousands)		
Retail --			
Growth and price change	**$ 75,642**	$ 33,813	$ 42,385
Weather	**55,282**	(22,973)	(29,660)
Fuel cost recovery and other	**138,944**	31,353	(30,846)
Total retail	**269,868**	42,193	(18,121)
Sales for resale --			
Non-affiliates	**17,950**	39,354	21,529
Affiliates	**(58,233)**	(54,825)	88,890
Total sales for resale	**(40,283)**	(15,471)	110,419
Other operating revenues	**7,677**	1,614	3,703
Total operating revenues	**$237,262**	$ 28,336	$ 96,001
Percent change	**7.5%**	0.9%	3.2%

Retail revenues of $2.8 billion in 1998 increased $270 million (10.7 percent) from the prior year, compared with an increase of $42 million (1.7 percent) in 1997. The predominant factors causing the rise in revenues in 1998 were the positive impact of weather on energy sales, continued growth throughout the state, and increased fuel revenues. Fuel revenues were higher in the current year due to higher fuel costs and an increase in purchased power.

Retail revenues in 1997 increased $42 million (1.7 percent) over 1996. The primary reason for this increase was an increase in fuel revenues due to slightly higher generation and higher fuel costs in 1997 as compared to 1996. Fuel revenues generally represent the direct recovery of fuel expense, including the fuel component of purchased energy, and therefore have no effect on net income.

Revenues from sales to utilities outside the service area under long-term contracts consist of 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. These capacity and energy components were:

	1998	1997	1996
		(in thousands)	
Capacity	**$141,814**	$136,248	$150,797
Energy	**118,252**	134,498	107,996
Total	**$260,066**	$270,746	$258,793

Capacity revenues from non-affiliates increased 4.1 percent in 1998 compared to the prior year. Capacity revenues from non-affiliates in 1997 decreased 9.6 percent compared to 1996 primarily due to a one-time unit power sales adjustment in 1997.

Revenues from sales to affiliated companies within the Southern electric system, as well as purchases of energy, will vary from year to year depending on demand and the availability and cost of generating resources at each company. These transactions do not have a significant impact on earnings.

KWH sales for 1998 and the percent change by year were as follows:

	KWH	Percent Change		
	1998	**1998**	1997	1996
	(millions)			
Residential	**15,795**	**10.2%**	(1.8)%	1.5%
Commercial*	**11,905**	**5.1**	3.9	8.6
Industrial*	**21,585**	**4.2**	3.6	0.7
Other	**196**	**8.3**	(6.3)	3.1
Total retail	**49,481**	**6.2**	1.9	2.7
Sales for resale -				
Non-affiliates	**11,841**	**(3.2)**	29.9	18.0
Affiliates	**5,976**	**(33.5)**	(12.6)	53.5
Total	**67,298**	**(0.9)%**	3.7%	10.5%

*The KWH sales for 1996 reflect a reclassification of approximately 200 customers from industrial to commercial, which resulted in a shift of 473 million KWH. Absent the reclassification, the percentage change in KWH sales for commercial and industrial would have been 3.9% and 3.1%, respectively.

The increases in 1998 and 1997 retail energy sales were primarily due to the strength of business and economic conditions in the Company's service area. In 1998, residential energy sales experienced a 10.2 percent increase over the prior year primarily as a result of hot weather in the second quarter, compared to very mild weather in the second quarter of 1997. Assuming normal weather, sales to retail customers are projected to grow approximately 2.3 percent annually on average during 1999 through 2003.

Expenses

Total operating expenses of $2.7 billion for 1998 were up $207 million or 8.2 percent compared with 1997. This increase was mainly due to a $107 million increase in purchased power expenses, accompanied by a $58 million increase in maintenance expense.

Total operating expenses of $2.5 billion for 1997 were up $18 million or 0.7 percent compared with 1996. This increase was primarily due to a $19 million increase in fuel costs and a $10 million increase in depreciation and amortization expense. These increases were somewhat offset by a $16 million decrease in maintenance expenses.

Fuel costs constitute the single largest expense for the Company. 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 KWH generated were as follows:

	1998	1997	1996
Total generation (billions of KWHs)	**63**	65	65
Sources of generation (percent) --			
Coal	**72**	72	72
Nuclear	**18**	20	20
Hydro	**8**	8	8
Oil & Gas	**2**	*	*
Average cost of fuel per net KWH generated (cents) --	**1.54**	1.49	1.46

* Not meaningful because of minimal generation from fuel source.

Total fuel and purchased power costs of $1.1 billion in 1998 increased $111 million (11 percent) over 1997 primarily due to lower levels of nuclear and hydro generation, which were replaced by the use of peaking units and purchased power.

Fuel and purchased power costs in 1997 increased $27 million (3 percent) over 1996 due primarily to slightly higher generation and fuel costs in 1997.

Purchased power consists primarily of purchases from the affiliates of the Southern electric system. Purchased power transactions among the Company and its affiliates will vary from period to period depending on demand, the availability, and the variable production cost of generating resources at each company. Total KWH purchases increased 24.5 percent from the prior year.

The 23.8 percent increase in maintenance expense in 1998 as compared to 1997 is attributable to (i) an increase in the maintenance of overhead lines, (ii) the write-off of obsolete steam and nuclear generating plant inventory, and (iii) additional accruals to partially replenish the natural disaster reserve. The 6.1 percent decrease in maintenance expenses in 1997 is attributable primarily to a decrease in distribution expenses.

Depreciation and amortization expense increased 2.6 percent in 1998 and 3.2 percent in 1997. These increases reflect additions to utility plant.

Total net interest and other charges increased $55.7 million (22 percent) in 1998. This increase results primarily from an increase in the amortization of debt discount, premium, and expense, net pursuant to an APSC order. See Note 3 to the financial statements under "Retail Rate Adjustment Procedures" for additional details. Total net interest and other charges increased $25.4 million (11.2 percent) in 1997 primarily due to an increase in company obligated mandatorily redeemable preferred securities outstanding. This increase was offset by a $12 million (45.2 percent) decrease in dividends on preferred stock.

Effects of Inflation

The Company is 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 the Company because of the large investment in utility plants with long economic life. 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

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from energy sales growth to a less regulated more competitive environment.

The Company currently operates as a vertically integrated utility providing electricity to customers within its traditional service area located in the state of Alabama. Prices for electricity provided by the Company to retail customers are set by the APSC under cost-based regulatory principles.

Future earnings in the near term will depend upon growth in electric sales, which are subject to a number of factors. Traditionally, these factors have included weather, competition, changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the Company's service area.

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 excess energy generation to other utilities. Also, electricity sales for resale rates are being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. The Company is aggressively working to maintain and expand its share of wholesale business in the Southeastern power markets.

Although the Energy Act does not permit retail customer access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. 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 or are being discussed in Alabama, Florida, Georgia, and Mississippi, none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. The inability of the Company to recover its investments, including the regulatory assets described in Note 1 to the financial statements, could have a material adverse effect on the financial condition of the Company. The Company is attempting to minimize or reduce stranded cost exposure.

Continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless the Company remains a low-cost producer and provides quality service, the Company's retail energy sales growth could be limited, and this could significantly erode earnings.

Rates to retail customers served by the Company are regulated by the APSC. Rates for the Company can be adjusted periodically within certain limitations based on earned retail rate of return compared with an allowed return. In June 1995, the APSC issued an order granting the Company's request for gradual adjustments to move toward parity among customer classes. This order also calls for a moratorium on any periodic retail rate increases (but not decreases) until 2001.

In December 1995, the APSC issued an order authorizing the Company 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. In April 1997, the APSC issued an additional order authorizing the Company to reduce balance sheet asset items. This order authorizes the reduction of such items up to an amount equal to five times the total estimated annual revenue reduction resulting from future rate reductions initiated by the Company. See Note 3 to the financial statements for information about this and other matters.

The 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."

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry -- including the Company -- regarding the recognition, measurement, and classification in the financial statements of decommissioning costs for nuclear generating facilities. In response to these questions, the Financial Accounting Standards Board (FASB) has decided to review the accounting for liabilities related to the retirement of long-lived assets, including nuclear decommissioning. If the FASB issues new accounting rules, the estimated costs of retiring the Company's nuclear and other facilities may be required to be recorded as liabilities in the Balance Sheets. Also, the annual provisions for such costs could change. Because of the Company's current ability to recover asset retirement costs through rates, these changes would not have a significant adverse effect on results of operations. See Note 1 to the financial statements under "Depreciation and Nuclear Decommissioning" for additional information.

The Company is 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 the 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.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space, was used until the mid-1990s. Unless corrected before the Year 2000, affected software systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

The Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. The Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, reactor control systems, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

The Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed on a monthly basis by a steering committee of Southern Company executives.

The Company's Year 2000 program was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the Year 2000.

The Southern Company has completed more than 70 percent of the activities contained in its work plan. The percentage of completion and projected completion by function are as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

Year 2000 Costs

Current projected total costs for Year 2000 readiness, including the Company's share of costs of Southern Nuclear Operating Company, are approximately $36 million. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through December 31, 1998, the Year 2000 program costs, recognized primarily as expense, amounted to $21 million.

Year 2000 Risks

The Company is implementing a detailed process to minimize the possibility of service interruptions related to the Year 2000. The Company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operation. The Company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the service territory to be isolated and short in duration.

The Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its service

territory. The Company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, the Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council–coordinated national drills during 1999.

The Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to the Company's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to the Company are being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their Year 2000 issues.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the Company is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, the Company is drawing on that experience to make risk assessments and is developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. The Company is identifying critical operational locations, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the service territory isolated and short in duration.

Exposure to Market Risk

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates and prices of electricity. To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1998, exposure from these activities was not material to the Company's financial position, results of operations, or cash flows. Also, based on the Company's overall interest rate exposure at December 31, 1998, a near-term 100 basis point change in interest rates would not materially affect the financial statements.

New Accounting Standards

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments – including certain derivative instruments embedded in other contracts – and for hedging activities. The Company has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Costs of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, with gains and losses reflected rather than revenues and purchased power. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to

shifts or changes in market prices. The Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the financial statements.

FINANCIAL CONDITION

Overview

The Company's financial condition remained stable in 1998. This stability is the continuation over recent years of growth in retail energy sales and cost control measures combined with a significant lowering of the cost of capital, achieved through the refinancing and/or redemption of higher-cost long-term debt and preferred stock.

The Company had gross property additions of $610 million in 1998. The majority of funds needed for gross property additions for the last several years has been provided from operating activities, principally from earnings and non-cash charges to income such as depreciation and deferred income taxes. The Statements of Cash Flows provide additional details.

Capital Structure

The Company's ratio of common equity to total capitalization -- including short-term debt -- was 42.4 percent in 1998, compared with 44.7 percent in 1997, and 45.3 percent in 1996.

During 1998, the Company issued $1.4 billion of senior notes, the proceeds of which were used primarily to redeem first mortgage bonds and repay short-term indebtedness. Additionally in 1998, the Company redeemed $88 million of preferred stock and issued an additional $200 million.

Capital Requirements

Capital expenditures are estimated to be $875 million for 1999, $653 million for 2000, and $668 million for 2001. The total is $2.2 billion for the three years. Included in these estimates are the following: the Company will replace all six steam generators at Plant Farley at a total cost of approximately $234 million. Additionally, the Company plans to construct and install 1,075 megawatts of new generating capacity and associated substation facilities at Plant Barry. The projected capital expenditures for this project amount to approximately $384 million.

Actual capital costs may vary from estimates because of factors such as changes in business conditions; revised load growth projections; changes in environmental regulations; changes in the existing nuclear plant to meet new regulatory requirements; increasing costs of labor, equipment, and materials; and cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered.

Other Capital Requirements

In addition to the funds needed for the capital budget, approximately $270 million will be required by the end of 2000 for maturities of first mortgage bonds. Also, the Company will continue to retire higher-cost debt and preferred stock and replace these obligations with lower-cost capital if market conditions permit.

Environmental Matters

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act -- the acid rain compliance provision of the law – significantly impacted the operating companies of Southern Company, including Alabama Power. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating units of Southern Company. As a result of Southern Company's compliance strategy, an additional 22 generating units were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected plants by switching to low-sulfur coal, which required some equipment upgrades. Construction expenditures for Phase I compliance totaled approximately $25 million for the Company.

For Phase II sulfur dioxide compliance, the Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Also equipment to control nitrogen oxide emissions will be installed on additional system fossil-fired units as necessary to meet Phase II limits. Current

compliance strategy for Phase II could require total estimated construction expenditures of approximately $38 million, of which $19 million remains to be spent.

A significant portion of costs related to the acid rain provision 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.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the new rules. The final rules affect 22 states including Alabama. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various other matters including: nitrogen oxide emission control strategies for ozone nonattainment areas; additional controls for hazardous air pollutant emissions; control strategies to reduce regional haze; and hazardous waste disposal requirements. The impact of new standards will depend on the development and implementation of applicable regulations.

The 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 Company could incur costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup costs and has recognized in the financial statements costs to clean up known sites.

Several major pieces of environmental legislation are being 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 the 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 Company historically has relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for its benefit by public authorities, to meet its long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. In this regard, the Company sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness it may incur. To issue additional debt and equity securities, the Company must comply with certain earnings coverage requirements designated in its mortgage indenture and corporate charter. The Company's coverages are at a level that would permit any necessary amount of security sales at current interest and dividend rates.

As required by the Nuclear Regulatory Commission and as ordered by the APSC, the Company has established external trust funds for nuclear decommissioning costs. In 1994, the Company also established an external trust fund for postretirement benefits as ordered by the APSC. The cumulative effect of funding these items over a long period will diminish internally funded capital and may require capital from other sources. For additional information concerning nuclear decommissioning costs, see Note 1 to the financial statements under "Depreciation and Nuclear Decommissioning."

Cautionary Statement Regarding Forward-Looking Information

The Company's 1998 Annual Report contains forward-looking and historical information. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the Company's markets; potential business strategies -- including acquisitions or dispositions of assets or internal restructuring -- that may be pursued by Southern Company; state and federal rate regulation; Year 2000 issues; changes in or application of environmental and other laws and regulations to which the Company is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; and other factors discussed in the reports--including Form 10-K--filed from time to time by the Company with the Securities and Exchange Commission.

STATEMENTS OF INCOME

For the Years Ended December 31, 1998, 1997, and 1996
Alabama Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Revenues:			
Revenues (Notes 1, 3, and 7)	**$ 3,282,811**	$ 2,987,316	$ 2,904,155
Revenues from affiliates	**103,562**	161,795	216,620
Total operating revenues	**3,386,373**	3,149,111	3,120,775
Operating Expenses:			
Operation --			
Fuel	**900,309**	896,014	877,076
Purchased power from non-affiliates	**92,998**	41,795	36,813
Purchased power from affiliates	**150,897**	95,538	91,500
Other	**527,954**	510,203	505,884
Maintenance	**300,383**	242,691	258,482
Depreciation and amortization	**338,822**	330,377	320,102
Taxes other than income taxes	**193,049**	185,062	186,172
Federal and state income taxes (Note 8)	**224,922**	220,228	228,108
Total operating expenses	**2,729,334**	2,521,908	2,504,137
Operating Income	**657,039**	627,203	616,638
Other Income (Expense):			
Allowance for equity funds used during construction (Note 1)	**3,811**	-	-
Equity in earnings of subsidiaries (Note 6)	**5,271**	5,250	4,676
Charitable foundation	**-**	-	(6,800)
Interest income	**68,553**	37,844	28,318
Other, net	**(40,861)**	(39,506)	(39,878)
Income taxes applicable to other income	**6,347**	12,351	22,400
Income Before Interest Charges and Other	**700,160**	643,142	625,354
Interest Charges and Other:			
Interest on long-term debt	**192,426**	167,172	169,390
Allowance for debt funds used during construction (Note 1)	**(4,664)**	(4,787)	(6,480)
Interest on interim obligations	**11,012**	22,787	20,617
Amortization of debt discount, premium, and expense, net (Note 3)	**42,494**	9,645	9,508
Other interest charges	**44,672**	36,037	27,510
Distributions on preferred securities of Alabama Power Capital Trust I & II (Note 9)	**22,354**	21,763	6,717
Interest charges and other, net	**308,294**	252,617	227,262
Net Income	**391,866**	390,525	398,092
Dividends on Preferred Stock	**14,643**	14,586	26,602
Net Income After Dividends on Preferred Stock	**$ 377,223**	$ 375,939	$ 371,490

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1997, and 1996
Alabama Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Activities:			
Net income	$ 391,866	$ 390,525	$ 398,092
Adjustments to reconcile net income to net cash provided from operating activities --			
Depreciation and amortization	425,167	394,572	383,438
Deferred income taxes and investment tax credits, net	79,430	(12,429)	16,585
Allowance for equity funds used during construction	(3,811)	-	-
Other, net	(62,928)	(11,353)	6,247
Changes in certain current assets and liabilities --			
Receivables, net	49,747	(30,268)	3,958
Inventories	2,880	13,709	36,234
Payables	26,583	(9,745)	1,006
Taxes accrued	4,570	6,191	(5,756)
Energy cost recovery, retail	(95,427)	7,108	25,771
Other	(14,373)	7,127	8,205
Net cash provided from operating activities	803,704	755,437	873,780
Investing Activities:			
Gross property additions	(610,132)	(451,167)	(425,024)
Other	(52,940)	(51,791)	(61,119)
Net cash used for investing activities	(663,072)	(502,958)	(486,143)
Financing Activities:			
Proceeds:			
Company obligated mandatorily redeemable preferred securities	-	200,000	97,000
Capital contributions	30,000	-	-
Preferred stock	200,000	-	-
Other long-term debt	1,462,990	258,800	21,000
Retirements:			
Preferred stock	(88,000)	(184,888)	-
First mortgage bonds	(771,108)	(74,951)	(83,797)
Other long-term debt	(107,776)	(951)	(21,907)
Interim obligations, net	(306,882)	(57,971)	(25,163)
Payment of preferred stock dividends	(15,596)	(22,524)	(26,665)
Payment of common stock dividends	(367,100)	(339,600)	(347,500)
Miscellaneous	(66,869)	(16,024)	(3,634)
Net cash used for financing activities	(30,341)	(238,109)	(390,666)
Net Change in Cash and Cash Equivalents	110,291	14,370	(3,029)
Cash and Cash Equivalents at Beginning of Year	23,957	9,587	12,616
Cash and Cash Equivalents at End of Year	$ 134,248	$ 23,957	$ 9,587
Supplemental Cash Flow Information:			
Cash paid during the year for --			
Interest (net of amount capitalized)	$ 234,360	$ 209,919	$ 193,871
Income taxes (net of refunds)	188,942	207,653	195,214

( ) Denotes use of cash.

The accompanying notes are an integral part of these statements.

BALANCE SHEETS
At December 31, 1998 and 1997
Alabama Power Company 1998 Annual Report

ASSETS	1998	1997
		(in thousands)
Utility Plant:		
Plant in service, at original cost (Note 1)	**$11,352,838**	$11,070,323
Less accumulated provision for depreciation	**4,666,513**	4,384,180
	6,686,325	6,686,143
Nuclear fuel, at amortized cost	**95,575**	103,272
Construction work in progress	**525,359**	311,223
Total	**7,307,259**	7,100,638
Other Property and Investments:		
Equity investments in subsidiaries (Note 6)	**34,298**	34,373
Nuclear decommissioning trusts, at market (Note 1)	**232,183**	193,008
Miscellaneous	**12,915**	12,832
Total	**279,396**	240,213
Current Assets:		
Cash and cash equivalents	**134,248**	23,957
Receivables-		
Customer accounts receivable	**343,630**	368,255
Other accounts and notes receivable	**32,394**	28,921
Affiliated companies	**39,981**	50,353
Accumulated provision for uncollectible accounts	**(1,855)**	(2,272)
Refundable income taxes	**52,117**	-
Fossil fuel stock, at average cost	**83,238**	74,186
Materials and supplies, at average cost	**149,669**	161,601
Prepayments	**17,160**	20,453
Vacation pay deferred	**28,390**	28,783
Total	**878,972**	754,237
Deferred Charges and Other Assets:		
Deferred charges related to income taxes (Note 8)	**362,953**	384,549
Debt expense, being amortized	**8,602**	7,276
Premium on reacquired debt, being amortized	**83,440**	81,417
Prepaid pension costs	**169,393**	130,733
Department of Energy assessments (Note 1)	**31,088**	34,416
Miscellaneous	**104,595**	79,388
Total	**760,071**	717,779
Total Assets	**$9,225,698**	$8,812,867

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

BALANCE SHEETS
At December 31, 1998 and 1997
Alabama Power Company 1998 Annual Report

CAPITALIZATION AND LIABILITIES	1998	1997
		(in thousands)
Capitalization (See accompanying statements):		
Common stock equity	**$2,784,067**	$2,750,569
Preferred stock	**317,512**	255,512
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding Company Junior Subordinated Notes (Note 9)	**297,000**	297,000
Long-term debt	**2,646,566**	2,473,202
Total	**6,045,145**	5,776,283
Current Liabilities:		
Preferred stock due within one year (Note 11)	**50,000**	-
Long-term debt due within one year (Note 11)	**471,209**	75,336
Commercial paper	**-**	306,882
Accounts payable-		
Affiliated companies	**79,844**	79,822
Other	**188,074**	159,146
Customer deposits	**29,235**	34,968
Taxes accrued-		
Federal and state income	**82,219**	21,177
Other	**17,559**	15,309
Interest accrued	**38,166**	50,722
Vacation pay accrued	**28,390**	28,783
Miscellaneous	**79,095**	103,602
Total	**1,063,791**	875,747
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 8)	**1,202,971**	1,192,265
Accumulated deferred investment tax credits	**271,611**	282,873
Prepaid capacity revenues, net (Note 7)	**96,080**	109,982
Department of Energy assessments (Note 1)	**27,202**	30,592
Deferred credits related to income taxes (Note 8)	**315,735**	327,328
Natural disaster reserve (Note 1)	**19,385**	22,416
Miscellaneous	**183,778**	195,381
Total	**2,116,762**	2,160,837
Commitments and Contingent Matters (Notes 1 through 7, and 12)		
Total Capitalization and Liabilities	**$9,225,698**	$8,812,867

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

STATEMENTS OF CAPITALIZATION

At December 31, 1998 and 1997
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		1998	1997	1998	1997
		(in thousands)		(percent of total)	
Common Stock Equity:					
Common stock, par value $40 per share --					
Authorized -- 6,000,000 shares					
Outstanding -- 5,608,955 shares in 1998 and 1997		$ 224,358	$ 224,358		
Paid-in capital		1,334,645	1,304,645		
Premium on preferred stock		99	99		
Retained earnings (Note 13)		1,224,965	1,221,467		
Total common stock equity		2,784,067	2,750,569	46.1 %	47.6 %
Cumulative Preferred Stock:					
$1 par value --					
Authorized -- 27,500,000 shares					
Outstanding -- 1998: 10,500,200 shares					
-- 1997: 6,020,200 shares					
$25 stated capital --					
5.20%		162,000	-		
5.83%		38,000	-		
6.40%		-	50,000		
6.80%		-	38,000		
Adjustable rate					
4.00% - at January 1, 1999		50,000	50,000		
$100 stated capital --					
Auction rate - 4.30% at January 1, 1999		50,000	50,000		
$100,000 stated capital --					
Auction rate - 4.08% at January 1, 1999		20,000	20,000		
$100 par value --					
Authorized -- 3,850,000 shares					
Outstanding -- 475,115 shares in 1998 and 1997					
4.20% to 4.52%		18,512	18,512		
4.60% to 4.92%		29,000	29,000		
Total cumulative preferred stock (annual dividend requirement -- $17,767,000)		367,512	255,512		
Less amount due within one year (Note 11)		50,000	-		
Cumulative preferred stock excluding amount due within one year		317,512	255,512	5.2	4.4
Company Obligated Mandatorily Redeemable Preferred Securities (Note 9):					
$25 liquidation value -- 7.375%		97,000	97,000		
$25 liquidation value -- 7.60%		200,000	200,000		
Total (annual distribution requirement -- $22,354,000)		297,000	297,000	4.9	5.2
Long-Term Debt:					
First mortgage bonds --					
Maturity	Interest Rates				
February 1, 1998	5 1/2%	-	50,000		
August 1, 1999	6 3/8%	170,000	170,000		
March 1, 2000	6%	100,000	100,000		
August 1, 2002	6.85%	-	100,000		
January 1, 2003	7%	125,000	125,000		
February 1, 2003	6 3/4%	175,000	175,000		
August 1, 2007	7 1/4%	-	175,000		
2023 through 2024	7.30% to 9%	500,000	946,108		
Total first mortgage bonds		1,070,000	1,841,108		
Other long-term debt (Note 10) --					
Pollution control obligations --					
Collateralized -					
5.5% to 6.5% due 2023-2024		126,050	223,040		
Variable rates (3.80% to 5.00% at 1/1/99) due 2015-2017		89,800	89,800		

STATEMENTS OF CAPITALIZATION (continued)

At December 31, 1998 and 1997

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		1998	1997	1998	1997
		(in thousands)		(percent of total)	
Pollution control obligations -- (continued)					
Non-collateralized -					
7.25% due 2003		**1,000**	1,000		
5.8% due 2022		**-**	9,800		
Variable rates (4.80% to 5.33% at 1/1/99) due 2021-2028		**324,290**	217,500		
Total pollution control obligations		**541,140**	**541,140**		
Senior notes --					
Maturity	Interest Rates				
November 15, 2003	5.35%	**156,200**	-		
November 1, 2005	5.49%	**225,000**	-		
October 1, 2008	5 3/8%	**160,000**	-		
September 30, 2010	6.25%	**100,000**	-		
September 30, 2018	6.375%	**100,000**	-		
September 30, 2018	6.5%	**225,000**	-		
December 1, 2047	7 1/8%	**193,800**	193,800		
December 31, 2047	7%	**200,000**	-		
March 31, 2048	7%	**190,000**	-		
Total senior notes		**1,550,000**	193,800		
Capitalized lease obligations		**6,119**	7,105		
Unamortized debt premium (discount), net		**(49,484)**	(34,615)		
Total long-term debt (annual interest requirement -- $204,003,000)		**3,117,775**	2,548,538		
Less amount due within one year (Note 11)		**471,209**	75,336		
Long-term debt excluding amount due within one year		**2,646,566**	2,473,202	**43.8**	42.8
Total Capitalization		**$ 6,045,145**	$ 5,776,283	**100.0 %**	100.0 %

The accompanying notes are an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1998, 1997, and 1996
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	1998	1997	1996
		(in thousands)	
Balance at Beginning of Year	**$ 1,221,467**	$ 1,185,128	$ 1,161,225
Net income after dividends on preferred stock	**377,223**	375,939	371,490
Cash dividends on common stock	**(367,100)**	(339,600)	(347,500)
Preferred stock transactions, net	**(6,137)**	(45)	(7)
Other adjustments to retained earnings	**(488)**	45	(80)
Balance at End of Year (Note 13)	**$ 1,224,965**	$ 1,221,467	$ 1,185,128

STATEMENTS OF PAID-IN CAPITAL

For the Years Ended December 31, 1998, 1997, and 1996
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	1998	1997	1996
		(in thousands)	
Balance at Beginning of Period	**$ 1,304,645**	$ 1,304,645	$ 1,304,645
Capital contributions from parent company	**30,000**	-	-
Balance at End of Period	**$ 1,334,645**	$ 1,304,645	$ 1,304,645

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Alabama Power Company (the Company) is a wholly owned subsidiary of Southern Company, which is the parent company of five operating companies, Southern Company Services (SCS), a system service company, Southern Communications Services (Southern LINC), Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), Southern Company Energy Solutions, and other direct and indirect subsidiaries. The operating companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company) provide electric service in four southeastern states. Contracts among the companies -- dealing with jointly-owned generating facilities, interconnecting transmission lines, and the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). 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 Energy designs, builds, owns and operates power production and delivery facilities and provides a broad range of energy related services in the United States and international markets. Southern Nuclear provides services to Southern Company's nuclear power plants. Southern Company Energy Solutions develops new business opportunities related to energy products and services.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company is also subject to regulation by the FERC and the Alabama Public Service Commission (APSC). The Company follows generally accepted accounting principles (GAAP) and complies with the accounting policies and practices prescribed by the respective regulatory commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates.

Certain prior years' data presented in the financial statements have been reclassified to conform with current year presentation.

Regulatory Assets and Liabilities

The Company is 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 to the Company 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 Balance Sheets at December 31 relate to the following:

	1998	1997
	(in thousands)	
Deferred income taxes	**$ 362,953**	$ 384,549
Deferred income tax credits	**(315,735)**	(327,328)
Premium on reacquired debt	**83,440**	81,417
Department of Energy assessments	**31,088**	34,416
Vacation pay	**28,390**	28,783
Natural disaster reserve	**(19,385)**	(22,416)
Work force reduction costs	**4,082**	19,316
Other, net	**46,672**	59,726
Total	**$ 221,505**	$ 258,463

In the event that a portion of the Company's operations is no longer subject to the provisions of Statement No. 71, the Company would be required to write off related net 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.

Revenues and Fuel Costs

The Company currently operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the state of Alabama, and to wholesale customers in the southeast. Revenues by type of service were as follows:

	1998	1997	1996
		(in millions)	
Retail	**$2,781**	$2,511	$2,469
Non-affiliated wholesale	**449**	431	391
Other	**53**	45	44
Total	**$3,283**	$2,987	$2,904

The Company accrues revenues for services rendered but unbilled at the end of each fiscal period. Fuel costs are expensed as the fuel is used. The Company's electric rates include provisions to adjust billings for fluctuations in fuel and the energy component of purchased power costs. Revenues are adjusted for differences between recoverable fuel costs and amounts actually recovered in current rates.

The 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 $59 million in 1998, $68 million in 1997, and $64 million in 1996. The Company has a contract with the U.S. Department of Energy (DOE) that provides for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in January 1998 as required by contracts, and the Company is pursuing legal remedies against the government for breach of contract. Sufficient storage capacity currently is available to permit operation into 2009 and 2013 at Plant Farley units 1 and 2, respectively.

Also, the Energy Policy Act of 1992 required the establishment in 1993 of a Uranium Enrichment Decontamination and Decommissioning Fund, which is to be funded in part by a special assessment on utilities with nuclear plants. This assessment will be 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. The Company estimates its remaining liability at December 31, 1998, under this law to be approximately $31 million. This obligation is recognized in the accompanying Balance Sheets.

Depreciation and Nuclear Decommissioning

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2 percent in 1998 and 3.3 percent in both 1997 and 1996. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost -- together with the cost of removal, less salvage -- is charged to the accumulated provision for 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 cost of decommissioning nuclear facilities and removal of other facilities.

Nuclear Regulatory Commission (NRC) regulations require all licensees operating commercial nuclear power reactors to establish a plan for providing, with reasonable assurance, funds for decommissioning. The Company has established 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 APSC. 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. The Company has 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 the facility as of the site study year, and ultimate cost is the estimate to decommission the facility as of retirement date. The estimated costs of decommissioning -- both site study costs and ultimate costs -- at December 31, 1998, for Plant Farley were as follows:

Site study basis (year)	1998
Decommissioning periods:	
Beginning year	2017
Completion year	2031
	(in millions)
Site study costs:	
Radiated structures	$ 629
Non-radiated structures	60
Total	$ 689
	(in millions)
Ultimate costs:	
Radiated structures	$1,868
Non-radiated structures	178
Total	$2,046

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 estimates.

Annual provisions for nuclear decommissioning are based on an annuity method as approved by the APSC. The amounts expensed in 1998 and fund balance as of December 31, 1998 were:

	(in millions)
Amount expensed in 1998	$ 18
Accumulated provisions:	
Balance in external trust funds	$232
Balance in internal reserves	42
Total	$274

All of the Company's decommissioning costs are approved for ratemaking. Significant assumptions include an estimated inflation rate of 4.5 percent and an estimated trust earnings rate of 7.0 percent.

Income Taxes

The 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.

Allowance For Funds Used During Construction (AFUDC)

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. The composite rate used to determine the amount of allowance was 9.0 percent in 1998 and 5.8 percent in both 1997 and 1996. AFUDC, net of income tax, as a percent of net income after dividends on preferred stock was 1.8 percent in 1998, 0.8 percent in 1997 and 1.1 percent in 1996.

Utility Plant

Utility plant is stated at original cost. 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 maintenance, repairs and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Financial Instruments

The Company's only financial instruments for which the carrying amount did not approximate fair value at December 31 are as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
At December 31, 1998	**$3,112**	**$3,195**
At December 31, 1997	2,541	2,638
Preferred Securities:		
At December 31, 1998	**297**	**307**
At December 31, 1997	297	300

The fair value for long-term debt and preferred securities was based on either closing market prices or closing prices of comparable instruments.

Cash and Cash Equivalents

For purposes of the 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 cost 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.

Natural Disaster Reserve

In September 1994, in response to a request by the Company, the APSC issued an order allowing the Company to establish a Natural Disaster Reserve. Regulatory treatment allows the Company to accrue $250 thousand per month, until the maximum accumulated provision of $32 million is attained. However, in December 1995, the APSC approved higher accruals to restore the reserve to its authorized level whenever the balance in the reserve declines below $22.4 million.

2. RETIREMENT BENEFITS

The Company has defined benefit, trusteed, pension plans that cover substantially all employees. The Company provides certain medical care and life insurance benefits for retired employees. Substantially all these employees may become eligible for such benefits when they retire. The Company funds trusts to the extent deductible under federal income tax regulations or to the extent required by the APSC and FERC. In 1998, the Company adopted FASB Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits. The measurement date is September 30 of each year.

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

	1998	1997
Discount	**6.75%**	7.50%
Annual salary increase	**4.25**	5.00
Long-term return on plan assets	**8.50**	8.50

Pension Plan

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

	Projected Benefit Obligations	
	1998	1997
	(in millions)	
Balance at beginning of year	**$813**	$814
Service cost	**22**	20
Interest cost	**59**	58
Benefits paid	**(51)**	(38)
Actuarial (gain) loss and employee transfers	**25**	(41)
Balance at end of year	**$868**	$813

	Plan Assets	
	1998	1997
	(in millions)	
Balance at beginning of year	**$1,521**	$1,334
Actual return on plan assets	**9**	250
Benefits paid	**(51)**	(38)
Employee transfers	**(18)**	(25)
Balance at end of year	**$1,461**	$1,521

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

	1998	1997
	(in millions)	
Funded status	**$ 593**	$ 708
Unrecognized transition obligation	**(30)**	(35)
Unrecognized prior service cost	**39**	43
Unrecognized net actuarial gain	**(433)**	(585)
Prepaid asset recognized in the Balance Sheets	**$ 169**	$ 131

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in millions)		
Service cost	**$ 22**	$ 20	$ 21
Interest cost	**59**	58	60
Expected return on plan assets	**(102)**	(95)	(93)
Recognized net actuarial gain	**(16)**	(13)	(9)
Net amortization	**(2)**	(2)	(3)
Net pension cost (income)	**$ (39)**	$ (32)	$ (24)

Postretirement Benefits

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

	Projected Benefit Obligations	
	1998	1997
	(in millions)	
Balance at beginning of year	**$252**	$242
Service cost	**5**	4
Interest cost	**19**	18
Benefits paid	**(12)**	(8)
Actuarial (gain) loss and employee transfers	**14**	(4)
Balance at end of year	**$278**	$252

	Plan Assets	
	1998	1997
	(in millions)	
Balance at beginning of year	**$125**	$108
Actual return on plan assets	**4**	16
Employer contributions	**20**	9
Benefits Paid	**(12)**	(8)
Balance at end of year	**$137**	$125

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

	1998	1997
	(in millions)	
Funded status	**$(141)**	$(127)
Unrecognized transition obligation	**57**	61
Unrecognized net actuarial loss	**22**	3
Fourth quarter contributions	**8**	10
Accrued liability recognized in the Balance Sheets	**$ (54)**	$ (53)

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in millions)		
Service cost	**$ 5**	$ 4	$ 5
Interest cost	**18**	18	17
Expected return on plan assets	**(9)**	(7)	(6)
Recognized net gain	**-**	-	1
Net amortization	**4**	4	4
Net postretirement cost	**$ 18**	$ 19	$ 21

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005, 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, 1998 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$18	$(15)
Service and interest costs	2	(1)

Work Force Reduction Programs

The Company has incurred additional costs for work force reduction programs. The costs related to these programs were $19.4 million, $33.0 million and $26.7 million for the years 1998, 1997 and 1996, respectively. In addition, certain costs of these programs were deferred and are being amortized in accordance with regulatory treatment. The unamortized balance of these costs was $4.1 million at December 31, 1998.

3. LITIGATION AND REGULATORY MATTERS

Retail Rate Adjustment Procedures

In November 1982, the APSC adopted rates that provide for periodic adjustments based upon the Company'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. The rate adjustment

procedures allow a return on common equity range of 13.0 percent to 14.5 percent and limit increases or decreases in rates to 4 percent in any calendar year.

In June 1995, the APSC issued a rate order granting the Company's request for gradual adjustments to move toward parity among customer classes. This order also calls for a moratorium on any periodic retail rate increases (but not decreases) until July 2001.

In December 1995, the APSC issued an order authorizing the Company 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. In April 1997, the APSC issued an additional order authorizing the Company to reduce balance sheet asset items. This order authorizes the reduction of such items up to an amount equal to five times the total estimated annual revenue reduction resulting from future rate reductions initiated by the Company. In 1998, the Company – in accordance with the 1995 rate order – recorded $33 million of additional amortization of premium on reacquired debt.

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

Appliance Warranty Litigation

In 1996, a class action against the Company was filed charging the Company with fraud and non-compliance with regulatory statutes relating to the offer, sale, and financing of "extended service contracts" in connection with the sale of electric appliances. The plaintiffs seek damages in an unspecified amount. The Company has offered extended service agreements to its customers since January 1984, and approximately 175,000 extended service agreements could be involved in these proceedings. The trial court has granted partial summary judgment in favor of the plaintiffs. The Company has appealed this decision to the Supreme Court of Alabama. The final outcome of this case cannot now be determined.

Environmental Litigation

On November 30, 1998, total judgments of nearly $53 million were entered in favor of five plaintiffs against the Company and two large textile manufacturers. The plaintiffs alleged that the manufacturers had discharged certain polluting substances into a stream that empties into Lake Martin, a hydroelectric reservoir owned by the Company, and that such discharges had reduced the value of the plaintiffs' residential lots on Lake Martin. Of the total amount of the judgments, $155 thousand was compensatory damages and the remainder was punitive damages. The damages were assessed against all three defendants jointly. Post-trial motions have been filed, and, if relief is not granted at the trial court level, the Company will appeal these judgements to the Supreme Court of Alabama. While the Company believes that these judgments should be reversed or set aside, the final outcome of this matter cannot now be determined.

FERC Reviews Equity Returns

On September 21, 1998, the FERC entered separate orders affirming the outcome of the administrative law judge's opinions in two proceedings in which the return on common equity component of formula rates contained in substantially all of the operating companies' wholesale power contracts was being challenged as unreasonably high. These orders resulted in no change in the wholesale power contracts that were the subject of such proceedings. The FERC also dismissed a complaint filed by three customers under long-term power sales agreements seeking to lower the equity return component in such agreements. These customers have filed applications for rehearing regarding each FERC order. In response to a requirement of the September 1998 FERC order, Southern Company filed a new equity return component on the long-term power sales contracts, to be effective January 5, 1999. The proposed equity return was lowered from 13.75 percent to 12.50 percent. If the filed equity return is approved, the estimated impact on the Company's revenues will be approximately $5 million annually. The FERC placed the new rates into effect, subject to refund. Also, this filing was consolidated with the new proceeding discussed below.

On December 28, 1998, the FERC staff filed a motion asking the FERC to initiate a new proceeding regarding the equity return and other issues involving the Company's formula rate contracts. The motion was submitted pursuant to review procedures applicable to these contracts, and would be applicable to billings under such contracts on and after January 1, 1999.

Tax Litigation

In August 1997, Southern Company and the Internal Revenue Service (IRS) entered into a settlement agreement related to tax issues for the years 1984 through 1987. The agreement received final approval by the Joint

Congressional Committee on Taxation in June 1998 and as a result, the Company recognized interest income in 1998 of $14 million. The refund by the IRS has been made and this matter is now concluded.

4. CAPITAL BUDGET

The Company's capital expenditures are currently estimated to total $875 million in 1999, $653 million in 2000, and $668 million in 2001. Included in these estimates are the following: the Company will replace all six steam generators at Plant Farley at a total cost of approximately $234 million. Additionally, the Company plans to construct and install 1,075 megawatts of new generating capacity and associated substation facilities at Plant Barry. The projected capital expenditures for this project amount to approximately $384 million.

The capital budget is subject to periodic review and revision, and actual capital costs incurred may vary from the above estimates because of numerous factors. These factors include: changes in business conditions; revised load growth projections; changes in environmental regulations; changes in the existing nuclear plant to meet new regulatory requirements; increasing costs of labor, equipment, and materials; and cost of capital.

In addition, significant construction will continue related to transmission and distribution facilities and the upgrading of generating plants.

5. FINANCING, INVESTMENT, AND COMMITMENTS

General

To the extent possible, the Company's construction program is expected to be financed primarily from internal sources. Short-term debt is often utilized and the amounts available are discussed below. The Company may issue additional long-term debt and preferred securities for debt maturities, redeeming higher-cost securities, and meeting additional capital requirements.

Financing

The ability of the Company to finance its capital budget depends on the amount of funds generated internally and the funds it can raise by external financing. The Company historically has relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for its benefit by public authorities, to meet its long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. In this regard, the Company sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness it may incur. In order to issue additional debt and equity securities, the Company must comply with certain earnings coverage requirements designated in its mortgage indenture and corporate charter. The most restrictive of these provisions requires, for the issuance of additional first mortgage bonds, that before-income-tax earnings, as defined, cover pro forma annual interest charges on outstanding first mortgage bonds at least twice; and for the issuance of additional preferred stock, that gross income available for interest cover pro forma annual interest charges and preferred stock dividends at least one and one-half times. The Company's coverages are at a level that would permit any necessary amount of security sales at current interest and dividend rates.

Bank Credit Arrangements

The Company maintains committed lines of credit in the amount of $757.7 million (including $315 million of such lines under which are dedicated to funding purchase obligations relating to variable rate pollution control bonds). Of these lines, $677.7 million expire at various times during 1999 and $80 million expires in 2003. In certain cases, such lines require payment of a commitment fee based on the unused portion of the commitment or the maintenance of compensating balances with the banks. Because the arrangements are based on an average balance, the Company does not consider any of its cash balances to be restricted as of any specific date. Moreover, the Company borrows from time to time pursuant to arrangements with banks for uncommitted lines of credit.

At December 31, 1998, the Company had regulatory approval to have outstanding up to $750 million of short-term borrowings.

Assets Subject to Lien

The Company's mortgage, as amended and supplemented, securing the first mortgage bonds issued by the Company, constitutes a direct lien on substantially all of the Company's fixed property and franchises.

Fuel Commitments

To supply a portion of the fuel requirements of its generating plants, the 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. Total estimated long-term obligations at December 31, 1998, were as follows:

Year	Amounts (in millions)
1999	$ 825
2000	547
2001	497
2002	376
2003	381
2004 – 2014	2,417
Total commitments	$5,043

Operating Leases

The Company has entered into coal rail car rental agreements with various terms and expiration dates. These expenses totaled $5.8 million in 1998, and $3.0 million each for 1997 and 1996. At December 31, 1998, estimated minimum rental commitments for noncancellable operating leases were as follows:

Year	Amounts (in millions)
1999	$11.4
2000	9.7
2001	7.3
2002	5.9
2003	5.7
2004 – 2018	51.4
Total minimum payments	$91.4

6. JOINT OWNERSHIP AGREEMENTS

The Company and Georgia Power Company own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,020 megawatts, together with associated transmission facilities. The capacity of these units is sold equally to the Company and Georgia Power Company under a contract which, in substance, requires payments sufficient to provide for the operating expenses, taxes, interest expense and a return on equity, whether or not SEGCO has any capacity and energy available. The term of the contract extends automatically for two-year periods, subject to either party's right to cancel upon two year's notice. The Company's share of expenses totaled $74 million in 1998, $73 million in 1997 and $75 million in 1996, and is included in "Purchased power from affiliates" in the Statements of Income.

In addition, the Company has guaranteed unconditionally the obligation of SEGCO under an installment sale agreement for the purchase of certain pollution control facilities at SEGCO's generating units, pursuant to which $24.5 million principal amount of pollution control revenue bonds are outstanding. Georgia Power Company has agreed to reimburse the Company for the pro rata portion of such obligation corresponding to its then proportionate ownership of stock of SEGCO if the Company is called upon to make such payment under its guaranty.

At December 31, 1998, the capitalization of SEGCO consisted of $49 million of equity and $70 million of long-term debt on which the annual interest requirement is $4.1 million. SEGCO paid dividends totaling $8.7 million in 1998, $10.6 million in 1997, and $10.1 million in 1996, of which one-half of each was paid to the Company. SEGCO's net income was $7.5 million, $8.5 million, and $7.7 million for 1998, 1997 and 1996, respectively.

The Company's percentage ownership and investment in jointly-owned generating plants at December 31, 1998, follows:

Facility (Type)	Total Megawatt Capacity	Company Ownership	
Greene County (coal)	**500**	**60.00%**	**(1)**
Plant Miller Units 1 and 2 (coal)	**1,320**	**91.84%**	**(2)**

(1) Jointly owned with an affiliate, Mississippi Power Company.
(2) Jointly owned with Alabama Electric Cooperative, Inc.

Facility	Company Investment	Accumulated Depreciation
	(in millions)	
Greene County	**$ 94**	**$ 42**
Plant Miller Units 1 and 2	**717**	**330**

7. LONG-TERM POWER SALES AGREEMENTS

General

The Company and the operating affiliates of Southern Company have entered into long-term contractual agreements for the sale of capacity and energy to certain non-affiliated utilities located outside the system's service area. These agreements -- expiring at various dates discussed below -- are firm and pertain to capacity related to specific generating units. Because the energy is generally sold at cost under these agreements, profitability is primarily affected by revenues from capacity sales. The Company's capacity revenues amounted to $142 million in 1998, $136 million in 1997, and $151 million in 1996.

Unit power from Plant Miller is being sold to Florida Power Corporation (FPC), Florida Power & Light Company (FP&L), Jacksonville Electric Authority (JEA) and the City of Tallahassee, Florida. Under these agreements, approximately 1,200 megawatts of capacity are scheduled to be sold through 1999. Thereafter, these sales will remain at that approximate level -- unless reduced by FP&L, FPC, and JEA for the periods after 1999 with a minimum of three years notice -- until the expiration of the contracts in 2010.

Alabama Municipal Electric Authority (AMEA) Capacity Contracts

In August 1986, the Company entered into a firm power sales contract with AMEA entitling AMEA to scheduled amounts of capacity (to a maximum 100 megawatts) for a period of 15 years commencing September 1, 1986 (1986 Contract). In October 1991, the Company entered into a second firm power sales contract with AMEA entitling AMEA to scheduled amounts of additional capacity (to a maximum 80 megawatts) for a period of 15 years commencing October 1, 1991 (1991 Contract). In both contracts the power will be sold to AMEA for its member municipalities that previously were served directly by the Company as wholesale customers. Under the terms of the contracts, the Company received payments from AMEA representing the net present value of the revenues associated with the respective capacity entitlements, discounted at effective annual rates of 9.96 percent and 11.19 percent for the 1986 and 1991 contracts, respectively. These payments are being recognized as operating revenues and the discounts are being amortized to other interest expense as scheduled capacity is made available over the terms of the contracts.

In order to secure AMEA's advance payments and the Company's performance obligation under the contracts, the Company issued and delivered to an escrow agent first mortgage bonds representing the maximum amount of liquidated damages payable by the Company in the event of a default under the contracts. No principal or interest is payable on such bonds unless and until a default by the Company occurs. As the liquidated damages decline under the contracts, a portion of the bonds equal to the decreases are returned to the Company. At December 31, 1998, $99.4 million of such bonds was held by the escrow agent under the contracts.

8. INCOME TAXES

At December 31, 1998, the tax-related regulatory assets and liabilities were $363 million and $316 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are as follows:

	1998	1997	1996
		(in thousands)	
Total provision for income taxes:			
Federal --			
Currently payable	**$123,384**	$197,159	$172,911
Deferred --			
current year	**59,162**	32,884	(6,309)
reversal of prior years	**12,984**	(44,300)	18,948
	195,530	185,743	185,550
State --			
Currently payable	**15,761**	23,147	16,212
Deferred --			
current year	**4,811**	1,409	697
reversal of prior years	**2,473**	(2,422)	3,249
	23,045	22,134	20,158
Total	**218,575**	207,877	205,708
Less income taxes credited to other income	**(6,347)**	(12,351)	(22,400)
Total income taxes charged to operations	**$224,922**	$220,228	$228,108

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:

	1998	1997
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	$ 861	$ 847
Property basis differences	435	463
Premium on reacquired debt	29	30
Pensions	50	20
Other	46	11
Total	1,421	1,371
Deferred tax assets:		
Capacity prepayments	28	31
Other deferred costs	25	33
Postretirement benefits	20	18
Unbilled revenue	16	16
Other	56	66
Total	145	164
Net deferred tax liabilities	1,276	1,207
Portion included in current assets (liabilities), net	(73)	(15)
Accumulated deferred income taxes in the Balance Sheets	$1,203	$1,192

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $11 million in 1998, 1997, and 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal deduction	2.5	2.4	2.2
Non-deductible book depreciation	1.5	1.5	1.5
Differences in prior years' deferred and current tax rates	(1.6)	(2.3)	(1.6)
Other	(1.6)	(1.9)	(3.0)
Effective income tax rate	35.8%	34.7%	34.1%

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. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

9. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES

Statutory business trusts formed by the Company, of which the Company owns all the common securities, have issued mandatorily redeemable preferred securities as follows:

	Date of Issue	Amount	Rate	Notes	Maturity Date
		(millions)		(millions)	
Trust I	1/1996	$ 97	7.375%	$100	3/2026
Trust II	1/1997	200	7.60	206	12/2036

Substantially all of the assets of each trust are junior subordinated notes issued by the Company in the respective approximate principal amounts set forth above. In February 1999, the Company issued $50 million of variable rate mandatorily redeemable preferred securities (Trust III), the initial distribution rate of which was 4.85 percent. The associated junior subordinated notes, in the amount of $51.6 million, will be due February 28, 2029.

The Company considers that the mechanisms and obligations relating to the preferred securities, taken together, constitute a full and unconditional guarantee by the Company of the Trusts' payment obligations with respect to the preferred securities.

The Trusts are subsidiaries of the Company, and accordingly are consolidated in the Company's financial statements.

10. OTHER LONG-TERM DEBT

Pollution control obligations represent installment purchases of pollution control facilities financed by funds derived from sales by public authorities of revenue bonds. The Company is required to make payments sufficient for the authorities to meet principal and interest requirements of such bonds. With respect to $215.9 million of such pollution control obligations, the Company has authenticated and delivered to the trustees a like principal amount of first mortgage bonds as security for its obligations under the installment purchase agreements.

No principal or interest on these first mortgage bonds is payable unless and until a default occurs on the installment purchase agreements.

In 1997 and 1998, the Company issued unsecured senior notes. The senior notes are, in effect, subordinated to all secured debt of the Company, including its first mortgage bonds.

The estimated aggregate annual maturities of capitalized lease obligations through 2003 are as follows: $1.0 million in 1999, $0.9 million in 2000, $0.8 million in 2001, $0.9 million in 2002 and $0.9 million in 2003.

11. SECURITIES DUE WITHIN ONE YEAR

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

	1998	1997
	(in thousands)	
Bond improvement fund requirements	$ -	$18,450
First mortgage bond maturities and redemptions	**470,000**	55,895
Other long-term debt maturities (Note 10)	**1,209**	991
Total long-term debt due within one year	**471,209**	75,336
Preferred stock to be redeemed	**50,000**	-
Total	**$521,209**	$75,336

The annual first mortgage bond improvement fund requirement is 1 percent of the aggregate principal amount of bonds of each series authenticated, so long as a portion of that series is outstanding, and may be satisfied by the deposit of cash and/or reacquired bonds, the certification of unfunded property additions or a combination thereof. Scheduled maturities amount to $0.2 million in connection with pollution control bonds as a result of the redemption, over a five-year period, of the 7.25 percent series due 2003.

12. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act of 1988 (Act), the Company maintains agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at Plant Farley. The Act provides funds up to $9.7 billion for public liability claims that could arise from a single nuclear incident. Plant Farley is insured against this liability to a maximum of $200 million by private insurance, with the remaining coverage provided by a mandatory program of deferred premiums which could be assessed, after a nuclear incident, against all owners of nuclear reactors. The 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 the Company is $176 million per incident but not more than an aggregate of $20 million to be paid for each incident in any one year.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities.

Additionally, the Company has 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 cost that would be incurred in obtaining replacement power during a prolonged accidental outage at a member's nuclear plant. Members can be insured against increased cost of replacement power in an amount up to $3.5 million per week (starting 17 weeks after the outage) for one year and up to $2.8 million per week for the second and third 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 the Company under the three NEIL policies would be $21 million.

For all on-site property damage insurance policies for commercial nuclear power plants, the NRC requires that the proceeds of such policies issued or renewed on or after April 2, 1991, 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.

13. COMMON STOCK DIVIDEND RESTRICTIONS

The Company's first mortgage bond indenture contains various common stock dividend restrictions that remain in effect as long as the bonds are outstanding. At December 31, 1998, retained earnings of $796 million were restricted against the payment of cash dividends on common stock under terms of the mortgage indenture.

14. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Summarized quarterly financial data for 1998 and 1997 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(in thousands)	
March 1998	**$716,505**	**$130,735**	**$ 66,041**
June 1998	**863,715**	**178,722**	**94,750**
September 1998	**1,057,988**	**242,063**	**173,958**
December 1998	**748,165**	**105,519**	**42,474**
March 1997	$704,768	$123,455	$ 57,807
June 1997	728,089	125,750	63,137
September 1997	962,446	249,487	191,800
December 1997	753,808	128,511	63,195

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

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	1998	1997	1996
Operating Revenues (in thousands)	**$3,386,373**	$3,149,111	$3,120,775
Net Income after Dividends on Preferred Stock (in thousands)	**$377,223**	$375,939	$371,490
Cash Dividends on Common Stock (in thousands)	**$367,100**	$339,600	$347,500
Return on Average Common Equity (percent)	**13.63**	13.76	13.75
Total Assets (in thousands)	**$9,225,698**	$8,812,867	$8,733,846
Gross Property Additions (in thousands)	**$610,132**	$451,167	$425,024
Capitalization (in thousands):			
Common stock equity	**$2,784,067**	$2,750,569	$2,714,277
Preferred stock	**317,512**	255,512	340,400
Preferred stock subject to mandatory redemption	**-**	-	-
Subsidiary obligated mandatorily redeemable preferred securities	**297,000**	297,000	97,000
Long-term debt	**2,646,566**	2,473,202	2,354,006
Total (excluding amounts due within one year)	**$6,045,145**	$5,776,283	$5,505,683
Capitalization Ratios (percent):			
Common stock equity	**46.1**	47.6	49.3
Preferred stock	**5.2**	4.4	6.2
Company obligated mandatorily redeemable preferred securities	**4.9**	5.2	1.7
Long-term debt	**43.8**	42.8	42.8
Total (excluding amounts due within one year)	**100.0**	100.0	100.0
First Mortgage Bonds (in thousands):			
Issued	**-**	-	-
Retired	**771,108**	74,951	83,797
Company Obligated Mandatorily Redeemable Preferred Securities (in thousands):			
Issued	**-**	200,000	97,000
Senior Notes (in thousands):			
Issued	**1,356,200**	193,800	-
Preferred Stock (in thousands):			
Issued	**200,000**	-	-
Retired	**88,000**	184,888	-
Security Ratings:			
First Mortgage Bonds -			
Moody's	A1	A1	A1
Standard and Poor's	A+	A+	A+
Duff & Phelps	AA-	AA-	AA-
Preferred Stock -			
Moody's	a2	a2	a2
Standard and Poor's	A	A	A
Duff & Phelps	A	A+	A+
Unsecured Long-Term Debt -			
Moody's	A2	A2	-
Standard and Poor's	A	A	-
Duff & Phelps	A+	A+	-
Customers (year-end):			
Residential	**1,106,217**	1,092,161	1,073,559
Commercial	**182,738**	177,362	171,827
Industrial	**5,020**	5,076	5,100
Other	**733**	728	732
Total	**1,294,708**	1,275,327	1,251,218
Employees (year-end)	**6,631**	6,531	6,865

SELECTED FINANCIAL AND OPERATING DATA

Alabama Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$3,024,774	$2,935,142	$3,007,609	$2,846,840	$2,846,794	$2,722,424	$2,629,354	$2,476,626
$360,894	$356,338	$346,494	$338,555	$339,666	$312,803	$311,146	$283,475
$285,000	$268,000	$252,900	$273,300	$232,900	$220,800	$217,300	$212,700
13.61	13.86	13.94	14.02	14.55	14.00	14.53	14.03
$8,744,360	$8,459,217	$8,248,683	$6,593,618	$6,549,462	$6,362,293	$6,279,431	$6,180,945
$551,781	$536,785	$435,843	$367,463	$397,011	$444,680	$459,199	$643,892
$2,690,374	$2,614,405	$2,526,348	$2,443,493	$2,387,198	$2,280,590	$2,188,811	$2,094,815
440,400	440,400	440,400	489,400	484,400	484,400	484,400	484,400
-	-	-	-	-	12,500	17,500	22,500
-	-	-	-	-	-	-	-
2,374,948	2,455,013	2,362,852	2,202,473	2,382,635	2,397,931	2,435,129	2,496,492
$5,505,722	$5,509,818	$5,329,600	$5,135,366	$5,254,233	$5,175,421	$5,125,840	$5,098,207
48.9	47.4	47.4	47.6	45.4	44.1	42.7	41.1
8.0	8.0	8.3	9.5	9.2	9.6	9.8	9.9
-	-	-	-	-	-	-	-
43.1	44.6	44.3	42.9	45.4	46.3	47.5	49.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
-	150,000	860,000	745,000	250,000	-	-	150,000
-	20,387	699,788	931,797	227,695	33,122	75,650	42,445
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	158,000	150,000	-	-	-	100,000
-	-	207,000	145,000	17,500	5,000	5,000	2,500
A1	A1	A1	A1	A1	A1	A1	A1
A+	A	A	A	A	A	A	A
A+	A+	A+	A	A	A	A	6
a2	a2	a2	a2	a2	a2	a2	a2
A	A-	A-	A-	A-	A-	A-	A-
A	A-	A-	A-	A-	A-	A-	7
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,058,197	1,042,974	1,027,130	1,012,294	997,585	985,566	974,622	964,581
166,480	162,239	157,337	152,530	148,228	144,340	141,265	137,955
5,338	5,341	5,391	5,434	5,496	5,322	5,200	5,120
725	716	713	704	697	690	684	678
1,230,740	1,211,270	1,190,571	1,170,962	1,152,006	1,135,918	1,121,771	1,108,334
7,261	7,996	8,009	8,116	8,513	9,473	9,698	10,302

SELECTED FINANCIAL AND OPERATING DATA (continued)

	1998	1997	1996
Operating Revenues (in thousands):			
Residential	**$1,133,435**	$997,507	$998,806
Commercial	**779,169**	724,148	696,453
Industrial	**853,550**	775,591	759,628
Other	**14,523**	13,563	13,729
Total retail	**2,780,677**	2,510,809	2,468,616
Sales for resale - non-affiliates	**448,973**	431,023	391,669
Sales for resale - affiliates	**103,562**	161,795	216,620
Total revenues from sales of electricity	**3,333,212**	3,103,627	3,076,905
Other revenues	**53,161**	45,484	43,870
Total	**$3,386,373**	$3,149,111	$3,120,775
Kilowatt-Hour Sales (in thousands):			
Residential	**15,794,543**	14,336,408	14,593,761
Commercial	**11,904,509**	11,330,312	10,904,476
Industrial	**21,585,117**	20,727,912	19,999,258
Other	**196,647**	180,389	192,573
Total retail	**49,480,816**	46,575,021	45,690,068
Sales for resale - non-affiliates	**11,840,909**	12,329,480	9,491,237
Sales for resale - affiliates	**5,976,099**	8,993,326	10,292,066
Total	**67,297,824**	67,897,827	65,473,371
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**7.18**	6.96	6.84
Commercial	**6.55**	6.39	6.39
Industrial	**3.95**	3.74	3.80
Total retail	**5.62**	5.39	5.40
Sales for resale	**3.10**	2.78	3.07
Total sales	**4.95**	4.57	4.70
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,370**	13,254	13,705
Residential Average Annual Revenue Per Customer	**$1,031.21**	$922.21	$937.95
Plant Nameplate Capacity Ratings (Note 1) (year-end) (megawatts)	**11,151**	11,151	11,151
Territorial Peak-Hour Demand (megawatts) (Note 2):			
Winter	**7,757**	8,478	8,413
Summer	**10,329**	9,778	9,912
Annual Load Factor (percent) (Note 2)	**62.9**	62.7	61.3
Plant Availability (percent):			
Fossil-steam	**85.6**	86.3	86.6
Nuclear	**80.2**	88.8	90.5
Source of Energy Supply (percent):			
Coal	**65.3**	65.7	67.0
Nuclear	**16.3**	17.9	18.5
Hydro	**6.9**	7.5	7.1
Oil and gas	**1.5**	0.7	0.4
Purchased power -			
From non-affiliates	**3.3**	2.4	2.4
From affiliates	**6.7**	5.8	4.6
Total	**100.0**	100.0	100.0
Total Fuel Economy Data (Note 1):			
BTU per net kilowatt-hour generated	**8,938**	9,984	10,035
Cost of fuel per million BTU (cents)	**171.85**	148.61	147.09
Average cost of fuel per net kilowatt-hour generated (cents)	**1.54**	1.48	1.48

Notes:

(1) Generating capacity and fuel data includes Alabama Power Company's 50% portion of SEGCO.

(2) Includes Southeastern Power Administration allotment.

* Less than one-tenth of one percent.

SELECTED FINANCIAL AND OPERATING DATA (continued)

Alabama Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$997,069	$913,146	$947,277	$845,660	$864,347	$825,645	$781,982	$761,805
670,453	647,202	634,895	589,816	582,730	551,634	533,487	510,910
805,596	803,587	832,938	800,311	790,224	777,580	762,274	738,755
13,619	13,515	13,344	12,734	12,662	12,103	11,743	11,255
2,486,737	2,377,450	2,428,454	2,248,521	2,249,963	2,166,962	2,089,486	2,022,725
370,140	354,760	364,105	407,791	407,912	434,996	409,202	355,362
127,730	164,762	181,975	158,088	159,375	93,473	104,488	76,691
2,984,607	2,896,972	2,974,534	2,814,400	2,817,250	2,695,431	2,603,176	2,454,778
40,167	38,170	33,075	32,440	29,544	26,993	26,178	21,848
$3,024,774	$2,935,142	$3,007,609	$2,846,840	$2,846,794	$2,722,424	$2,629,354	$2,476,626
14,383,231	13,183,147	13,185,062	12,069,268	12,324,898	11,996,794	11,346,736	11,332,285
10,043,220	9,645,798	9,185,462	8,629,869	8,526,131	8,201,534	7,915,685	7,711,092
19,862,577	19,479,364	18,595,237	18,260,274	17,511,579	17,713,153	17,360,791	16,881,342
186,848	185,876	181,673	176,798	174,760	170,420	166,485	165,122
44,475,876	42,494,185	41,147,434	39,136,209	38,537,368	38,081,901	36,789,697	36,089,841
8,046,189	6,775,176	7,143,672	8,382,571	8,810,442	10,277,060	10,292,329	7,905,750
6,705,174	8,432,533	8,081,324	7,210,697	7,784,285	4,519,275	5,048,743	3,551,142
59,227,239	57,701,894	56,372,430	54,729,477	55,132,095	52,878,236	52,130,769	47,546,733
6.93	6.93	7.18	7.01	7.01	6.88	6.89	6.72
6.68	6.71	6.91	6.83	6.83	6.73	6.74	6.63
4.06	4.13	4.48	4.38	4.51	4.39	4.39	4.38
5.59	5.59	5.90	5.75	5.84	5.69	5.68	5.60
3.38	3.42	3.59	3.63	3.42	3.57	3.35	3.77
5.04	5.02	5.28	5.14	5.11	5.10	4.99	5.16
13,686	12,746	12,936	12,017	12,435	12,256	11,717	11,839
$948.71	$882.88	$929.36	$842.00	$872.04	$843.50	$807.50	$795.84
10,831	10,431	10,431	10,431	10,539	9,879	9,879	9,279
7,958	8,217	7,152	7,077	6,586	6,293	7,264	6,377
10,090	9,028	9,457	8,801	8,627	8,878	8,256	7,991
59.2	62.2	58.6	59.6	59.9	57.4	59.5	59.6
88.3	86.9	89.7	88.9	93.1	92.2	90.7	91.3
81.1	92.5	86.6	80.2	87.0	86.5	83.1	91.9
67.1	62.9	63.9	64.3	61.5	57.0	54.1	53.9
17.1	21.7	20.1	19.0	20.8	21.6	21.0	26.1
7.0	8.4	6.9	8.5	8.2	8.7	11.0	4.8
0.4	*	*	*	*	0.1	0.1	0.1
2.7	1.3	1.1	1.2	1.6	0.9	1.8	0.5
5.7	5.7	8.0	7.0	7.9	11.7	12.0	14.6
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,025	9,961	10,003	10,000	9,985	10,072	10,061	10,137
148.68	157.62	173.66	164.57	170.49	171.55	172.20	168.21
1.49	1.57	1.74	1.65	1.70	1.73	1.73	1.71

SELECTED FINANCIAL AND OPERATING DATA (continued)

Alabama Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$997,069	$913,146	$947,277	$845,660	$864,347	$825,645	$781,982	$761,805
670,453	647,202	634,895	589,816	582,730	551,634	533,487	510,910
805,596	803,587	832,938	800,311	790,224	777,580	762,274	738,755
13,619	13,515	13,344	12,734	12,662	12,103	11,743	11,255
2,486,737	2,377,450	2,428,454	2,248,521	2,249,963	2,166,962	2,089,486	2,022,725
370,140	354,760	364,105	407,791	407,912	434,996	409,202	355,362
127,730	164,762	181,975	158,088	159,375	93,473	104,488	76,691
2,984,607	2,896,972	2,974,534	2,814,400	2,817,250	2,695,431	2,603,176	2,454,778
40,167	38,170	33,075	32,440	29,544	26,993	26,178	21,848
$3,024,774	$2,935,142	$3,007,609	$2,846,840	$2,846,794	$2,722,424	$2,629,354	$2,476,626
14,383,231	13,183,147	13,185,062	12,069,268	12,324,898	11,996,794	11,346,736	11,332,285
10,043,220	9,645,798	9,185,462	8,629,869	8,526,131	8,201,534	7,915,685	7,711,092
19,862,577	19,479,364	18,595,237	18,260,274	17,511,579	17,713,153	17,360,791	16,881,342
186,848	185,876	181,673	176,798	174,760	170,420	166,485	165,122
44,475,876	42,494,185	41,147,434	39,136,209	38,537,368	38,081,901	36,789,697	36,089,841
8,046,189	6,775,176	7,143,672	8,382,571	8,810,442	10,277,060	10,292,329	7,905,750
6,705,174	8,432,533	8,081,324	7,210,697	7,784,285	4,519,275	5,048,743	3,551,142
59,227,239	57,701,894	56,372,430	54,729,477	55,132,095	52,878,236	52,130,769	47,546,733
6.93	6.93	7.18	7.01	7.01	6.88	6.89	6.72
6.68	6.71	6.91	6.83	6.83	6.73	6.74	6.63
4.06	4.13	4.48	4.38	4.51	4.39	4.39	4.38
5.59	5.59	5.90	5.75	5.84	5.69	5.68	5.60
3.38	3.42	3.59	3.63	3.42	3.57	3.35	3.77
5.04	5.02	5.28	5.14	5.11	5.10	4.99	5.16
13,686	12,746	12,936	12,017	12,435	12,256	11,717	11,839
$948.71	$882.88	$929.36	$842.00	$872.04	$843.50	$807.50	$795.84
10,831	10,431	10,431	10,431	10,539	9,879	9,879	9,279
7,958	8,217	7,152	7,077	6,586	6,293	7,264	6,377
10,090	9,028	9,457	8,801	8,627	8,878	8,256	7,991
59.2	62.2	58.6	59.6	59.9	57.4	59.5	59.6
88.3	86.9	89.7	88.9	93.1	92.2	90.7	91.3
81.1	92.5	86.6	80.2	87.0	86.5	83.1	91.9
67.1	62.9	63.9	64.3	61.5	57.0	54.1	53.9
17.1	21.7	20.1	19.0	20.8	21.6	21.0	26.1
7.0	8.4	6.9	8.5	8.2	8.7	11.0	4.8
0.4	*	*	*	*	0.1	0.1	0.1
2.7	1.3	1.1	1.2	1.6	0.9	1.8	0.5
5.7	5.7	8.0	7.0	7.9	11.7	12.0	14.6
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,025	9,961	10,003	10,000	9,985	10,072	10,061	10,137
148.68	157.62	173.66	164.57	170.49	171.55	172.20	168.21
1.49	1.57	1.74	1.65	1.70	1.73	1.73	1.71

GEORGIA POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT

Georgia Power Company 1998 Annual Report

The management of Georgia Power Company has prepared this annual report and is responsible for the financial statements and related information. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, 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 books and records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls based upon the recognition that the cost of the system should not exceed its benefits. The Company believes that 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, which is composed of three directors who are not employees, provides a broad overview of management's financial reporting and control functions. At least three times a year 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 control and financial reporting matters. The internal auditors and the 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 with a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Georgia Power Company in conformity with generally accepted accounting principles.

H. Allen Franklin
President and Chief
Executive Officer

David M. Ratcliffe
Executive Vice President,
Treasurer and Chief
Financial Officer

February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Georgia Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Georgia Power Company (a Georgia corporation and a wholly owned subsidiary of Southern Company) as of December 31, 1998 and 1997, and the related statements of income, retained earnings, paid-in capital, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial statements (pages II-97 through II-117) referred to above present fairly, in all material respects, the financial position of Georgia Power Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

RESULTS OF OPERATIONS

Earnings

Georgia Power Company's 1998 earnings totaled $570 million, representing a $24 million (4.0 percent) decrease from 1997. This earnings decrease resulted primarily from higher operating expenses, additional depreciation charges pursuant to a Georgia Public Service Commission (GPSC) retail accounting order discussed below, lower wholesale capacity revenues, and the write-off of a portion of the Rocky Mountain plant investment. These decreases to earnings were partially offset by higher retail revenues, lower financing costs and increased non-operating income. Earnings for 1997 totaled $594 million, representing a $14 million (2.4 percent) increase over 1996. This earnings increase resulted primarily from lower operating expenses, lower financing costs, and increased non-operating income, partially offset by lower retail revenues and additional depreciation charges pursuant to the GPSC retail accounting order.

Revenues

The following table summarizes the factors impacting operating revenues for the 1996-1998 period:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
	(in millions)		
Retail -			
Sales growth	**$174**	$ 62	$ 58
Weather	**101**	(74)	(25)
Fuel cost recovery	**70**	(30)	28
Demand-side programs	**(25)**	(3)	(10)
Total retail	**320**	(45)	51
Sales for resale -			
Non-affiliates	**(23)**	1	(9)
Affiliates	**43**	3	(41)
Total sales for resale	**20**	4	(50)
Other operating revenues	**13**	10	10
Total operating revenues	**$353**	$ (31)	$ 11
Percent change	**8.0%**	(0.7)%	0.3%

Retail revenues of $4.3 billion in 1998 increased $320 million (8.0 percent) from 1997 primarily due to higher energy sales to residential and commercial customers. Retail revenues of $4.0 billion in 1997 decreased $45 million (1.1 percent) from 1996 primarily due to milder-than-normal weather, as well as commercial and industrial customers taking advantage of load management rates.

Fuel revenues generally represent the direct recovery of fuel expense, including the fuel component of purchased energy, and do not affect net income. Revenues from demand-side option programs generally represent the direct recovery of program costs. See Note 3 to the financial statements under "Demand-Side Conservation Programs" for further information on these programs.

Wholesale revenues from sales to non-affiliated utilities decreased slightly in 1998 and were as follows:

	1998	1997	1996
	(in millions)		
Outside service area -			
Long-term contracts	**$ 51**	$ 71	$ 84
Other sales	**94**	80	37
Inside service area	**115**	132	161
Total	**$260**	$283	$282

Revenues from long-term contracts outside the service area decreased in 1998 primarily due to lower capacity charges and decreased energy sales and in 1997 primarily due to scheduled reductions in the amount of megawatt-hour capacity under these contracts. See Note 7 to the financial statements for further information regarding these sales. Revenues from other sales outside the service area increased in 1998 and 1997 primarily due to power marketing activities. These increases were primarily offset by increases in purchased power from non-affiliates and, as a result, had no significant effect on net income. Wholesale revenues from customers within the service area decreased in 1998 and 1997 primarily due to a decrease in revenues under a power supply agreement with Oglethorpe Power Corporation (OPC). OPC decreased its purchases of capacity by 250 megawatts each in September 1996, 1997, and 1998 and has notified the Company of its intent to decrease purchases of capacity by an additional 250 megawatts in September 1999 and 125 megawatts in September 2000.

Revenues from sales to affiliated companies within the Southern electric system, as well as purchases of energy, will vary from year to year depending on demand and the availability and cost of generating resources at each company. These transactions do not have a significant impact on earnings.

Kilowatt-hour (KWH) sales for 1998 and the percent change by year were as follows:

	1998 KWH (in billions)	Percent Change 1998	1997	1996
Residential	**19.5**	**12.6%**	(3.0)%	3.0%
Commercial	**22.9**	**8.2**	1.5	4.9
Industrial	**27.3**	**2.2**	1.9	3.6
Other	**0.5**	**1.0**	0.4	8.6
Total retail	**70.2**	**6.9**	0.4	3.9
Sales for resale -				
Non-affiliates	**6.4**	**(5.2)**	(13.6)	19.4
Affiliates	**2.0**	**19.4**	44.6	(56.9)
Total sales for resale	**8.4**	**(0.3)**	(6.0)	(3.0)
Total sales	**78.6**	**6.0**	(0.3)	3.0

Residential and commercial sales increased in 1998 12.6 percent and 8.2 percent, respectively, and industrial sales increased slightly by 2.2 percent. The increases are attributed primarily to sales growth and hotter temperatures in the summer months. Residential sales in 1997 declined 3.0 percent while sales to commercial and industrial customers increased slightly by 1.5 percent and 1.9 percent, respectively. Milder-than-normal temperatures experienced in 1997 contributed to the moderate sales.

Expenses

Fuel costs constitute the single largest expense for the Company. 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 KWH generated were as follows:

	1998	1997	1996
Total generation (billions of KWH)	**69.1**	66.5	63.7
Sources of generation (percent) --			
Coal	**73.3**	74.8	74.3
Nuclear	**21.6**	21.8	22.4
Hydro	**2.6**	2.7	2.7
Oil and gas	**2.5**	0.7	0.6
Average cost of fuel per net KWH generated (cents) --	**1.36**	1.32	1.35

Fuel expense increased 7.0 percent in 1998 primarily due to an increase in generation to meet higher energy demands and a higher average cost of fuel. Fuel expense increased 2.6 percent in 1997 primarily due to an increase in generation, partially offset by a lower average cost of fuel.

Purchased power expense increased $70 million (21.9 percent) to meet higher energy demands and power marketing activities. The majority of the energy purchased for power marketing activities was resold to non-affiliated third parties and had no significant effect on net income. In June 1998, the Company began purchasing capacity and energy from a 300 megawatt cogeneration facility pursuant to a 30-year purchase power agreement. Purchased power expense decreased $66 million (17.1 percent) in 1997 primarily due to decreased purchases from affiliated companies and declines in contractual capacity buyback purchases from the co-owners of Plant Vogtle. Under the terms of the 1991 retail rate order, the costs of declining Plant Vogtle contractual capacity buyback purchases were levelized over a six-year period ending September 1997. The levelization is reflected in the amortization of deferred Plant Vogtle costs in the Statements of Income. See Note 1 to the financial

statements under "Plant Vogtle Phase-In Plans" for additional information.

Other operation and maintenance (O&M) expenses, excluding the provision for separation benefits, increased 15.9 percent primarily due to continuing expenses related to a new customer service system implemented in January 1998, modification of certain information systems for year 2000 compliance discussed below, an increase in outage costs at steam power generating facilities, and increased line maintenance. Other O&M expenses, excluding the provision for separation benefits, decreased 4.1 percent in 1997 primarily due to initiatives in 1996 to reduce fossil generation materials inventory levels and an adjustment in 1996 to deferred postretirement benefits to reflect changes in the retiree benefits plan.

Depreciation and amortization increased $191 million in 1998 and $140 million in 1997 primarily due to accelerated depreciation of generating plant pursuant to the retail accounting order and an increase in plant-in-service. See Note 3 to the financial statements under "Retail Rate Order" for additional information.

The Company has deferred certain expenses and recorded a deferred return related to Plant Vogtle under phase-in plans. The amortization of deferred Plant Vogtle costs reflects the completion in September 1997 of the amortization of the levelized buybacks and the Plant Vogtle Unit 1 cost deferrals under a 1987 GPSC order. In December 1998, the remaining Vogtle Unit 2 cost deferrals were fully amortized to expense under a 1998 retail rate order. See Note 1 to the financial statements under "Plant Vogtle Phase-In Plans" for information regarding the deferral and subsequent amortization of costs related to Plant Vogtle.

Additionally, as a result of the 1998 retail rate order, the Company recorded a $34 million pre-tax write-off associated with a portion of its investment in the Rocky Mountain plant. See Note 3 to the financial statements under "Rocky Mountain Plant Status" for additional information.

Other income (expense) increased in 1998 primarily due to the recognition of $73 million in interest income resulting from the resolution of tax issues with the Internal Revenue Service (IRS) and the State of Georgia. Other income (expense) increased in 1997 primarily due to increased tax benefits from losses of the parent company allocated to the Company under the joint consolidated income tax agreement between Southern Company and its subsidiaries. See Note 8 to the financial statements for additional information.

Total financing costs decreased in 1998 and 1997. These changes were primarily due to the refinancing or retirement of securities. The Company refinanced or retired $754 million and $701 million of securities in 1998 and 1997, respectively. Dividends on preferred stock decreased $13 million and $26 million in 1998 and 1997, respectively. These decreases were partially offset by increases in interest and other charges of $6 million and $17 million in 1998 and 1997, respectively, primarily due to the issuance of additional mandatorily redeemable preferred securities in 1996 and 1997.

Effects of Inflation

The Company is 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 the Company because of the large investment in utility plants with long economic life. 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

The results of operations for the past three years are not necessarily indicative of future earnings. The level of future earnings depends on numerous factors including regulatory matters and energy sales.

The Company currently operates as a vertically integrated utility providing electricity to customers within its traditional service area located in the state of Georgia. Prices for electricity provided by the Company to retail customers are set by the GPSC under cost-based regulatory principles.

On January 1, 1999, the Company began operating under a new three-year retail rate order approved by the GPSC on December 18, 1998. The Company's earnings will continue to be evaluated against a retail return on common equity range of 10 percent to 12.5 percent, with rate reductions of $262 million in 1999 and an additional reduction of $24 million in 2000. The order provides for $85 million in each year, plus up to $50 million of any earnings in excess of the 12.5 percent return during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of any additional earnings in excess of the 12.5 percent return will be applied to rate reductions, with the remaining one-third retained by the Company. The Company will not file for a general base rate increase unless its projected retail return on common equity falls below 10 percent, and will be required to file a general rate case on July 1, 2001 in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued. See Note 3 to the financial statements under "Retail Rate Order" for additional information.

Under a previous three-year accounting order ending December 1998, the Company's earnings were evaluated against a retail return on common equity range of 10 percent to 12.5 percent. Earnings in excess of 12.5 percent were used to accelerate the amortization of regulatory assets or depreciation of electric plant.

As a result of the Company recognizing the write-off of a portion of its cost in the Rocky Mountain plant and completing the amortization of deferred Plant Vogtle costs in 1998 in accordance with the new retail rate order, future depreciation and amortization will decrease. Future depreciation and amortization will also decrease as a result of the cap on the amount of accelerated amortization or depreciation of assets under the new retail rate order. See Note 3 to the financial statements under "Retail Rate Order" for additional information.

Growth in energy sales is subject to a number of factors which traditionally have included changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, weather, competition, initiatives to increase sales to existing customers, and the rate of economic growth in the Company's service area. Assuming normal weather, retail sales growth is projected to be approximately 2 percent annually on average during 1999 through 2001.

In September 1998, OPC decreased its purchases of capacity under a power supply agreement by 250 megawatts and has notified the Company of its intent to decrease purchases of capacity by an additional 250 megawatts in September 1999 and 125 megawatts in September 2000. As a result, the Company's capacity revenues from OPC will decline by approximately $23 million in 1999, an additional $19 million in 2000, and an additional $4 million in 2001. Under the amended 1995 Integrated Resource Plan approved by the GPSC in March 1997, the resources associated with the decreased purchases in 1998 will be used to meet the needs of the Company's retail customers through 2004. See Note 3 to the financial statements under "FERC Review of Equity Returns" for additional information about other wholesale regulatory matters.

The Company has entered into a five-year purchase power agreement scheduled to begin in June 2000 for approximately 215 megawatts. Capacity and fixed O&M payments are estimated to be between $7 million and $8 million each year.

The Company plans to construct an eight unit, 600-megawatt combustion turbine peaking power plant that will begin operation in 2000 and will serve the wholesale market. The plant will supply power to fulfill a contract for 400 megawatts of peaking power already established with the Company. The addition of this facility will increase related O&M and depreciation expenses for the Company. Because the plant will be dedicated to the wholesale market, retail rates will not be affected. The Company may expand the facility to a total of 1,200 to 1,900 megawatts of capacity over the next two to three years in order to meet additional anticipated wholesale power demand.

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 further under "Environmental Issues."

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 electric energy to other utilities. Also, electricity sales for resale rates are being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. The Company is aggressively working to maintain and expand its share of wholesale sales in the Southeastern power markets. Although the Energy Act does not permit retail customer access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry.

The Company continues to compete with other electric suppliers within the state. In Georgia, most new retail customers with at least 900 kilowatts of connected load may choose their electricity supplier. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition across the nation. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. 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 the GPSC has held workshops to discuss retail competition and industry restructuring, there has been no proposed or enacted legislation to date in Georgia. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of costs. The GPSC plans to release a schedule and procedure order for a stranded costs docket in the first half of 1999. The ability of the Company to recover all its costs, including the regulatory assets described in Note 1 to the financial statements, could have a material effect on the financial condition of the Company. The Company is attempting to reduce regulatory assets and other costs through the three-year retail rate order. See Note 3 to the financial statements under "Retail Rate Order" for additional information.

Unless the Company remains a low-cost producer and provides quality service, the Company's retail energy sales growth could be limited as competition increases. Conversely, continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation.

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. In the event that a portion of the 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.

The staff of the Securities and Exchange Commission has questioned certain of the current accounting practices of the electric utility industry - including the Company's - regarding the recognition, measurement, and classification of decommissioning costs for nuclear generating facilities in the financial statements. In response to these questions, the FASB has decided to review the accounting for liabilities related to the retirement of long-lived assets, including nuclear decommissioning. If the FASB issues new accounting rules, the estimated costs of retiring the Company's nuclear and other facilities may be required to be recorded as liabilities in the Balance Sheets. Also, the annual provisions for such costs could change. Because of the Company's current ability to recover asset retirement costs through rates, these changes would not have a significant adverse effect on results of operations. See Note 1 to the financial statements under "Depreciation and Nuclear Decommissioning" for additional information.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space, was used until the mid-1990s. Unless corrected before the year 2000, affected software systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

The Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. The Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, reactor control systems, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

The Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed on a monthly basis by a steering committee of Southern Company executives.

The Company's Year 2000 program was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the year 2000.

The Southern Company has completed more than 70 percent of the activities contained in its work plan. The percentage of completion and projected completion by function are as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

Year 2000 Costs

Current projected total costs for Year 2000 readiness, including the Company's share of costs of Southern Nuclear Operating Company, are approximately $38 million. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through December 31, 1998, the Year 2000 program costs, recognized as expense, amounted to $27 million.

Year 2000 Risks

The Company is implementing a detailed process to minimize the possibility of service interruptions related to the Year 2000. The Company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operation. The Company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the service territory to be isolated and short in duration.

The Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its service

territory. The Company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, the Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council – coordinated national drills during 1999.

The Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to the Company's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to the Company are being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their Year 2000 issues.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the Company is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, the Company is drawing on that experience to make risk assessments and is developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. The Company is identifying critical operational locations, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the service territory isolated and short in duration.

Exposure to Market Risks

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates and prices of electricity. To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1998, exposure from these activities was not material to the Company's financial position, results of operations, or cash flows. Also, based on the Company's overall interest rate exposure at December 31, 1998, a near-term 100 basis point change in interest rates would not materially affect the financial statements.

New Accounting Standards

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments – including certain derivative instruments embedded in other contracts – and for hedging activities. The Company has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Costs of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, with gains and losses reflected rather than revenues and purchased power. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to

shifts or changes in market prices. The Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the financial statements.

FINANCIAL CONDITION

Plant Additions

In 1998 gross utility plant additions were $499 million. These additions were primarily related to transmission and distribution facilities and to the purchase of nuclear fuel. The funds needed for gross property additions are currently provided from operations. The Statements of Cash Flows provide additional details.

Financing Activities

In 1998 the Company continued to lower its financing costs by refinancing higher-cost issues. New issues during 1996 through 1998 totaled $1.6 billion and retirement or repayment of securities totaled $2.0 billion. Composite financing rates for long-term debt and preferred stock for the years 1996 through 1998, as of year-end, were as follows:

	1998	1997	1996
Composite interest rate on long-term debt	**5.64%**	6.11%	6.39%
Composite preferred stock dividend rate	**5.52**	5.18	6.34

Subsidiaries of the Company have issued mandatorily redeemable preferred securities. See Note 9 to the financial statements under "Preferred Securities" for additional information.

Liquidity and Capital Requirements

Cash provided from operations increased by $30 million in 1998, primarily due to higher retail revenues.

The Company estimates that construction expenditures for the years 1999 through 2001 will total $755 million, $734 million and $829 million, respectively. Investments in additional combustion turbine and combined cycle generating units, transmission and distribution facilities, enhancements to existing generating plants, and equipment to comply with environmental requirements are planned.

Cash requirements for improvement fund requirements, redemptions announced, and maturities of long-term debt and preferred stock are expected to total $601 million during 1999 through 2001.

As a result of requirements by the Nuclear Regulatory Commission, the Company has established external trust funds for the purpose of funding nuclear decommissioning costs. The amount to be funded is $24 million in 1999 and increases to $30 million in 2000 and 2001. For additional information concerning nuclear decommissioning costs, see Note 1 to the financial statements under "Depreciation and Nuclear Decommissioning."

Sources of Capital

The Company expects to meet future capital requirements primarily using funds generated from operations and, if needed, by the issuance of new debt and equity securities, term loans, and short-term borrowings. To meet short-term cash needs and contingencies, the Company had approximately $1.3 billion of unused credit arrangements with banks at the beginning of 1999. See Note 9 to the financial statements under "Bank Credit Arrangements" for additional information.

The Company historically has relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for its benefit by public authorities, to meet its long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. In this regard, the Company sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness it may incur.

If the Company chooses to issue first mortgage bonds or preferred stock, it is required to meet certain coverage requirements specified in its mortgage indenture and corporate charter. The Company's ability to satisfy all coverage requirements is such that it could issue new first mortgage bonds and preferred stock to provide sufficient funds for all anticipated requirements.

Environmental Issues

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act -- the acid rain compliance provision of the law -- significantly impacted the operating companies of Southern Company, including Georgia Power. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating units in the Southern electric system. As a result of Southern Company's compliance strategy, an additional 22 generating units were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants in the Southern electric system will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected units by switching to low-sulfur coal, which required some equipment upgrades. Construction expenditures for Georgia Power's Phase I compliance totaled approximately $167 million.

For Phase II sulfur dioxide compliance, Southern Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Also, equipment to control nitrogen oxide emissions will be installed on additional system fossil-fired units as necessary to meet Phase II limits and ozone non-attainment requirements for metropolitan Atlanta through 2000. Georgia Power's current compliance strategy for Phase II and ozone non-attainment could require total estimated construction expenditures of approximately $39 million, of which $14 million remains to be spent as of December 31, 1998.

A significant portion of costs related to the acid rain provision 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.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the new rules. The final rules affect 22 states including Georgia. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various matters including: nitrogen oxide emission control strategies for ozone non-attainment areas; additional controls for hazardous air pollutant emissions; control strategies to reduce regional haze; and hazardous waste disposal requirements. The impact of new standards will depend on the development and implementation of applicable regulations.

The 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 Company could incur costs to clean up properties currently or previously owned. The Company conducts studies to determine the extent of any required clean-up costs and has recognized in the financial statements costs to clean up known sites. These costs for the Company amounted to $6 million, $4 million and $2 million, in 1998, 1997 and 1996, respectively. Additional sites may require environmental remediation for which the Company may be liable for a portion of or all required clean-up costs. See Note 3 to the financial statements under "Certain Environmental Contingencies" for information regarding the Company's potentially responsible party status at a site in Brunswick, Georgia, and the status of sites listed on the State of Georgia's hazardous site inventory.

Several major pieces of environmental legislation are being 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 the 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 the 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.

Cautionary Statement Regarding Forward-Looking Information

The Company's 1998 Annual Report contains forward-looking and historical information. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the Company's markets; potential business strategies -- including acquisitions or dispositions of assets or internal restructuring -- that may be pursued by Southern Company; state and federal rate regulation; Year 2000 issues; changes in or application of environmental and other laws and regulations to which the Company is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; and other factors discussed in the reports--including Form 10-K--filed from time to time by the Company with the Securities and Exchange Commission.

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STATEMENTS OF INCOME

For the Years Ended December 31, 1998, 1997, and 1996
Georgia Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Revenues:			
Revenues	$ 4,656,647	$ 4,347,009	$ 4,380,893
Revenues from affiliates	81,606	38,708	35,886
Total operating revenues	4,738,253	4,385,717	4,416,779
Operating Expenses:			
Operation--			
Fuel	917,119	857,269	835,194
Purchased power from non-affiliates	229,960	143,409	157,308
Purchased power from affiliates	161,003	177,240	229,324
Provision for separation benefits	2,369	5,459	39,099
Other	817,220	696,700	741,383
Maintenance	358,218	317,199	315,934
Depreciation and amortization	763,390	572,640	432,940
Amortization of deferred Plant Vogtle costs (Note 1)	50,412	120,577	136,650
Write-down of Rocky Mountain plant (Note 3)	33,536	-	-
Taxes other than income taxes	204,623	207,192	207,098
Federal and state income taxes	406,983	426,918	435,904
Total operating expenses	3,944,833	3,524,603	3,530,834
Operating Income	793,420	861,114	885,945
Other Income (Expense):			
Allowance for equity funds used during construction	3,235	6,012	3,144
Equity in earnings of unconsolidated subsidiary (Note 4)	3,735	4,266	3,851
Interest income (Note 3)	79,578	10,581	5,333
Other, net	(41,512)	(35,834)	(43,502)
Income taxes applicable to other income	8,351	31,763	18,581
Income Before Interest and Other Charges	846,807	877,902	873,352
Interest and Other Charges:			
Interest on long-term debt	180,746	194,344	207,851
Allowance for debt funds used during construction	(7,117)	(8,962)	(11,416)
Interest on interim obligations	12,213	7,795	15,478
Amortization of debt discount, premium and expense, net	13,366	14,179	14,790
Other interest charges	17,105	10,254	6,338
Distributions on preferred securities of subsidiary companies	54,327	47,369	14,958
Interest and other charges, net	270,640	264,979	247,999
Net Income	576,167	612,923	625,353
Dividends on Preferred Stock	5,939	18,927	45,026
Net Income After Dividends on Preferred Stock	$ 570,228	$ 593,996	$ 580,327

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1997, and 1996
Georgia Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Activities:			
Net income	$ 576,167	$ 612,923	$ 625,353
Adjustments to reconcile net income to net cash provided from operating activities --			
Depreciation and amortization	867,637	674,286	521,086
Deferred income taxes and investment tax credits, net	(93,005)	(21,425)	35,700
Allowance for equity funds used during construction	(3,235)	(6,012)	(3,144)
Amortization of deferred Plant Vogtle costs	50,412	120,577	136,650
Other, net	(6,546)	2,076	45,255
Changes in certain current assets and liabilities --			
Receivables, net	(25,453)	13,387	9,421
Inventories	(11,156)	39,748	55,753
Payables	47,862	(10,007)	(35,651)
Taxes accrued	22,139	(3,596)	11,766
Energy cost recovery, retail	(7,649)	(20,103)	679
Other	(15,142)	(30,026)	(15,880)
Net cash provided from operating activities	1,402,031	1,371,828	1,386,988
Investing Activities:			
Gross property additions	(499,053)	(475,921)	(428,220)
Other	67,031	16,223	(13,149)
Net cash used for investing activities	(432,022)	(459,698)	(441,369)
Financing Activities:			
Proceeds --			
Preferred securities	-	364,250	225,000
First mortgage bonds	-	-	10,000
Pollution control bonds	89,990	284,700	112,825
Senior notes	495,000	-	-
Retirements --			
Preferred stock	(106,064)	(356,392)	(179,148)
First mortgage bonds	(558,250)	(60,258)	(210,860)
Pollution control bonds	(89,990)	(284,700)	(119,665)
Interim obligations, net	(25,378)	(64,266)	30,166
Special deposits -- redemption funds	-	44,454	(44,454)
Capital distribution to parent company	(270,000)	(205,000)	(250,000)
Payment of preferred stock dividends	(9,137)	(26,917)	(46,911)
Payment of common stock dividends	(536,600)	(520,000)	(475,500)
Miscellaneous	(26,641)	(20,024)	(10,646)
Net cash used for financing activities	(1,037,070)	(844,153)	(959,193)
Net Change in Cash and Cash Equivalents	(67,061)	67,977	(13,574)
Cash and Cash Equivalents at Beginning of Year	83,333	15,356	28,930
Cash and Cash Equivalents at End of Year	$ 16,272	$ 83,333	$ 15,356
Supplemental Cash Flow Information:			
Cash paid during the year for --			
Interest (net of amount capitalized)	$ 269,524	$ 258,298	$ 249,434
Income taxes (net of refunds)	480,318	427,596	373,886

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

At December 31, 1998 and 1997
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ASSETS	1998	1997
		(in thousands)
Utility Plant:		
Plant in service	**$ 15,441,146**	$ 15,082,570
Less accumulated provision for depreciation	**6,109,331**	5,319,680
	9,331,815	9,762,890
Nuclear fuel, at amortized cost	**121,169**	126,882
Construction work in progress (Note 4)	**189,849**	214,128
Total	**9,642,833**	10,103,900
Other Property and Investments:		
Southern Electric Generating Company, at equity (Note 4)	**24,360**	24,973
Nuclear decommissioning trusts, at market	**284,536**	194,417
Miscellaneous	**34,781**	87,907
Total	**343,677**	307,297
Current Assets:		
Cash and cash equivalents	**16,272**	83,333
Receivables--		
Customer accounts receivable	**439,420**	385,844
Other accounts and notes receivable	**99,574**	110,278
Affiliated companies	**16,817**	20,333
Accumulated provision for uncollectible accounts	**(5,500)**	(3,000)
Fossil fuel stock, at average cost	**104,133**	96,067
Materials and supplies, at average cost	**243,477**	240,387
Prepayments	**29,670**	27,503
Vacation pay deferred	**43,610**	40,996
Total	**987,473**	1,001,741
Deferred Charges and Other Assets:		
Deferred charges related to income taxes (Note 8)	**604,488**	688,472
Deferred Plant Vogtle costs (Note 1)	**-**	50,412
Premium on reacquired debt, being amortized	**173,858**	166,609
Prepaid pension costs	**103,606**	67,777
Debt expense, being amortized	**51,261**	40,927
Miscellaneous	**126,422**	146,593
Total	**1,059,635**	1,160,790
Total Assets	**$ 12,033,618**	$ 12,573,728

The accompanying notes are an integral part of these statements.

CAPITALIZATION AND LIABILITIES	1998	1997
		(in thousands)
Capitalization (See accompanying statements):		
Common stock equity	$ **3,784,172**	$ 4,019,728
Preferred stock	**15,527**	157,247
Company obligated mandatorily redeemable preferred securities of subsidiaries substantially all of whose assets are junior subordinated debentures or notes (Note 9)	**689,250**	689,250
Long-term debt	**2,744,362**	2,982,835
Total	**7,233,311**	7,849,060
Current Liabilities:		
Preferred stock due within one year (Note 9)	**35,656**	-
Long-term debt due within one year (Note 9)	**399,429**	220,855
Notes payable to banks (Note 9)	**117,634**	142,300
Commercial paper (Note 9)	**223,218**	223,930
Accounts payable--		
Affiliated companies	**75,774**	71,373
Other	**326,317**	261,293
Customer deposits	**69,584**	68,618
Taxes accrued--		
Federal and state income	**15,801**	4,480
Other	**122,359**	111,541
Interest accrued	**60,187**	72,437
Miscellaneous	**100,793**	105,683
Total	**1,546,752**	1,282,510
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 8)	**2,249,613**	2,417,547
Accumulated deferred investment tax credits	**381,914**	397,202
Deferred credits related to income taxes (Note 8)	**284,017**	297,560
Employee benefits provisions	**177,148**	169,887
Miscellaneous	**160,863**	159,962
Total	**3,253,555**	3,442,158
Commitments and Contingent Matters (Notes 1 through 7)		
Total Capitalization and Liabilities	$ **12,033,618**	$ 12,573,728

The accompanying notes are an integral part of these statements.

STATEMENTS OF CAPITALIZATION

At December 31, 1998 and 1997
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		1998	1997	1998	1997
		(in thousands)		(percent of total)	
Common Stock Equity:					
Common stock, without par value --					
Authorized -- 15,000,000 shares					
Outstanding -- 7,761,500 shares		$ **344,250**	$ 344,250		
Paid-in capital		**1,660,206**	1,929,971		
Premium on preferred stock		**158**	160		
Retained earnings (See accompanying statement) (Note 9)		**1,779,558**	1,745,347		
Total common stock equity		**3,784,172**	4,019,728	**52.3 %**	51.2 %
Cumulative Preferred Stock, without par value:					
Authorized -- 55,000,000 shares					
Outstanding -- 511,834 shares at December 31, 1998					
Outstanding -- 4,719,226 shares at December 31, 1997					
$100 stated value --					
4.60% to 6.60%		**51,183**	52,355		
Adjustable rate -- at January 1, 1998:					
4.85%		**-**	64,213		
5.27%		**-**	40,679		
Total cumulative preferred stock (annual dividend requirement -- $2,827,000)		**51,183**	157,247		
Less amount due within one year (Note 9)		**35,656**	-		
Cumulative preferred stock excluding amount due within one year		**15,527**	157,247	**0.2**	2.0
Company Obligated Mandatorily Redeemable Preferred Securities (Note 9):					
$25 liquidation value -- 9%		**100,000**	100,000		
$25 liquidation value -- 7.75%		**225,000**	225,000		
$25 liquidation value -- 7.60%		**175,000**	175,000		
$25 liquidation value -- 7.75%		**189,250**	189,250		
Total (annual distribution requirement -- $54,404,000)		**689,250**	689,250	**9.5**	8.8
Long-Term Debt:					
First mortgage bonds --					
Maturity	Interest Rates				
April 1, 1998	5 1/2%	**-**	100,000		
September 1, 1999	6 1/8%	**195,000**	195,000		
March 1, 2000	6%	**100,000**	100,000		
October 1, 2000	7%	**-**	100,000		
September 1, 2002	6 7/8%	**-**	150,000		
April 1, 2003	6 5/8%	**200,000**	200,000		
August 1, 2003	6.35%	**75,000**	75,000		
2004 through 2006	6.07%	**10,000**	10,000		
2008	6 7/8%	**50,000**	50,000		
2023 through 2025	7.55% to 7.95%	**266,000**	474,250		
Total first mortgage bonds		**896,000**	1,454,250		
Pollution control bonds -- (Note 9)					
Maturity	Interest Rates				
2000	4.375%	**50,000**	50,000		
2004-2005	5% to 5.375%	**57,000**	103,790		
2011	Variable (4.0% at 1/1/99)	**10,450**	10,450		
2018	6%	**4,600**	26,700		
2019-2023	5.75% to 6.35%	**140,560**	144,660		
2022-2023	Variable (4.0% to 5.05% at 1/1/99)	**64,500**	64,500		
2024-2025	5.4% to 6.75%	**440,325**	457,325		
2024-2028	Variable (3.10% to 5.20% at 1/1/99)	**619,055**	529,065		
2029-2033	Variable (3.25% to 5.15% at 1/1/99)	**234,700**	234,700		
2034	Variable (3.25% at 1/1/99)	**50,000**	50,000		
Total pollution control bonds		**1,671,190**	1,671,190		

STATEMENTS OF CAPITALIZATION (continued)

At December 31, 1998 and 1997

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		1998	1997	1998	1997
		(in thousands)		(percent of total)	
Senior notes -- (Note 9)					
Maturity	Interest Rates				
December 1, 2005	5.50%	**150,000**	-		
December 31, 2038	6.60%	**200,000**	-		
December 31, 2047	6.875%	**145,000**	-		
Total senior notes		**495,000**	-		
Other long-term debt (Note 9)		**86,280**	86,675		
Unamortized debt discount, net		**(4,679)**	(8,425)		
Total long-term debt (annual interest requirement -- $177,628,000)		**3,143,791**	3,203,690		
Less amount due within one year (Note 9)		**399,429**	220,855		
Long-term debt excluding amount due within one year		**2,744,362**	2,982,835	**38.0**	38.0
Total Capitalization		$ **7,233,311**	$ 7,849,060	**100.0 %**	100.0 %

The accompanying notes are an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1998, 1997, and 1996
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	1998	1997	1996
		(in thousands)	
Balance at Beginning of Period	**$ 1,745,347**	$ 1,674,774	$ 1,569,905
Net income after dividends on preferred stock	**570,228**	593,996	580,327
Cash dividends on common stock	**(536,600)**	(520,000)	(475,500)
Preferred stock transactions, net	**583**	(3,423)	42
Balance at End of Period (Note 9)	**$ 1,779,558**	$ 1,745,347	$ 1,674,774

STATEMENTS OF PAID-IN CAPITAL

For the Years Ended December 31, 1998, 1997, and 1996
Georgia Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Period	**$ 1,929,971**	$ 2,134,886	$ 2,384,444
Capital distribution to parent company	**(270,000)**	(205,000)	(250,000)
Contributions to capital by parent company	**235**	85	442
Balance at End of Period	**$ 1,660,206**	$ 1,929,971	$ 2,134,886

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Company is a wholly owned subsidiary of Southern Company, which is the parent company of five operating companies, Southern Company Services (SCS), a system service company, Southern Communications Services (Southern LINC), Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), Southern Company Energy Solutions, and other direct and indirect subsidiaries. The operating companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company) provide electric service in four Southeastern states. Contracts among the operating companies -- dealing with jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power -- are regulated by the Federal Energy Regulatory Commission (FERC) or the Securities and Exchange Commission (SEC). SCS 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 Energy designs, builds, owns, and operates power production and delivery facilities and provides a broad range of energy related services in the United States and international markets. Southern Nuclear provides services to Southern Company's nuclear power plants. Southern Company Energy Solutions develops new business opportunities related to energy products and services.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of this act. The Company is also subject to regulation by the FERC and the Georgia Public Service Commission (GPSC). The Company follows generally accepted accounting principles (GAAP) and complies with the accounting policies and practices prescribed by the respective regulatory commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from these estimates.

Regulatory Assets and Liabilities

The Company is 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 to the Company 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 Company's Balance Sheets at December 31 relate to the following:

	1998	1997
	(in millions)	
Deferred income taxes	**$ 604**	$ 688
Deferred income tax credits	**(284)**	(298)
Premium on reacquired debt	**174**	167
Corporate building lease	**53**	52
Deferred Plant Vogtle costs	**-**	50
Vacation pay	**44**	41
Postretirement benefits	**36**	38
Department of Energy assessments	**26**	29
Deferred nuclear outage costs	**24**	28
Demand-side program costs	**-**	11
Other, net	**12**	10
Total	**$ 689**	$ 816

In the event that a portion of the Company's operations is no longer subject to the provisions of Statement No. 71, the Company would be required to write off related net 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.

Revenues and Fuel Costs

The Company currently operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the state of Georgia, and to wholesale customers in the Southeast. Revenues by type of service were as follows:

	1998	1997	1996
		(in millions)	
Retail	**$4,298**	$3,978	$4,023
Non-affiliated wholesale	**260**	283	282
Other	**99**	86	76
Total	**$4,657**	$4,347	$4,381

The Company accrues revenues for service rendered but unbilled at the end of each fiscal period. Fuel costs are expensed as the fuel is used. The Company's electric rates include provisions to adjust billings for fluctuations in fuel costs, 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 rates.

The 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 averaged 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 $74 million in 1998, $76 million in 1997, and $78 million in 1996. The Company has a contract with the U.S. Department of Energy (DOE) that provides for the permanent disposal of spent nuclear fuel. The DOE failed to begin disposing of spent fuel in January 1998 as required by the contracts, and the Company is pursuing legal remedies against the government for breach of contract. Sufficient storage capacity currently is available to permit operation into 2003 at Plant Hatch and into 2017 at Plant Vogtle. Plant Vogtle's spent fuel storage capacity includes the installation in 1998 of additional rack capacity. Activities for adding dry cask storage capacity at Plant Hatch by as early as 1999 are in progress.

Also, the Energy Policy Act of 1992 required the establishment in 1993 of a Uranium Enrichment Decontamination and Decommissioning Fund, which is to be funded in part by a special assessment on utilities with nuclear plants. This fund will be used by the DOE for the decontamination and decommissioning of its nuclear fuel enrichment facilities. The assessment will be paid over a 15-year period, which began in 1993. The law provides that utilities will recover these payments in the same manner as any other fuel expense. The Company -- based on its ownership interests -- estimates its remaining liability under this law at December 31, 1998, to be approximately $24 million. This obligation is recorded in the accompanying Balance Sheets.

Depreciation and Nuclear Decommissioning

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.2 percent in 1998 and 3.1 percent in 1997 and 1996. In addition, the Company recorded accelerated depreciation of electric plant of $316 million in 1998, $159 million in 1997, and $24 million in 1996. The amount of such charges in the accumulated provision for depreciation is $505 million at December 31, 1998. See Note 3 under "Retail Rate Order" for additional information. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost -- together with the cost of removal, less salvage -- is charged to the accumulated provision for 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.

Nuclear Regulatory Commission (NRC) regulations require all licensees operating commercial nuclear power reactors to establish a plan for providing, with reasonable assurance, funds for decommissioning. The Company has established 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 a set period of time as ordered by the GPSC. Earnings on the trust funds are considered in determining decommissioning expense. 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. The Company has 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 the facility as of the site study year, and ultimate cost is the estimate to decommission the facility as of its retirement date. The estimated site study costs based on the most current study and ultimate costs assuming an inflation rate of 3.6% for the Company's ownership interests are as follows:

	Plant Hatch	Plant Vogtle
Site study basis (year)	1997	1997
Decommissioning periods:		
Beginning year	2014	2027
Completion year	2027	2038
	(in millions)	
Site study costs:		
Radiated structures	$372	$317
Non-radiated structures	33	44
Total	$405	$361
	(in millions)	
Ultimate costs:		
Radiated structures	$722	$ 922
Non-radiated structures	65	129
Total	$787	$1,051

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, changes in the assumptions used in making estimates, changes in regulatory requirements, changes in technology, and changes in costs of labor, materials, and equipment.

Annual provisions for nuclear decommissioning expense are based on an annuity method as approved by the GPSC. The amounts expensed in 1998 and fund balance as of December 31, 1998 were:

	Plant Hatch	Plant Vogtle
	(in millions)	
Amount expensed in 1998	$ 11	$ 9
Accumulated provisions:		
Balance in external trust funds	$172	$112
Balance in internal reserves	19	12
Total	$191	$124

Effective January 1, 1999, the GPSC increased the annual provision for decommissioning expenses to $26 million. This amount is based on the NRC generic estimate to decommission the radioactive portion of the facilities as of 1997 of $526 million and $438 million for plants Hatch and Vogtle, respectively. The ultimate costs associated with the 1997 NRC minimum funding requirements are $1.1 billion and $1.3 billion for plants Hatch and Vogtle, respectively. Significant assumptions include an estimated inflation rate of 3.6% and an estimated trust earnings rate of 6.5%. The Company expects the GPSC to periodically review and adjust, if necessary, the amounts collected in rates for the anticipated cost of decommissioning.

Income Taxes

The 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.

Plant Vogtle Phase-In Plans

In 1987 and 1989, the GPSC ordered that the allowed costs of Plant Vogtle, a two-unit nuclear facility of which Georgia Power owns 45.7 percent, be phased into rates. Pursuant to the orders, the Company recorded a deferred return under phase-in plans until October 1991 when the allowed investment was fully reflected in rates. In 1991, the GPSC levelized the remaining Plant Vogtle declining capacity buyback expenses over a six-year period. In addition, the Company deferred certain Plant Vogtle operating expenses and financing costs under accounting orders issued by the GPSC. These GPSC orders provided for the recovery of deferred costs within 10 years. Costs deferred under the 1987 order and the levelized buybacks were fully recovered as of September 1997. Under a December 18, 1998 retail rate order from the GPSC, the remaining deferred costs were fully amortized to expense in December 1998. See Note 3 under "Retail Rate Order" for additional information.

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. While cash is not realized currently from

such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. For the years 1998, 1997 and 1996, the average AFUDC rates were 6.71 percent, 7.60 percent and 6.59 percent, respectively. AFUDC, net of taxes, as a percentage of net income after dividends on preferred stock, was less than 2.0 percent for 1998, 1997, and 1996.

Utility Plant

Utility plant is stated at original cost, less regulatory disallowances. Original cost includes: materials; labor; payroll-related costs such as taxes, pensions, and other benefits; and the cost of funds used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Cash and Cash Equivalents

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

Financial Instruments

The Company's financial instruments for which the carrying amounts did not approximate fair value at December 31 were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
At December 31, 1998	**$3,058**	**$3,105**
At December 31, 1997	3,125	3,170
Preferred securities:		
At December 31, 1998	**689**	**716**
At December 31, 1997	689	720

The fair values for securities were based on either closing market prices or closing prices of comparable instruments.

Materials and Supplies

Generally, materials and supplies include the cost 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.

2. RETIREMENT BENEFITS

The Company has defined benefit, trusteed pension plans that cover substantially all employees. The Company provides certain medical care and life insurance benefits for retired employees. Substantially all these employees may become eligible for such benefits when they retire. The Company funds trusts to the extent deductible under federal income tax regulations or to the extent required by the GPSC and FERC. In 1998, the Company adopted FASB Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits. The measurement date is September 30 of each year.

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

	1998	1997
Discount	**6.75%**	7.50%
Annual salary increase	**4.25**	5.00
Expected long-term return on plan assets	**8.50**	8.50

Pension Plan

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

	Projected Benefit Obligations	
	1998	1997
	(in millions)	
Balance at beginning of year	**$1,119**	$1,172
Service cost	**30**	30
Interest cost	**82**	82
Benefits paid	**(55)**	(42)
Actuarial (gain) loss and employee transfers	**41**	(123)
Balance at end of year	**$1,217**	$1,119

	Plan Assets	
	1998	1997
	(in millions)	
Balance at beginning of year	**$1,931**	$1,797
Actual return on plan assets	**11**	338
Benefits paid	**(55)**	(42)
Employee transfers	**(28)**	(162)
Balance at end of year	**$1,859**	$1,931

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

	1998	1997
	(in millions)	
Funded status	**$ 642**	$ 812
Unrecognized transition obligation	**(35)**	(39)
Unrecognized prior service cost	**45**	48
Unrecognized net actuarial gain	**(548)**	(753)
Prepaid asset recognized in the Balance Sheets	**$ 104**	$ 68

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in millions)		
Service cost	**$ 30**	$ 30	$ 35
Interest cost	**82**	82	86
Expected return on plan assets	**(127)**	(121)	(124)
Recognized net actuarial gain	**(20)**	(18)	(14)
Net amortization	**(1)**	(1)	(2)
Net pension income	**$ (36)**	$ (28)	$ (19)

Postretirement Benefits

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

	Projected Benefit Obligations	
	1998	1997
	(in millions)	
Balance at beginning of year	**$435**	$430
Service cost	**7**	7
Interest cost	**32**	32
Benefits paid	**(16)**	(13)
Actuarial loss and employee transfers	**6**	(21)
Balance at end of year	**$464**	$435

	Plan Assets	
	1998	1997
	(in millions)	
Balance at beginning of year	**$122**	$112
Actual return on plan assets	**4**	9
Employer contributions	**40**	14
Benefits paid	**(16)**	(13)
Balance at end of year	**$150**	$122

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

	1998	1997
	(in millions)	
Funded status	**$(314)**	$(313)
Unrecognized transition obligation	**131**	139
Unrecognized net actuarial loss	**57**	47
Fourth quarter contributions	**19**	29
Accrued liability recognized in the Balance Sheets	**$(107)**	$ (98)

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in millions)		
Service cost	**$ 7**	$ 7	$ 9
Interest cost	**32**	32	30
Expected return on plan assets	**(9)**	(7)	(5)
Recognized net actuarial loss	**1**	1	2
Net amortization	**9**	9	9
Net postretirement cost	**$ 40**	$ 42	$ 45

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005, 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, 1998 as follows:

	1 Percent Increase	1 Percent Decrease
	(in millions)	
Benefit obligation	$38	$(32)
Service and interest costs	3	(3)

3. REGULATORY AND LITIGATION MATTERS

Retail Rate Order

As required by the GPSC, the Company filed a general rate case in 1998. On December 18, 1998, the GPSC approved a new three-year rate order for the Company. Under terms of the order, earnings will continue to be evaluated against a retail return on common equity range of 10 percent to 12.5 percent. Retail rates will be decreased by $262 million on an annual basis effective January 1, 1999, and by an

additional $24 million effective January 1, 2000. The order further provides for $85 million in each year, plus up to $50 million of any earnings in excess of the 12.5 percent return during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of any additional earnings in excess of the 12.5 percent return will be applied to rate reductions, with the remaining one-third retained by the Company. The Company will not file for a general base rate increase unless its projected retail return on common equity falls below 10 percent, and will be required to file a general rate case on July 1, 2001, in response to which the GPSC would be expected to determine whether the rate order should be continued, modified, or discontinued.

Under a previous three-year accounting order ending December 1998, the Company's earnings were evaluated against a retail return on common equity range of 10 percent to 12.5 percent. Earnings in excess of 12.5 percent were used to accelerate the amortization of regulatory assets or depreciation of electric plant. The Company was required to absorb cost increases of approximately $29 million annually during the order's three-year operation, including $14 million annually of accelerated depreciation of electric plant.

The Company's 1996 retail return on common equity was within the 10 percent to 12.5 percent range. During 1998 and 1997, for earnings in excess of the 12.5 percent retail return, the Company recorded charges of $292 million and $135 million, respectively, that are presented in the financial statements as depreciation expense of electric plant and as an addition to the accumulated provision for depreciation.

FERC Review of Equity Returns

On September 21, 1998, the FERC entered separate orders affirming the outcome of the administrative law judge's opinions in two proceedings in which the return on common equity component of formula rates contained in substantially all of the operating companies' wholesale power contracts was being challenged as unreasonably high. These orders resulted in no change in the wholesale power contracts that were the subject of such proceedings. The FERC also dismissed a complaint filed by three customers under long-term power sales agreements seeking to lower the equity return component in such agreements. These customers have filed applications for rehearing regarding each FERC order. In response to a requirement of the September 1998 FERC order, Southern Company filed a new equity return component on the long-term power sales contracts, to be effective January 5, 1999. The proposed equity return was lowered from 13.75 percent to 12.50 percent. If the filed return is approved, annual revenues will decrease by approximately $1 million. The FERC placed the new rates into effect, subject to refund. Also, this filing was consolidated with the new proceeding discussed below.

On December 28, 1998, the FERC staff filed a motion asking the FERC to initiate a new proceeding regarding the equity return and other issues involving the Company's formula rate contracts. The motion was submitted pursuant to review procedures applicable to theses contracts, and would be applicable to billings under such contracts on and after January 1, 1999.

Rocky Mountain Plant Status

In its 1985 financing order, the GPSC concluded that completion of the Rocky Mountain pumped storage hydroelectric plant in 1991, as then planned, was not economically justifiable and reasonable and withheld authorization for the Company to spend funds from approved securities issuances on that plant. In 1988, the Company and Oglethorpe Power Corporation (OPC) entered into a joint ownership agreement for OPC to assume responsibility for the construction and operation of the plant, as discussed in Note 6. In 1995, the plant went into commercial operation.

In June 1996, the GPSC initiated a review of the plant. On January 14, 1998, the GPSC ordered that the Company be allowed approximately $108 million of its $142 million investment in the plant in rate base as of December 31, 1998. The Company appealed the GPSC's order to the Superior Court of Fulton County, Georgia. Under the rate order approved by the GPSC on December 18, 1998, the Company voluntarily dismissed the appeal. As a result, in December 1998, the Company recorded a charge to earnings of $21 million, after taxes, associated with the write-down of the plant.

Tax Litigation

In August 1997, Southern Company and the Internal Revenue Service (IRS) entered into a settlement agreement related to tax issues for the years 1984 through 1987. The agreement received final approval by the Joint

Congressional Committee on Taxation in June 1998 and as a result, the Company recognized interest income in 1998 of $69 million. The refund by the IRS has been made and this matter is now concluded.

Additionally, the Company received a refund from the State of Georgia pertaining to the same issues and recognized an additional $4 million in interest income in 1998.

Demand-Side Conservation Programs

In August 1995, the GPSC ordered the Company to discontinue its current demand-side conservation programs by the end of 1995. Rate riders previously approved by the GPSC for recovery of the Company's costs incurred in connection with these programs remained in effect until January 1998 when costs deferred were fully collected.

Under a GPSC accounting order approved February 16, 1996, the Company recognized approximately $29 million of deferred program costs over a three-year period ending December 1998, which were not recovered through the riders.

Certain Environmental Contingencies

In January 1995, the Company and four other unrelated entities were notified by the EPA that they have been designated as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act with respect to a site in Brunswick, Georgia. As of December 31, 1998, the Company has recognized approximately $5 million in cumulative expenses associated with this site. This represents the Company's agreed upon share of removal and remedial investigation and feasibility study costs. The final outcome of this matter cannot now be determined. However, based on the nature and extent of the Company's activities relating to the site, management believes that the Company's portion of any remaining remediation costs should not be material.

In compliance with the Georgia Hazardous Site Response Act of 1993, the State of Georgia was required to compile an inventory of all known or suspected sites where hazardous wastes, constituents or substances have been disposed of or released in quantities deemed reportable by the State. In developing this list, the State identified several hundred properties throughout the State, including 26 sites which may require environmental remediation that were either previously or are currently owned by the Company. The majority of these sites are electrical power substations and power generation facilities. The Company has remediated nine electrical substations on the list at a cumulative cost of approximately $3 million. The State has removed from the list one power generation facility following the assessment which indicated no remediation was necessary. In addition, the Company has recognized approximately $23 million in cumulative expenses through December 31, 1998 for the assessment of the remaining sites on the list and the anticipated clean-up cost for 11 sites that the Company plans to remediate. Any cost of remediating the remaining sites cannot presently be determined until such studies are completed for each site and the State of Georgia determines whether remediation is required. If all listed sites were required to be remediated, the Company could incur expenses of up to approximately $10 million in additional clean-up costs and construction expenditures of up to approximately $56 million to develop new waste management facilities or install additional pollution control devices.

The accrued costs for environmental remediation obligations are not discounted to their present value.

Nuclear Performance Standards

The GPSC has adopted a nuclear performance standard for the Company's nuclear generating units under which the performance of plants Hatch and Vogtle will be evaluated every three years. The performance standard is based on each unit's capacity factor as compared to the average of all comparable U.S. nuclear units operating at a capacity factor of 50 percent or higher during the three-year period of evaluation. Depending on the performance of the units, the Company could receive a monetary award or penalty under the performance standards criteria.

The first evaluation was conducted in 1993 for performance during the 1990-92 period. The GPSC approved a performance award of approximately $8.5 million for the Company. This award was collected through the retail fuel cost recovery provision and recognized in income over a 36-month period which ended in October 1996. In January 1997, the GPSC approved a performance award of approximately $11.7 million for performance during the 1993-95 period. This award is being collected through the retail fuel cost recovery provision and recognized in income over a 36-month period that began in January 1997.

4. COMMITMENTS

Construction Program

While the Company has no traditional baseload generating plants under construction, the construction of eight combustion turbine peaking units is planned to be completed by 2000. In addition, significant construction of transmission and distribution facilities, and projects to upgrade and extend the useful life of generating plants and to remain in compliance with environmental requirements will continue. The Company currently estimates property additions to be approximately $755 million in 1999, $734 million in 2000, and $829 million in 2001.

The construction program is subject to periodic review and revision, and actual construction costs may vary from estimates because of numerous factors, including, but not limited to, changes in business conditions, load growth estimates, environmental regulations, and regulatory requirements.

Fuel Commitments

To supply a portion of the fuel requirements of its generating plants, the 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. Total estimated long-term fossil and nuclear fuel commitments at December 31, 1998 were as follows:

Year	Minimum Obligations
	(in millions)
1999	$ 642
2000	545
2001	483
2002	414
2003	366
2004 and beyond	719
Total minimum obligations	$3,169

Additional commitments for coal and for nuclear fuel will be required in the future to supply the Company's fuel needs.

Purchased Power Commitments

In connection with the joint ownership arrangement for Plant Vogtle, discussed in Note 6, the Company has made commitments to purchase portions of OPC's and the Municipal Electric Authority of Georgia's (MEAG's) capacity and energy from this plant. Declining commitments were in effect during periods of up to seven years following commercial operation and ended in 1996. In addition, the Company has commitments regarding a portion of a 5 percent interest in Plant Vogtle owned by MEAG that are in effect until the latter of the retirement of the plant or the latest stated maturity date of MEAG's bonds issued to finance such ownership interest. The payments for capacity are required whether or not any capacity is available. The energy cost is a function of each unit's variable operating costs. Except as noted below, the cost of such capacity and energy is included in purchased power from non-affiliates in the Company's Statements of Income. Capacity payments totaled $56 million, $54 million, and $68 million in 1998, 1997, and 1996, respectively. The current projected Plant Vogtle capacity payments are:

Year	Amounts
	(in millions)
1999	$ 59
2000	62
2001	61
2002	60
2003	60
2004 and beyond	711
Total	$1,013

Portions of the payments noted above relate to costs in excess of Plant Vogtle's allowed investment for ratemaking purposes. The present value of these portions was written off in 1987 and 1990.

The Company and an affiliate, Alabama Power Company, own equally all of the outstanding capital stock of Southern Electric Generating Company (SEGCO), which owns electric generating units with a total rated capacity of 1,020 megawatts, as well as associated transmission facilities. The capacity of the units has been sold equally to the Company and Alabama Power Company under a contract which, in substance, requires payments sufficient to provide for the operating expenses, taxes, debt service and return on investment, whether or not SEGCO has any capacity and energy available. The term of the contract

extends automatically for two-year periods, subject to either party's right to cancel upon two year's notice. The Company's share of expenses included in purchased power from affiliates in the Statements of Income, is as follows:

	1998	1997	1996
		(in millions)	
Energy	**$45**	$45	$47
Capacity	**30**	30	30
Total	**$75**	$75	$77
Kilowatt-hours	**3,146**	3,038	2,780

At December 31, 1998, the capitalization of SEGCO consisted of $49 million of equity and $70 million of long-term debt on which the annual interest requirement is $4 million.

The Company has entered into other various long-term commitments for the purchase of electricity. Total long-term obligations at December 31, 1998 were as follows:

Year	Amounts
	(in millions)
1999	$ 18
2000	21
2001	22
2002	23
2003	23
2004 and beyond	363
Total	$470

Operating Leases

The Company has entered into coal rail car rental agreements with various terms and expiration dates. These expenses totaled $13 million for 1998, and $11 million each for 1997 and 1996. At December 31, 1998, estimated minimum rental commitments for these noncancelable operating leases were as follows:

Year	Amounts
	(in millions)
1999	$ 11
2000	11
2001	11
2002	12
2003	12
2004 and beyond	120
Total	$177

5. NUCLEAR INSURANCE

Under the Price-Anderson Amendments Act of 1988, the Company maintains agreements of indemnity with the NRC that, together with private insurance, cover third-party liability arising from any nuclear incident occurring at the Company's nuclear power plants. The act provides funds up to $9.7 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 private insurance, 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. The 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 for the Company, excluding any applicable state premium taxes, -- based on its ownership and buyback interests -- is $178 million per incident but not more than an aggregate of $20 million to be paid for each incident in any one year.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), a mutual insurer established to provide property damage insurance in an amount up to $500 million for members' nuclear generating facilities.

Additionally, the Company has 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 be insured against increased costs of replacement power in an amount up to $3.5 million per week -- starting 17 weeks after the outage -- for one year and up to $2.8 million per week for the second and third 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 the Company under the three NEIL policies would be $25 million.

For all on-site property damage insurance policies for

commercial nuclear power plants, the NRC requires that the proceeds of such policies issued or renewed on or after April 2, 1991, 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.

6. FACILITY SALES AND JOINT OWNERSHIP AGREEMENTS

The Company has sold undivided interests in plants Hatch, Wansley, Vogtle, and Scherer Units 1 and 2 to OPC, an electric membership generation and transmission corporation; MEAG, a public corporation and an instrumentality of the state of Georgia; and the City of Dalton, Georgia. The Company has sold an interest in Plant Scherer Unit 3 to Gulf Power Company, an affiliate. Additionally, the Company has sold 76.4 percent of Plant Scherer Unit 4 to Florida Power & Light Company (FP&L) and the remaining 23.6 percent to Jacksonville Electric Authority (JEA). The Company has also sold transmission facilities to Georgia Transmission Corporation (formerly OPC's transmission division), MEAG, and the City of Dalton.

Except as otherwise noted, the Company has contracted to operate and maintain all jointly owned facilities. The Company includes its proportionate share of plant operating expenses in the corresponding operating expenses in the Statements of Income.

The Company owns 25.4 percent of the Rocky Mountain pumped storage hydroelectric plant. OPC owns the remainder, and is the operator of the plant. The Company owns six of eight 80 megawatt combustion turbine generating units and 75 percent of the related common facilities at Plant McIntosh. Savannah Electric and Power Company, an affiliate, owns the remainder and operates the plant. The Company and Florida Power Corporation (FPC) jointly own a combustion turbine unit at Intercession City, Florida, near Orlando. The unit began commercial operation in January 1997, and is operated by FPC. The Company owns a one-third interest in the unit, with use of 100 percent of the unit's capacity from June through September. FPC has the capacity the remainder of the year.

At December 31, 1998, the Company's percentage ownership and investment (exclusive of nuclear fuel) in jointly owned facilities in commercial operation, were as follows:

Facility (Type)	Company Ownership	Investment	Accumulated Depreciation
		(in millions)	
Plant Vogtle (nuclear)	45.7%	$3,296*	$1,514
Plant Hatch (nuclear)	50.1	840	538
Plant Wansley (coal)	53.5	298	141
Plant Scherer (coal)			
Units 1 and 2	8.4	112	48
Unit 3	75.0	545	179
Plant McIntosh Common Facilities (combustion-turbine)	75.0	19	1
Rocky Mountain (pumped storage)	25.4	169*	61
Intercession City (combustion-turbine)	33.3	12	**

* Investment net of write-offs.
** Less than $1 million.

7. LONG-TERM POWER SALES AGREEMENTS

The Company and the operating subsidiaries of Southern Company have long-term contractual agreements for the sale of capacity and energy to non-affiliated utilities located outside the system's service area. These agreements consist of firm unit power sales pertaining to capacity from specific generating units. Because energy is generally sold at cost under these agreements, it is primarily the capacity revenues that affect the Company's profitability.

The Company's capacity revenues were as follows:

Year	Revenues	Capacity
	(in millions)	(megawatts)
1998	**$ 32**	**162**
1997	42	159
1996	41	173

Unit power from specific generating plants is being sold to FP&L, FPC, JEA, and the City of Tallahassee, Florida. Under these agreements, the Company sold approximately

162 megawatts of capacity in 1998 and is scheduled to sell approximately 162 megawatts of capacity in 1999. In 2000, 129 megawatts will be sold. After 2000, capacity sales will decline to approximately 105 megawatts -- unless reduced by FP&L, FPC, and JEA -- until the expiration of the contracts in 2010.

8. INCOME TAXES

At December 31, 1998, tax-related regulatory assets were $604 million and tax-related regulatory liabilities were $284 million. The assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. The liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are as follows:

	1998	1997	1996
Total provision for income taxes:		(in millions)	
Federal:			
Currently payable	**$415**	$352	$325
Deferred -			
Current year	**131**	49	70
Reversal of prior years	**(218)**	(68)	(41)
Deferred investment tax credits	**7**	-	-
	335	333	354
State:			
Currently payable	**77**	65	56
Deferred -			
Current year	**18**	8	12
Reversal of prior years	**(31)**	(11)	(5)
	64	62	63
Total	**399**	395	417
Less:			
Income taxes credited to other income	**(8)**	(32)	(19)
Total income taxes charged to operations	**$407**	$427	$436

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:

	1998	1997
	(in millions)	
Deferred tax liabilities:		
Accelerated depreciation	**$1,670**	$1,732
Property basis differences	**854**	968
Other	**158**	142
Total	**2,682**	2,842
Deferred tax assets:		
Other property basis differences	**211**	216
Federal effect of state deferred taxes	**95**	99
Other deferred costs	**96**	83
Disallowed Plant Vogtle buybacks	**23**	23
Other	**21**	14
Total	**446**	435
Net deferred tax liabilities	**2,236**	2,407
Portion included in current assets	**13**	11
Accumulated deferred income taxes in the Balance Sheets	**$2,249**	$2,418

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $22 million in 1998, $15 million in 1997, and $17 million in 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory rate	**35%**	35%	35%
State income tax, net of federal deduction	**4**	4	4
Non-deductible book depreciation	**6**	4	3
Other	**(4)**	(4)	(2)
Effective income tax rate	**41%**	39%	40%

Southern Company and its subsidiaries file 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. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

9. CAPITALIZATION

First Mortgage Bond Indenture & Charter Restrictions

The Company historically has relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for its benefit by public authorities, to meet its long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. In this regard, the Company sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness it may incur.

The Company's first mortgage bond indenture contains various restrictions that remain in effect as long as the bonds are outstanding. At December 31, 1998, $883 million of retained earnings and paid-in capital was unrestricted for the payment of cash dividends or any other distributions under terms of the mortgage indenture. If additional first mortgage bonds are issued, supplemental indentures in connection with those issues may contain more stringent restrictions than those currently in effect.

Preferred Securities

In December 1994, Georgia Power Capital, L.P., of which the Company is the sole general partner, issued $100 million of 9 percent mandatorily redeemable preferred securities. Substantially all of the assets of Georgia Power Capital, L.P., are $103 million aggregate principal amount of Georgia Power's 9 percent Junior Subordinated Deferrable Interest Debentures due December 19, 2024.

Statutory business trusts formed by the Company, of which the Company owns all the common securities, have issued mandatorily redeemable preferred securities as follows:

	Date of Issue	Amount	Rate	Notes	Maturity Date
		(millions)		(millions)	
Trust I	8/1996	$225.00	7.75%	$232	6/2036
Trust II	1/1997	175.00	7.60	180	12/2036
Trust III	6/1997	189.25	7.75	195	3/2037

Substantially all of the assets of each trust are junior subordinated notes issued by the Company in the respective approximate principal amounts set forth above. In February 1999, the Company issued an additional $200 million of mandatorily redeemable preferred securities (Trust IV), bearing interest at 6.85 percent. The associated junior subordinated notes will be due March 31, 2029.

The Company considers that the mechanisms and obligations relating to the preferred securities, taken together, constitute a full and unconditional guarantee by the Company of Georgia Power Capital, L.P.'s and the Trusts' payment obligations with respect to the preferred securities.

Georgia Power Capital, L.P., and the Trusts are subsidiaries of the Company, and accordingly are consolidated in the Company's financial statements.

Pollution Control Bonds

The Company has incurred obligations in connection with the sale by public authorities of tax-exempt pollution control revenue bonds. The Company has authenticated and delivered to trustees an aggregate of $1.2 billion of its first mortgage bonds, which are pledged as security for its obligations under pollution control revenue contracts. No interest on these first mortgage bonds is payable unless and until a default occurs on the installment purchase or loan agreements.

Senior Notes

In January, November, and December 1998, the Company issued unsecured senior notes. The senior notes are, in effect, subordinated to all secured debt of the Company, including its first mortgage bonds.

Bank Credit Arrangements

At the beginning of 1999, the Company had unused credit arrangements with banks totaling $1.3 billion, of which $722 million expires at various times during 1999, $30 million expires at May 1, 2000, and $500 million expires at April 24, 2003.

Of the total $1.3 billion in unused credit, $1 billion is a syndicated credit arrangement with $500 million expiring April 23, 1999 and $500 million expiring April 24, 2003. Both agreements provide the option of converting borrowings into two-year term loans upon expiration date. The agreements contain stated borrowing rates but also allow for competitive bid loans. In addition, the

agreements require payment of commitment fees based on the unused portions of the commitments. Annual fees are also paid to the agent bank.

Approximately $162 million of the $722 million arrangements expiring during 1999 allow for two-year term loans executable upon expiration date of the credit facilities. The $30 million credit arrangement expiring at May 1, 2000 allows for term loans of up to three years. All of the arrangements include stated borrowing rates but also allow for negotiated rates. These agreements also 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.

The $1.3 billion in unused credit arrangements provide liquidity support to the Company's variable rate pollution control bonds. The amount of variable rate pollution control bonds outstanding as of December 31, 1998 was $979 million.

In addition, the Company borrows under uncommitted lines of credit with banks and through a $225 million commercial paper program that has the liquidity support of committed bank credit arrangements. Average compensating balances held under these committed facilities were not material in 1998.

Other Long-Term Debt

Assets acquired under capital leases are recorded in the Balance Sheets as utility plant in service, and the related obligations are classified as long-term debt. At December 31, 1998 and 1997, the Company had a capitalized lease obligation for its corporate headquarters building of $87 million with an interest rate of 8.1 percent. The lease agreement provides for payments that are minimal in early years and escalate through the first 21 years of the lease. For ratemaking purposes, the GPSC has treated the lease as an operating lease and has allowed only the lease payments in cost of service. The difference between the accrued expense and the lease payments allowed for ratemaking purposes is being deferred as a cost to be recovered in the future as ordered by the GPSC. At December 31, 1998 and 1997, the interest and lease amortization deferred on the Balance Sheets are $53 million and $52 million, respectively.

Assets Subject to Lien

The Company's mortgage dated as of March 1, 1941, as amended and supplemented, securing the first mortgage bonds issued by the Company, constitutes a direct lien on substantially all of the Company's fixed property and franchises.

Securities Due Within One Year

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

	1998	1997
	(in millions)	
Bond improvement fund requirements	**$ 9**	$ 15
Less:		
Portion to be satisfied by certifying property additions	**-**	-
Cash requirements	**9**	15
First mortgage bond maturities and redemptions	**390**	205
Total long-term debt	**399**	220
Preferred stock	**36**	-
Total	**$435**	$220

The Company's first mortgage bond indenture includes an improvement fund requirement that amounts to 1 percent of each outstanding series of bonds authenticated under the indenture prior to January 1 of each year, other than those issued to collateralize pollution control obligations. The requirement may be satisfied by June 1 of each year by depositing cash, reacquiring bonds, or by pledging additional property equal to 1 2/3 times the requirement. The 1999 requirement was met in the first quarter of the year by depositing cash with the trustee. These funds were used to redeem first mortgage bonds.

Redemption of Securities

The Company plans to continue a program of redeeming or replacing debt and preferred stock in cases where opportunities exist to reduce financing costs. Issues may be repurchased in the open market or called at premiums as specified under terms of the issue. They may also be redeemed at face value to meet improvement fund requirements, to meet replacement provisions of the mortgage, or through use of proceeds from the sale of property pledged under the mortgage. In general, for the

first five years a series of first mortgage bonds is outstanding, the Company is prohibited from redeeming for improvement fund purposes more than 1 percent annually of the original issue amount.

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial information for 1998 and 1997 is as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(in millions)	
March 1998	**$ 984**	**$177**	**$106**
June 1998	**1,226**	**188**	**137**
September 1998	**1,530**	**325**	**255**
December 1998	**998**	**104**	**72**
March 1997	$ 959	$180	$106
June 1997	1,015	205	131
September 1997	1,407	317	257
December 1997	1,005	159	100

Earnings in the fourth quarter of 1998, compared to the fourth quarter of 1997, decreased primarily as a result of the December 1998 Rocky Mountain write-off.

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

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SELECTED FINANCIAL AND OPERATING DATA

Georgia Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands)	**$4,738,253**	$4,385,717	$4,416,779
Net Income after Dividends on Preferred Stock (in thousands)	**$570,228**	$593,996	$580,327
Cash Dividends on Common Stock (in thousands)	**$536,600**	$520,000	$475,500
Return on Average Common Equity (percent)	**14.61**	14.53	13.73
Total Assets (in thousands)	**$12,033,618**	$12,573,728	$13,006,635
Gross Property Additions (in thousands)	**$499,053**	$475,921	$428,220
Capitalization (in thousands):			
Common stock equity	**$3,784,172**	$4,019,728	$4,154,281
Preferred stock	**15,527**	157,247	464,611
Preferred stock subject to mandatory redemption	**-**	-	-
Company obligated mandatorily redeemable preferred securities	**689,250**	689,250	325,000
Long-term debt	**2,744,362**	2,982,835	3,200,419
Total (excluding amounts due within one year)	**$7,233,311**	$7,849,060	$8,144,311
Capitalization Ratios (percent):			
Common stock equity	**52.3**	51.2	51.0
Preferred stock	**0.2**	2.0	5.7
Company obligated mandatorily redeemable preferred securities	**9.5**	8.8	4.0
Long-term debt	**38.0**	38.0	39.3
Total (excluding amounts due within one year)	**100.0**	100.0	100.0
First Mortgage Bonds (in thousands):			
Issued	**-**	-	10,000
Retired	**558,250**	60,258	210,860
Preferred Stock (in thousands):			
Issued	**-**	-	-
Retired	**106,064**	356,392	179,148
Senior Notes (in thousands):			
Issued	**495,000**	-	-
Company Obligated Mandatorily Redeemable Preferred Securities (in thousands):			
Issued	**-**	364,250	225,000
Security Ratings:			
First Mortgage Bonds -			
Moody's	**A1**	A1	A1
Standard and Poor's	**A+**	A+	A+
Duff & Phelps	**AA-**	AA-	AA-
Preferred Stock -			
Moody's	**a2**	a2	a2
Standard and Poor's	**A**	A	A
Duff & Phelps	**A+**	A+	A+
Unsecured Long-Term Debt -			
Moody's	**A2**	A2	A2
Standard and Poor's	**A**	A	A
Duff & Phelps	**A+**	A+	A+
Customers (year-end):			
Residential	**1,596,488**	1,561,675	1,531,453
Commercial	**221,180**	211,672	205,087
Industrial	**9,485**	9,988	10,424
Other	**3,034**	2,748	2,645
Total	**1,830,187**	1,786,083	1,749,609
Employees (year-end)	**8,371**	8,354 *	10,346

*In 1997 Georgia Power Company transferred 1,855 employees to Southern Nuclear Operating Company.

1995	1994	1993	1992	1991	1990	1989	1988
$4,405,338	$4,162,403	$4,451,181	$4,297,436	$4,301,428	$4,445,809	$4,145,240	$3,897,479
$608,862	$525,544	$569,853	$520,538	$474,855	$208,066	$449,099	$479,532
$451,500	$429,300	$402,400	$384,000	$375,200	$389,600	$394,500	$386,600
14.43	12.84	14.37	13.60	12.76	5.52	11.72	13.06
$13,470,275	$13,712,658	$13,736,110	$10,964,442	$10,842,538	$11,176,619	$11,372,346	$11,130,539
$480,449	$638,426	$674,432	$508,444	$548,051	$558,727	$727,631	$929,019
$4,299,012	$4,141,554	$4,045,458	$3,888,237	$3,766,551	$3,673,913	$3,860,657	$3,806,070
692,787	692,787	692,787	692,792	607,796	607,796	607,844	657,844
-	-	-	6,250	118,750	125,000	155,000	162,500
100,000	100,000	-	-	-	-	-	-
3,315,460	3,757,823	4,031,387	4,131,016	4,553,189	5,000,225	5,054,001	4,861,378
$8,407,259	$8,692,164	$8,769,632	$8,718,295	$9,046,286	$9,406,934	$9,677,502	$9,487,792
51.1	47.6	46.1	44.6	41.7	39.1	39.9	40.1
8.2	8.0	7.9	8.0	8.0	7.8	7.9	8.6
1.2	1.2	-	-	-	-	-	-
39.5	43.2	46.0	47.4	50.3	53.1	52.2	51.3
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
75,000	-	1,135,000	975,000	-	300,000	250,000	150,000
505,789	133,559	1,337,822	1,381,300	598,384	91,117	91,516	206,677
-	-	175,000	195,000	100,000	-	-	-
-	-	245,005	165,004	100,000	83,750	7,500	3,750
-	-	-	-	-	-	-	-
-	100,000	-	-	-	-	-	-
A1	A2	A3	A3	Baa1	Baa1	Baa2	Baa2
A+	A	A-	A-	BBB+	BBB+	BBB+	BBB
AA-	A+	A+	A-	BBB+	BBB	BBB	9
a2	a3	baa1	baa1	baa1	baa1	baa2	baa2
A	A-	BBB+	BBB+	BBB	BBB	BBB	BBB-
A	A-	A-	BBB	BBB-	BBB-	BBB-	10
A2	A3	Baa1	Baa1	Baa2	Baa2	-	Baa3
A	A-	BBB+	BBB+	BBB+	BBB	-	BBB-
A+	A	A	BBB+	BBB+	-	-	10
1,500,024	1,466,382	1,441,972	1,421,175	1,397,682	1,378,888	1,355,211	1,329,173
198,624	193,648	188,820	183,784	179,933	178,391	177,814	174,147
10,796	10,976	11,217	11,479	11,946	12,115	12,311	12,353
2,568	2,426	2,322	2,269	2,190	2,114	2,050	1,993
1,712,012	1,673,432	1,644,331	1,618,707	1,591,751	1,571,508	1,547,386	1,517,666
11,061	11,765	12,528	12,600	13,700	13,746	13,900	15,110

	1998	1997	1996
Operating Revenues (in thousands):			
Residential	**$1,486,699**	$1,326,787	$1,371,033
Commercial	**1,591,363**	1,493,353	1,486,586
Industrial	**1,170,881**	1,110,311	1,118,633
Other	**49,274**	47,848	47,060
Total retail	**4,298,217**	3,978,299	4,023,312
Sales for resale - non-affiliates	**259,234**	282,365	281,580
Sales for resale - affiliates	**81,606**	38,708	35,886
Total revenues from sales of electricity	**4,639,057**	4,299,372	4,340,778
Other revenues	**99,196**	86,345	76,001
Total	**$4,738,253**	$4,385,717	$4,416,779
Kilowatt-Hour Sales (in thousands):			
Residential	**19,481,486**	17,295,022	17,826,451
Commercial	**22,861,391**	21,134,346	20,823,073
Industrial	**27,283,147**	26,701,685	26,191,831
Other	**543,462**	538,163	536,057
Total retail	**70,169,486**	65,669,216	65,377,412
Sales for resale - non-affiliates	**6,438,891**	6,795,300	7,868,342
Sales for resale - affiliates	**2,038,400**	1,706,699	1,180,207
Total	**78,646,777**	74,171,215	74,425,961
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**7.63**	7.67	7.69
Commercial	**6.96**	7.07	7.14
Industrial	**4.29**	4.16	4.27
Total retail	**6.13**	6.06	6.15
Sales for resale	**4.02**	3.78	3.51
Total sales	**5.90**	5.80	5.83
Residential Average Annual Kilowatt-Hour Use Per Customer	**12,314**	11,171	11,763
Residential Average Annual Revenue Per Customer	**$939.72**	$857.01	$904.70
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**14,437**	14,437	14,367
Maximum Peak-Hour Demand (megawatts):			
Winter	**11,959**	10,407	10,410
Summer	**13,923**	13,153	12,914
Annual Load Factor (percent)	**58.7**	57.4	62.2
Plant Availability (percent):			
Fossil-steam	**86.0**	85.8	85.2
Nuclear	**91.6**	88.8	89.3
Source of Energy Supply (percent):			
Coal	**62.3**	64.3	60.4
Nuclear	**18.3**	18.8	18.2
Hydro	**2.2**	2.2	2.2
Oil and gas	**2.2**	0.6	0.5
Purchased power -			
From non-affiliates	**6.5**	2.7	5.6
From affiliates	**8.5**	11.4	13.1
Total	**100.0**	100.0	100.0
Total Fuel Economy Data:			
BTU per net kilowatt-hour generated	**10,118**	9,990	10,468
Cost of fuel per million BTU (cents)	**134.62**	132.61	128.72
Average cost of fuel per net kilowatt-hour generated (cents)	**1.36**	1.32	1.35

* Less than one-tenth of one percent.

SELECTED FINANCIAL AND OPERATING DATA (continued)

Georgia Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$1,337,060	$1,180,358	$1,291,035	$1,128,396	$1,111,358	$1,109,165	$1,022,781	$979,047
1,449,108	1,367,315	1,354,130	1,285,681	1,243,067	1,218,441	1,143,727	1,054,995
1,141,766	1,100,995	1,113,067	1,083,856	1,057,702	1,061,830	1,006,416	983,822
44,255	42,983	41,399	39,504	37,861	36,773	34,775	31,743
3,972,189	3,691,651	3,799,631	3,537,437	3,449,988	3,426,209	3,207,699	3,049,607
290,302	351,591	534,370	640,308	736,643	784,086	760,809	707,076
76,906	60,899	61,668	67,835	65,586	168,251	150,394	86,751
4,339,397	4,104,141	4,395,669	4,245,580	4,252,217	4,378,546	4,118,902	3,843,434
65,941	58,262	55,512	51,856	49,211	67,263	26,338	54,045
$4,405,338	$4,162,403	$4,451,181	$4,297,436	$4,301,428	$4,445,809	$4,145,240	$3,897,479
17,307,399	15,680,709	16,649,859	14,939,172	14,815,089	14,771,648	14,134,195	13,800,038
19,844,999	18,738,461	18,278,508	17,260,614	16,885,833	16,627,128	15,843,181	14,790,561
25,286,340	24,337,632	23,635,363	22,978,312	22,298,062	22,126,604	21,801,404	21,412,845
493,720	484,009	460,801	436,144	429,016	428,459	414,107	397,669
62,932,458	59,240,811	59,024,531	55,614,242	54,428,000	53,953,839	52,192,887	50,401,113
6,591,841	7,968,475	14,307,030	15,870,222	18,719,924	20,158,681	20,479,412	18,544,705
2,738,947	3,056,050	3,027,733	3,320,060	3,885,892	8,272,528	7,489,948	3,327,814
72,263,246	70,265,336	76,359,294	74,804,524	77,033,816	82,385,048	80,162,247	72,273,632
7.73	7.53	7.75	7.55	7.50	7.51	7.24	7.09
7.30	7.30	7.41	7.45	7.36	7.33	7.22	7.13
4.52	4.52	4.71	4.72	4.74	4.80	4.62	4.59
6.31	6.23	6.44	6.36	6.34	6.35	6.15	6.05
3.94	3.74	3.44	3.69	3.55	3.35	3.26	3.63
6.00	5.84	5.76	5.68	5.52	5.31	5.14	5.32
11,654	10,766	11,630	10,603	10,675	10,795	10,530	10,484
$900.28	$810.39	$901.79	$800.88	$800.78	$810.56	$761.96	$743.82
14,344	13,943	13,759	14,076	14,076	14,366	14,366	13,018
9,819	10,509	9,067	8,938	10,001	8,977	10,101	9,866
12,828	11,758	12,573	11,448	13,090	13,196	12,735	12,295
59.6	63.0	58.5	60.5	55.2	55.5	56.3	59.1
85.8	83.1	85.9	86.6	93.3	92.5	93.0	94.5
91.8	88.4	85.5	87.7	81.6	81.3	89.2	69.4
63.0	61.3	62.1	61.4	63.6	65.1	64.0	72.0
19.3	18.0	16.2	17.0	15.3	13.7	14.1	9.6
2.5	2.6	2.3	2.5	2.3	2.2	2.1	1.2
0.6	0.1	0.2	*	*	0.1	0.1	0.1
7.7	9.7	10.2	12.2	10.3	11.0	10.2	8.2
6.9	8.3	9.0	6.9	8.5	7.9	9.5	8.9
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,039	9,915	9,912	9,900	9,960	9,939	10,020	9,969
143.85	145.33	153.62	153.08	157.97	166.22	164.27	166.28
1.44	1.44	1.52	1.52	1.57	1.65	1.65	1.66

GULF POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT

Gulf Power Company 1998 Annual Report

The management of Gulf Power Company has prepared -- and is responsible for -- the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances 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.

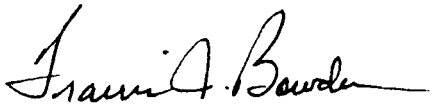
The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that books and records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based on a recognition that the cost 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.

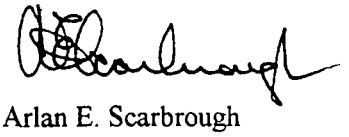
The audit committee of the board of directors, composed of directors who are not employees, provides a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management, the internal auditors, and the independent public accountants to ensure 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 financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Gulf Power Company in conformity with generally accepted accounting principles.



Travis J. Bowden
President
and Chief Executive Officer



Arlan E. Scarbrough
Chief Financial Officer

February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Gulf Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Gulf Power Company (a Maine corporation and a wholly owned subsidiary of Southern Company) as of December 31, 1998 and 1997, and the related statements of income, retained earnings, paid-in capital, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, or 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. W believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages II-134 through II-150) referred to above present fairly, in all material respects, the financial position of Gulf Power Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

RESULTS OF OPERATIONS

Earnings

Gulf Power Company's 1998 net income after dividends on preferred stock was $56.5 million, a decrease of $1.1 million from the previous year. The decrease in earnings was primarily a result of higher operating expenses in 1998 when compared to 1997.

In 1997, earnings were $57.6 million, down $0.2 million when compared to 1996. The change was attributed to lower residential revenues due to milder-than-normal weather.

Revenues

Operating revenues increased in 1998 when compared to 1997 and decreased in 1997 when compared to 1996. The following table summarizes the factors impacting operating revenues for the past three years:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
	(in thousands)		
Retail --			
Sales growth	**$15,021**	$ 4,005	$ 7,123
Weather	**6,656**	(5,277)	(1,057)
Regulatory cost recovery and other	**(34,179)**	(7,837)	5,649
Total retail	**(12,502)**	(9,109)	11,715
Sales for resale--			
Non-affiliates	**(1,804)**	496	2,788
Affiliates	**25,882**	(1,002)	(857)
Total sales for resale	**24,078**	(506)	1,931
Other operating revenues	**13,086**	1,106	1,642
Total operating revenues	**$24,662**	$(8,509)	$15,288
Percent change	**3.9%**	(1.3)%	2.5%

Retail revenues of $509.1 million in 1998 decreased $12.5 million or 2.4 percent from the prior year due primarily to the recovery of lower fuel costs. The price per ton of coal, which is the Company's primary fuel source, was lower in 1998 as the costs related to prior year coal contract renegotiations were fully amortized and a major coal contract price was reduced. See Note 5 to the financial statements under "Fuel Commitments" for further information. Retail revenues for 1997 decreased $9.1 million or 1.7 percent when compared to 1996 due primarily to a decrease in residential revenues as a result of mild weather and recovery of lower purchased power capacity costs.

The decrease in regulatory cost recovery and other retail revenues is primarily attributable to the recovery of decreased fuel costs as mentioned previously. Regulatory cost recovery and other includes recovery provisions for fuel expense and the energy component of purchased power costs; energy conservation costs; purchased power capacity costs; and environmental compliance costs. The recovery provisions generally equal the related expenses and have no material effect on net income. See Notes 1 and 3 to the financial statements under "Revenues and Regulatory Cost Recovery Clauses" and "Environmental Cost Recovery," respectively, for further information.

Sales for resale were $104.5 million in 1998, an increase of $24.1 million or 29.9 percent over 1997 due to additional energy sales to affiliated companies, which is discussed below. Revenues from sales to utilities outside the service area under long-term contracts consist of 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 under these long-term contracts were as follows:

	1998	1997	1996
	(in thousands)		
Capacity	**$22,503**	$24,899	$25,400
Energy	**14,556**	18,160	19,804
Total	**$37,059**	$43,059	$45,204

Declining capacity revenues reflect the decline in net plant investment related to these sales.

Sales to affiliated companies vary from year to year depending on demand and the availability and cost of generating resources at each company. These sales have little impact on earnings.

Other operating revenues increased in 1998 due primarily to adjustments to reflect differences between recoverable costs and the amounts actually reflected in

current rates. See Notes 1 and 3 to the financial statements under "Revenues and Regulatory Cost Recovery Clauses" and "Environmental Cost Recovery," respectively, for further discussion.

Kilowatt-hour sales for 1998 and the percent changes by year were as follows:

	KWH	Percent Change		
	1998	1998	1997	1996
	(millions)			
Residential	4,437	7.7%	(1.0)%	3.6%
Commercial	3,112	7.4	3.2	3.7
Industrial	1,834	(3.7)	5.3	0.7
Other	19	4.7	1.6	2.7
Total retail	9,402	5.2	1.6	3.0
Sales for resale				
Non-affiliates	1,342	(12.4)	(0.2)	9.9
Affiliates	1,758	107.3	19.5	(6.5)
Total	12,502	10.5	2.5	3.3

In 1998, total retail energy sales increased due to higher temperatures when compared to the milder-than-normal temperatures in 1997 and due to increases in the number of residential and commercial customers. The decrease in industrial energy sales in 1998 when compared to 1997 primarily reflects the shut down of a major industrial customer's plant site and temporary production delays of other industrial customers. In 1997, residential energy sales declined as a result of the milder weather when compared with more normal weather in 1996. The increase in industrial energy sales was primarily the result of the Real-Time-Pricing program. The price structure of this program has encouraged participating industrial customers to lower their peak demand requirements and increase their purchases of energy during off-peak periods. See "Future Earnings Potential" for information on the Company's initiatives to remain competitive and to meet conservation goals set by the Florida Public Service Commission (FPSC).

Decreases in energy sales for resale to non-affiliates of 12.4 percent in 1998 when compared to 1997 and 0.2 percent in 1997 when compared to 1996 are primarily related to unit power sales under long-term contracts to other Florida utilities and bulk power sales under short-term contracts to other non-affiliated utilities. Energy sales to affiliated companies vary from year to year as mentioned previously.

Expenses

Total operating expenses in 1998 increased $25.6 million or 4.8 percent from the amount recorded in 1997 due primarily to higher fuel, purchased power, and maintenance expenses, offset by lower other operation expenses. In 1997, total operating expenses decreased $3.9 million or 0.7 percent from 1996. The decrease was due to lower fuel, purchased power, and maintenance expenses, offset by higher other operation expenses and depreciation and amortization expenses.

Fuel expenses in 1998 when compared to 1997 increased $16.6 million or 9.2 percent due to increased generation resulting from a higher demand for energy, while average fuel costs decreased as noted below. In 1997, fuel expenses decreased when compared to 1996 due to slightly lower fuel costs.

Purchased power expenses increased in 1998 by $6.9 million or 18.8 percent above 1997 amounts due to an increased demand for energy. In 1997, purchased power expenses decreased $6.5 million or 14.9 percent from the amount recorded in 1996. This change was due primarily to a reduction in the cost of purchased power from affiliated companies.

The amount and sources of generation and the average cost of fuel per net kilowatt-hour generated were as follows:

	1998	1997	1996
Total generation (millions of kilowatt-hours)	11,986	10,435	10,214
Sources of generation (percent)			
Coal	98.0	99.6	99.5
Oil and gas	2.0	0.4	0.5
Average cost of fuel per net kilowatt-hour generated (cents)--	1.69	1.99	2.02

Other operation expenses decreased $7.3 million or 5.7 percent in 1998 due to a decrease in the amortization costs of prior year payments related to renegotiations of coal supply contracts. This decrease was partially offset by higher implementation costs of a new customer accounting system, increased costs related to the Year 2000 program, and an increase in the accrual to the accumulated provision

for property damage. In 1997, other operation expenses increased $11.1 million or 9.6 percent from the 1996 level. This change was attributable to higher amortization costs of prior year payments related to renegotiations of coal supply contracts, implementation costs related to a new customer accounting system, and increased production and distribution costs related to 1997 work force reduction programs. See Note 2 to the financial statements under "Workforce Reduction Programs" for further discussion.

Maintenance expenses in 1998 rose by $9.3 million or 19.4 percent, as compared to 1997, due primarily to scheduled maintenance performed at Plant Crist and Plant Smith and increased transmission and distribution maintenance. In 1997, maintenance expenses decreased $3.1 million or 6.0 percent when compared to the prior year due to a decrease in scheduled maintenance of production facilities.

Interest on long-term debt in 1998 decreased $2.0 million or 9.1 percent from 1997 due primarily to a decrease in interest expense on pollution control bonds refinanced in 1997 and two long-term bank notes that matured in 1998. This decrease was partially offset by an increase in interest due to two first mortgage bonds maturing in 1998 being replaced with senior notes at a slightly higher interest rate. In 1997, interest on long-term debt decreased $3.0 million or 12.1 percent from the prior year as a result of retirements and refinancings.

Distributions on preferred securities increased $3.2 million in 1998. This increase was attributable to the issuance of $45 million of trust preferred securities in January 1998 to replace preferred stock. In 1997, distributions on preferred securities increased $2.8 million due to the issuance of $40 million of trust preferred securities in January 1997.

Effects of Inflation

The Company is 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 cost 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 the Company because of the large investment in utility plant with a long economic life. 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

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from energy sales growth to a potentially less regulated and more competitive environment.

Gulf Power currently operates as a vertically integrated utility providing electricity to customers within its traditional service area located in northwest Florida. Prices for electricity provided by the Company to retail customers are set by the FPSC.

Future earnings in the near term will depend upon growth in energy sales, which is subject to a number of factors. Traditionally, these factors have included weather, competition, changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the Company's service area. In the fourth quarter of 1998, the FPSC opened a docketed proceeding to consider whether the rate of return authorized for another investor-owned electric utility subject to the FPSC's jurisdiction continues to be reasonable under current market conditions. Although no official action has been taken by the FPSC at this time with regard to the authorized returns for Gulf Power or any of the other investor-owned electric utilities subject to the FPSC's jurisdiction, a similar investigation could be initiated by action of the FPSC or its staff at any time.

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 Company is positioning the business to meet the challenge of this major change in the traditional practice of selling electricity. The Energy Act allows independent power producers (IPPs) to access the Company's transmission network in order to sell electricity to other utilities. This enhances the incentive for IPPs to

build cogeneration plants for industrial and commercial customers and sell energy generation to other utilities. The Company has and will continue to evaluate opportunities to partner and participate in profitable cogeneration projects. In 1998, partnering with one of the Company's largest industrial customers, construction was completed on 15 megawatts of Company-owned cogeneration on the customer's plant site. Also, electricity sales for resale rates are being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. The Company is aggressively working to maintain and expand its share of wholesale sales in the southeastern power markets.

Although the Energy Act does not permit retail customer access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As the initiatives materialize, the structure of the utility industry could radically change. 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 or are being discussed in Florida, none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. The inability of the Company to recover its investments, including the regulatory assets described in Note 1 to the financial statements, could have a material adverse effect on the financial condition of the Company. The Company is attempting to minimize or reduce its cost exposure.

Continuing to be a low-cost producer could provide opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless the Company remains a low-cost producer and provides quality service, the Company's retail energy sales growth could be limited, and this could significantly erode earnings.

In 1996, the FPSC approved a new optional Commercial/Industrial Service Rider (CISR), which is applicable to the rate schedules for the Company's largest existing and potential customers who are able to show they have viable alternatives to purchasing the Company's energy services. The CISR, approved as a pilot program, provides the flexibility needed to enable the Company to offer its services in a more competitive manner to these customers. The publicity of the CISR ruling, increased competitive pressures, and general awareness of customer choice pilots and proposals across the country have stimulated interest on the part of customers in custom tailored offerings. The Company has participated in one-on-one discussions with many of these customers, and has negotiated and executed two Contract Service Agreements within the CISR pilot program.

The FPSC will set new conservation goals and approve programs to accomplish the goals by year-end 1999. Conservation goals are set every five years for a ten-year period. The last conservation goals proceeding was in 1994 and established demand-side management programs and conservation goals for 1995 to 2004. In the previous and current goals proceedings, the emphasis remains on using price flexibility and competitive offerings of energy efficient products and services. The new goals will be for the 2000 to 2009 period.

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." Also, Florida legislation adopted in 1993 that provides for recovery of prudent environmental compliance costs is discussed in Note 3 to the financial statements under "Environmental Cost Recovery."

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. In the event that a portion of the 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.

Exposure to Market Risks

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates and prices of electricity. To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statements as incurred. At December 31, 1998, exposure from these activities was not material to the Company's financial position, results of operations, or cash flows. Also, based on the Company's overall interest rate exposure at December 31, 1998, a near-term 100 basis point change in interest rates would not materially affect the Company's financial statements.

New Accounting Standards

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments – including certain derivative instruments embedded in other contracts – and for hedging activities. Adoption of this statement is not expected to have a material impact on the Company's financial statements.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Costs of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, with gains and losses reflected rather than revenues and purchased power. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. The Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the financial statements.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space, was used until the mid-1990s. Unless corrected before the year 2000, affected software systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

The Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. The Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

The Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is

reviewed on a monthly basis by a steering committee of Southern Company executives.

The work was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the Year 2000.

Southern Company has completed more than 70 percent of the activities contained in its work plan. The percentage of completion and projected completion dates by function are as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

Year 2000 Costs

The Company's current projected total costs for Year 2000 readiness are approximately $4.8 million. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through December 31, 1998, the Year 2000 program costs, recognized as expense, amounted to $3.0 million, of which $2.5 million was recorded in 1998.

Year 2000 Risks

The Company is implementing a detailed process to minimize the possibility of service interruptions related to the Year 2000. The Company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operation. The Company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the Company's service territory to be isolated and short in duration.

The Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its service territory. The Company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, the Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council – coordinated national drills during 1999.

The Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to the Company's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to the Company are being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their own Year 2000 issues.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the Company is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, the Company is drawing on that experience to make risk assessments and is developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. The Company is identifying critical operational locations, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the Company's service territory isolated and short in duration.

FINANCIAL CONDITION

Overview

The Company's financial condition continues to be very solid. During 1998, gross property additions were $69.7 million. Funds for the property additions were provided by internal sources. See the Statements of Cash Flows for further details.

Financing Activities

In 1998, the Company sold $45 million of trust preferred securities and $50 million of senior insured quarterly notes. Retirements, including maturities during 1998, totaled $45 million of first mortgage bonds, $9.5 million of preferred stock, and $8.3 million of long-term bank notes. The proceeds from the issuance of $45 million of trust preferred securities were used to repay short-term indebtedness that was used to redeem preferred stock tendered at the end of 1997 and to redeem additional preferred stock during 1998. This refinancing will result in savings of approximately $0.6 million annually. See the Statements of Cash Flows for further details.

Composite financing rates for the years 1996 through 1998 as of year end were as follows:

	1998	1997	1996
Composite interest rate on long-term debt	**6.1%**	5.9%	6.1%
Composite rate on trust preferred securities	**7.3%**	7.6%	-
Composite preferred stock dividend rate	**5.1%**	6.1%	6.4%

The composite interest rate on long-term debt increased in 1998 primarily as a result of the maturity of two low-cost first mortgage bond issues, which were replaced with long-term notes with a slightly higher interest rate. The decrease in the composite preferred stock dividend rate in 1998 was primarily due to the retirement of higher-cost preferred stock.

Capital Requirements for Construction

The Company's gross property additions, including those amounts related to environmental compliance, are budgeted at $434 million for the three years beginning in 1999 ($72 million in 1999, $100 million in 2000, and $262 million in 2001). Actual construction costs may vary from this estimate because of changes in such factors as: business conditions; environmental 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. The Company has budgeted $263.6 million for the years 1999 through 2002 for the estimated cost of a 532 megawatt combined cycle gas unit to be located in the eastern portion of its service area. The unit is expected to have an in-service date of June 2002, subject to regulatory approval. The Company will continue its program to maintain and upgrade transmission and distribution facilities and generating plants.

Other Capital Requirements

In addition to the funds needed for the construction program, approximately $27 million will be required by the end of 2001 in connection with maturities of long-term debt. Also, the Company will continue to retire higher-cost debt and preferred securities and replace these securities with lower-cost capital as market conditions and terms of the instruments permit.

Environmental Matters

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act -- the acid rain compliance provision of the law -- significantly affected the Company. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating units of Southern Company. As a result of Southern Company's compliance strategy, an additional 22 generating units were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected plants by switching to low-sulfur coal, which required some equipment upgrades. Construction expenditures for Phase I compliance totaled approximately $300 million for Southern Company, including approximately $42 million for Gulf Power.

For Phase II sulfur dioxide compliance, Southern Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Also, equipment to control nitrogen oxide emissions will be installed on additional system fossil-fired units as required to meet Phase II limits. Current compliance strategy for Phase II and ozone non-attainment could require total estimated construction expenditures for Southern Company of approximately $70 million, of which $16 million remains to be spent. Phase II compliance is not expected to have a material impact on Gulf Power.

Following adoption of legislation in April of 1992 allowing electric utilities in Florida to seek FPSC approval of their Clean Air Act Compliance Plans, Gulf Power filed its petition for approval. The FPSC approved the Company's plan for Phase I compliance, deferring until a later date approval of its Phase II Plan.

In 1993, the Florida Legislature adopted legislation that allows a utility to petition the FPSC for recovery of prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. The legislation is discussed in Note 3 to the financial statements under "Environmental Cost Recovery." Substantially all of the costs for the Clean Air Act and other new environmental legislation discussed below are expected to be recovered through the Environmental Cost Recovery Clause.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the new rules. The final rules affect 22 states including Alabama and Georgia. See Note 6 to the financial statements under "Joint Ownership Agreements" related to the Company's ownership interest in Georgia Power's Plant Scherer Unit No. 3. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various other matters including: nitrogen oxide emission control strategies for ozone non-attainment areas; additional controls for hazardous air pollutant emissions; and hazardous waste disposal requirements. The impact of new standards will depend on the development and implementation of applicable regulations.

Gulf Power must comply with other environmental laws and regulations that cover the handling and disposal of hazardous waste. Under these various laws and regulations, the Company could incur substantial costs to clean up properties. The Company conducts studies to determine the extent of any required cleanup costs and has recognized in the financial statements costs to clean up known sites. For additional information, see Note 3 to the financial statements under "Environmental Cost Recovery."

Several major pieces of environmental legislation are being 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 the 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, electric and magnetic fields, and other environmental health concerns could significantly affect the 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 electric and magnetic fields.

Sources of Capital

At December 31, 1998, the Company had approximately $1.0 million of cash and cash equivalents and $35.5 million of unused committed lines of credit with banks to meet its short-term cash needs. Refer to Statements of Cash Flows

for details related to the Company's financing activities. See Note 5 to the financial statements under "Bank Credit Arrangements" for additional information.

The Company historically has relied on issuances of first mortgage bonds and preferred stock, in addition to pollution control revenue bonds issued for its benefit by public authorities, to meet its long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. In this regard, the Company sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness it may incur.

If the Company chooses to issue first mortgage bonds or preferred stock, it is required to meet certain coverage requirements specified in its mortgage indenture and corporate charter. The Company's ability to satisfy all coverage requirements is such that it could issue new first mortgage bonds and preferred stock to provide sufficient funds for all anticipated requirements.

Cautionary Statement Regarding Forward-Looking Information

Gulf Power Company's 1998 Annual Report contains forward-looking and historical information. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the Company's markets; potential business strategies--including acquisitions or dispositions of assets or internal restructuring--that may be pursued by the company; state and federal rate regulation; Year 2000 issues; changes in or application of environmental and other laws and regulations to which the Company is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; and other factors discussed in the reports--including Form 10-K--filed from time to time by the Company with the Securities and Exchange Commission.

STATEMENTS OF INCOME

For the Years Ended December 31, 1998, 1997, and 1996
Gulf Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Revenues:			
Revenues	$ 607,876	$ 609,096	$ 616,603
Revenues from affiliates	42,642	16,760	17,762
Total operating revenues	650,518	625,856	634,365
Operating Expenses:			
Operation-			
Fuel	197,462	180,843	184,500
Purchased power from non-affiliates	29,369	11,938	8,300
Purchased power from affiliates	14,445	24,955	35,076
Other	119,011	126,266	115,154
Maintenance	57,286	47,988	51,050
Depreciation and amortization	59,129	57,874	56,645
Taxes other than income taxes	51,462	51,775	52,027
Federal and state income taxes (Note 8)	34,089	35,034	37,821
Total operating expenses	562,253	536,673	540,573
Operating Income	88,265	89,183	93,792
Other Income (Expense):			
Interest income	931	1,203	1,921
Other, net	(2,339)	(992)	(1,678)
Income taxes applicable to other income	1,890	1,584	248
Income Before Interest Charges and Other	88,747	90,978	94,283
Interest Charges and Other:			
Interest on long-term debt	19,718	21,699	24,691
Other interest charges	2,548	2,076	1,824
Interest on notes payable	1,190	891	2,071
Amortization of debt discount, premium, and expense, net	2,100	2,281	2,087
Distributions on preferred securities of subsidiary trust	6,034	2,804	-
Interest charges and other, net	31,590	29,751	30,673
Net Income	57,157	61,227	63,610
Dividends on Preferred Stock	636	3,617	5,765
Net Income After Dividends on Preferred Stock	$ 56,521	$ 57,610	$ 57,845

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1997, and 1996
Gulf Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Activities:			
Net income	$ 57,157	$ 61,227	$ 63,610
Adjustments to reconcile net income to net cash provided by operating activities --			
Depreciation and amortization	69,633	72,860	71,825
Deferred income taxes	(4,684)	(7,047)	2,157
Accumulated provision for property damage	2,308	2,572	4,227
Deferred costs of 1995 coal contract renegotiation	-	1,246	10,931
Other, net	1,155	1,012	1,468
Changes in certain current assets and liabilities --			
Receivables, net	11,308	(692)	391
Inventories	(4,308)	10,674	12,957
Payables	823	1,398	(7,078)
Taxes accrued	(7,960)	6,123	(441)
Current costs of 1995 coal contract renegotiation	812	14,146	(5,099)
Other	(11,323)	2,028	5,937
Net cash provided from operating activities	114,921	165,547	160,885
Investing Activities:			
Gross property additions	(69,731)	(54,289)	(61,386)
Other	5,990	509	(2,786)
Net cash used for investing activities	(63,741)	(53,780)	(64,172)
Financing Activities and Capital Contributions:			
Proceeds:			
Preferred securities	45,000	40,000	-
First mortgage bonds	-	-	55,000
Pollution control bonds	-	40,930	33,275
Capital contributions from parent	522	-	-
Other long-term debt	50,000	20,000	49,148
Retirements:			
Preferred stock	(9,455)	(75,911)	-
First mortgage bonds	(45,000)	(25,000)	(50,930)
Pollution control bonds	-	(40,930)	(33,275)
Other long-term debt	(8,326)	(15,972)	(34,923)
Notes payable, net	(15,500)	22,000	(55,500)
Payment of preferred stock dividends	(792)	(5,370)	(5,749)
Payment of common stock dividends	(67,200)	(64,600)	(48,300)
Miscellaneous	(4,167)	(3,014)	(5,332)
Net cash used for financing activities	(54,918)	(107,867)	(96,586)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,738)	3,900	127
Cash and Cash Equivalents at Beginning of Year	4,707	807	680
Cash and Cash Equivalents at End of Year	$ 969	$ 4,707	$ 807
Supplemental Cash Flow Information:			
Cash paid during the year for --			
Interest (net of amount capitalized)	$28,044	$26,558	$26,050
Income taxes	$38,782	$36,010	$25,858

( ) Denotes use of cash.

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

At December 31, 1998 and 1997
Gulf Power Company 1998 Annual Report

ASSETS	1998	1997
		(in thousands)
Utility Plant:		
Plant in service (Notes 1 and 6)	**$ 1,809,901**	$ 1,762,244
Less accumulated provision for depreciation	**784,111**	737,767
	1,025,790	1,024,477
Construction work in progress	**34,863**	31,030
Total	**1,060,653**	1,055,507
Other Property and Investments	**588**	622
Current Assets:		
Cash and cash equivalents	**969**	4,707
Receivables-		
Customer accounts receivable	**49,067**	57,057
Other accounts and notes receivable	**3,514**	2,744
Affiliated companies	**3,442**	7,329
Accumulated provision for uncollectible accounts	**(996)**	(796)
Fossil fuel stock, at average cost	**24,213**	19,296
Materials and supplies, at average cost (Note 1)	**28,025**	28,634
Deferred coal contract costs (Note 5)	**-**	4,456
Regulatory clauses under recovery (Note 1)	**9,737**	1,675
Prepayments	**5,690**	2,171
Vacation pay deferred	**4,035**	4,057
Total	**127,696**	131,330
Deferred Charges and Other Assets:		
Deferred charges related to income taxes (Note 8)	**25,308**	26,586
Debt expense and loss, being amortized	**21,448**	22,941
Prepaid pension costs (Note 2)	**13,770**	10,385
Deferred storm charges (Note 1)	**-**	703
Miscellaneous	**18,438**	17,538
Total	**78,964**	78,153
Total Assets	**$ 1,267,901**	$ 1,265,612

The accompanying notes are an integral part of these statements.

BALANCE SHEETS
At December 31, 1998 and 1997
Gulf Power Company 1998 Annual Report

CAPITALIZATION AND LIABILITIES	1998	1997
		(in thousands)
Capitalization (See accompanying statements):		
Common stock equity (Note 11)	$ 427,652	$ 428,718
Preferred stock	4,236	13,691
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding Company Junior Subordinated Notes (Note 9)	85,000	40,000
Long-term debt	317,341	296,993
Total	834,229	779,402
Current Liabilities:		
Long-term debt due within one year (Note 10)	27,000	53,327
Notes payable	31,500	47,000
Accounts payable-		
Affiliated companies	19,756	14,334
Other	23,697	20,205
Customer deposits	12,560	13,778
Taxes accrued	7,432	8,258
Interest accrued	5,184	7,227
Regulatory clauses over recovery (Note 1)	6,037	5,062
Vacation pay accrued	4,035	4,057
Dividends declared	54	10,210
Miscellaneous	3,960	8,739
Total	141,215	192,197
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 8)	166,118	166,302
Deferred credits related to income taxes (Note 8)	52,465	56,935
Accumulated deferred investment tax credits	29,632	31,552
Accumulated provision for postretirement benefits (Note 2)	23,534	20,491
Accumulated provision for property damage (Note 1)	1,605	-
Miscellaneous	19,103	18,733
Total	292,457	294,013
Commitments and Contingent Matters (Notes 1, 2, 3, 4, 5, and 7)		
Total Capitalization and Liabilities	$ 1,267,901	$ 1,265,612

The accompanying notes are an integral part of these statements.

STATEMENTS OF CAPITALIZATION

At December 31, 1998 and 1997
Gulf Power Company 1998 Annual Report

	1998	1997	1998	1997
	(in thousands)		(percent of total)	
Common Stock Equity:				
Common stock, without par value --				
Authorized and outstanding --				
992,717 shares in 1998 and 1997	**$ 38,060**	$ 38,060		
Paid-in capital	**218,960**	218,438		
Premium on preferred stock	**12**	12		
Retained earnings (Note 11)	**170,620**	172,208		
Total common stock equity	**427,652**	428,718	**51.3 %**	55.0 %
Cumulative Preferred Stock:				
$10 par value --				
Authorized -- 10,000,000 shares				
Outstanding -- 0 shares in 1998 and 377,989 shares in 1997				
$25 stated capital --				
6.72%	-	8,661		
Adjustable Rate	-	789		
$100 par value --				
Authorized -- 801,626 shares				
Outstanding -- 42,361 shares in 1998 and 42,411 shares in 1997				
4.64%	**1,250**	1,255		
5.16%	**1,357**	1,357		
5.44%	**1,629**	1,629		
Total (annual dividend requirement -- $217,000)	**4,236**	13,691	**0.5**	1.8
Company Obligated Mandatorily Redeemable Preferred Securities (Note 9):				
$25 Liquidation Value --				
7.00%	**45,000**	-		
7.625%	**40,000**	40,000		
Total (annual distribution requirement--$6,200,000)	**85,000**	40,000	**10.2**	5.1

STATEMENTS OF CAPITALIZATION (continued)

At December 31, 1998 and 1997
Gulf Power Company 1998 Annual Report

		1998	1997	1998	1997
		(in thousands)		(percent of total)	
Long-term Debt:					
First mortgage bonds --					
Maturity	Interest Rates				
April 1, 1998	5.55%	-	15,000		
July 1, 1998	5.00%	-	30,000		
July 1, 2003	6.125%	**30,000**	30,000		
November 1, 2006	6.50%	**25,000**	25,000		
January 1, 2026	6.875%	**30,000**	30,000		
Total first mortgage bonds		**85,000**	130,000		
Pollution control revenue bonds--					
Collateralized:					
Maturity	Interest Rates				
April 1, 2006	5.25%	**12,075**	12,075		
July 1, 2022	Variable - 5.10% at 1/1/99	**40,930**	40,930		
April 1, 2023	6.20%	**13,000**	13,000		
June 1, 2023	5.80%	**32,550**	32,550		
November 1, 2023	5.70%	**7,875**	7,875		
September 1, 2024	6.30%	**22,000**	22,000		
September 1, 2024	Variable - 5.15% at 1/1/99	**20,000**	20,000		
February 1, 2026	5.50%	**21,200**	21,200		
Total pollution control revenue bonds		**169,630**	169,630		
Other long-term debt--					
Maturity	Interest Rates				
Bank notes--					
February 1, 1998	5.2125%	-	5,754		
April 1, 1998	6.44%	-	2,573		
November 20, 1999	Variable - 5.7163% at 1/1/99	**13,500**	13,500		
November 20, 1999	Variable - 5.7163% at 1/1/99	**13,500**	13,500		
Junior subordinated notes--					
June 30, 2037	7.50%	**20,000**	20,000		
Senior insured quarterly notes--					
June 30, 2038	6.70%	**50,000**	-		
Total other long-term debt		**97,000**	55,327		
Unamortized debt discount		**(7,289)**	(4,637)		
Total long-term debt (annual interest requirement -- $21,365,000)		**344,341**	350,320		
Less amount due within one year (Note 10)		**27,000**	53,327		
Long-term debt excluding amount due within one year		**317,341**	296,993	**38.0**	38.1
Total Capitalization		**$ 834,229**	$ 779,402	**100.0 %**	100.0 %

The accompanying notes are an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1998, 1997, and 1996
Gulf Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Year	**$ 172,208**	$ 179,179	$ 179,663
Net income after dividends on preferred stock	**56,521**	57,610	57,845
Dividends on common stock	**(57,200)**	(64,600)	(58,300)
Preferred stock transactions, net	**(909)**	19	(29)
Balance at End of Year (Note 11)	**$ 170,620**	$ 172,208	$ 179,179

STATEMENTS OF PAID-IN CAPITAL

For the Years Ended December 31, 1998, 1997, and 1996
Gulf Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Year	**$ 218,438**	$ 218,438	$ 218,438
Capital contributions from parent	**522**	-	-
Balance at End of Year	**$ 218,960**	$ 218,438	$ 218,438

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Gulf Power Company is a wholly owned subsidiary of Southern Company, which is the parent company of five operating companies, a system service company, Southern Communications Services (Southern LINC), Southern Company Energy Solutions, Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), 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. Gulf Power Company provides electric service to the northwest panhandle of Florida. Contracts among the operating companies -- dealing with 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 Company Energy Solutions develops new business opportunities related to energy products and services. Worldwide, Southern Energy develops and manages electricity and other energy related projects, including domestic energy trading and marketing. Southern Nuclear provides services to Southern Company's nuclear power plants.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company is also subject to regulation by the FERC and the Florida Public Service Commission (FPSC). The Company follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by the FPSC. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates, and the actual results may differ from those estimates.

Certain prior years' data presented in the financial statements have been reclassified to conform with current year presentation.

Regulatory Assets and Liabilities

The Company is 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 to the Company 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 Balance Sheets at December 31 relate to the following:

	1998	1997
	(in thousands)	
Deferred income tax debits	**$25,308**	$26,586
Deferred loss on reacquired debt	**18,883**	20,494
Environmental remediation	**7,076**	7,338
Current & deferred coal contract costs	**-**	4,456
Vacation pay	**4,035**	4,057
Accumulated provision for property damage	**(1,605)**	-
Deferred storm charges	**-**	703
Regulatory clauses under (over) recovery, net	**3,700**	(3,387)
Deferred income tax credits	**(52,465)**	(56,935)
Other, net	**(480)**	(629)
Total	**$ 4,452**	$ 2,683

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

Revenues and Regulatory Cost Recovery Clauses

The Company currently operates as a vertically integrated utility providing electricity to retail customers within its service area located in northwest Florida and to wholesale customers in the Southeast. Revenues, less affiliated transactions, by type of service were as follows:

	1998	1997	1996
		(in thousands)	
Retail	**$509,118**	$521,620	$530,729
Wholesale	**61,893**	63,697	63,201
Other operating	**36,865**	23,779	22,673
Total	**$607,876**	$609,096	$616,603

The Company accrues revenues for service rendered but unbilled at the end of each fiscal period. The Company has a diversified base of customers and no single customer or industry comprises 10 percent or more of revenues. For all periods presented, uncollectible accounts averaged significantly less than 1 percent of revenues.

Fuel costs are expensed as the fuel is used. The Company's electric rates include provisions to periodically adjust billings for fluctuations in fuel costs, the energy component of purchased power costs, and certain other costs. The Company also has similar cost recovery clauses for energy conservation costs, purchased power capacity costs, and environmental compliance costs. Revenues are adjusted monthly for differences between recoverable costs and amounts actually reflected in current rates.

Depreciation and Amortization

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 3.8 percent in 1998 and 3.6 percent in 1997 and 1996. The increase in 1998 is attributable to new depreciation rates, which were approved by the FPSC in 1998. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost -- together with the cost of removal, less salvage -- is charged to the accumulated provision for depreciation. Minor items of property included in the original cost of the plant are retired when the related property unit is retired. Also, the provision for depreciation expense includes an amount for the expected cost of removal of facilities.

Income Taxes

The Company uses the liability method of accounting for 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. The Company is included in the consolidated federal income tax return of Southern Company.

Utility Plant

Utility plant is stated at original cost. 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 maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Cash and Cash Equivalents

Temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

Financial Instruments

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

	Carrying Amount	Fair Value
	(in thousands)	
Long-term debt:		
At December 31, 1998	**$344,341**	**$357,100**
At December 31, 1997	$350,320	$356,766
Capital trust preferred securities:		
At December 31, 1998	**$85,000**	**$89,400**
At December 31, 1997	$40,000	$40,800

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

Materials and Supplies

Generally, materials and supplies include the cost 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.

Provision for Injuries and Damages

The Company is subject to claims and suits arising in the ordinary course of business. As permitted by regulatory authorities, the Company provides for the uninsured costs of injuries and damages by charges to income amounting to $1.2 million annually. The expense of settling claims is charged to the provision to the extent available. The accumulated provision of $1.3 million and $1.4 million at December 31, 1998 and 1997, respectively, is included in miscellaneous current liabilities in the accompanying Balance Sheets.

Provision for Property Damage

The Company provides for the cost of repairing damages from major storms and other uninsured property damages. This includes the full cost of storm and other damages to its transmission and distribution lines and the cost of uninsured damages to its generation and other property. The expense of such damages is charged to the provision account. At December 31, 1998, the accumulated provision for property damage was $1.6 million. In 1995, the FPSC approved the Company's request to increase the amount of its annual accrual to the accumulated provision for property damage account from $1.2 million to $3.5 million and approved a target level for the accumulated provision account between $25.1 and $36.0 million. The FPSC has also given the Company the flexibility to increase its annual accrual amount above $3.5 million, when the Company believes it is in a position to do so, until the account balance reaches $12 million. The Company accrued $6.5 million in 1998 and $3.9 million in 1997 to the accumulated provision for property damage. Charges to the provision account during 1998 totaled $4.2 million, which included $3.4 million related to Hurricane Georges.

2. RETIREMENT BENEFITS

The Company has a defined benefit, trusteed, non-contributory pension plan that covers substantially all regular employees. The Company provides certain medical care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits when they retire. Trusts are funded to the extent deductible under federal income tax regulations or to the extent required by the Company's regulatory commissions. In 1998, the Company adopted FASB Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits. The measurement date is September 30 for each year.

Pension Plan

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$130,794**	$123,467
Service cost	**4,107**	3,897
Interest cost	**9,572**	9,301
Benefits paid	**(6,663)**	(4,852)
Actuarial loss (gain) and employee transfers	**5,202**	(1,019)
Balance at end of year	**$143,012**	$130,794

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$222,196**	$191,152
Actual return on plan assets	**1,310**	35,886
Benefits paid	**(6,663)**	(4,852)
Employee transfers	**(3,909)**	10
Balance at end of year	**$212,934**	$222,196

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

	1998	1997
	(in thousands)	
Funded status	$69,922	$ 91,402
Unrecognized transition obligation	(5,043)	(5,764)
Unrecognized prior service cost	4,869	5,244
Unrecognized net gain	(55,978)	(80,497)
Prepaid asset recognized in the Balance Sheets	$13,770	$10,385

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

	1998	1997	1996
Service cost	$4,107	$ 3,897	$ 3,880
Interest cost	9,572	9,301	9,129
Expected return on plan assets	(14,827)	(13,675)	(13,410)
Recognized net gain	(1,891)	(1,656)	(1,248)
Net amortization	(347)	(347)	(443)
Net pension income	$(3,386)	$(2,480)	$ (2,092)

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

	1998	1997
Discount	6.75%	7.50%
Annual salary increase	4.25%	5.00%
Long-term return on plan assets	8.50%	8.50%

Postretirement Benefits

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	$39,669	$33,656
Service cost	946	896
Interest cost	3,123	2,845
Benefits paid	(1,068)	(1,077)
Actuarial loss and employee transfers	3,614	3,349
Amendments	3,019	-
Balance at end of year	$49,303	$39,669

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	$9,455	$7,996
Actual return on plan assets	54	1,407
Employer contributions	1,162	1,129
Benefits paid	(1,068)	(1,077)
Balance at end of year	$9,603	$9,455

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

	1998	1997
	(in thousands)	
Funded status	$ (39,700)	$(30,214)
Unrecognized transition obligation	5,079	5,435
Unrecognized prior service cost	2,900	-
Unrecognized net loss	8,187	4,288
Accrued liability recognized in the Balance Sheets	$(23,534)	$(20,491)

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

	1998	1997	1996
Service cost	$ 946	$ 896	$ 939
Interest cost	3,123	2,845	2,330
Expected return on plan assets	(717)	(641)	(565)
Transition obligation	356	356	356
Prior service cost	119	-	-
Recognized net loss	128	184	86
Net postretirement cost	$ 3,955	$3,640	$3,146

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005, 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, 1998 as follows (in thousands):

	1 Percent Increase	1 Percent Decrease
Benefit obligation	$3,808	$(3,218)
Service and interest costs	$319	$(261)

Work Force Reduction Programs

The Company recorded costs related to work force reduction programs of $2.8 million in 1998, $1.4 million in 1997, and $1.2 million in 1996. The Company has also incurred its pro rata share for the costs of affiliated companies' programs. The costs related to these programs were $0.2 million for 1998, $1.3 million for 1997, and $2.1 million for 1996. The Company has expensed all costs related to these work force reduction programs.

3. LITIGATION AND REGULATORY MATTERS

FERC Review of Equity Returns

On September 21, 1998, the FERC entered separate orders affirming the outcome of the administrative law judge's opinions in two proceedings in which the return on common equity component of formula rates contained in substantially all of the Company's wholesale power contracts was being challenged as unreasonably high. These orders resulted in no change in the wholesale power contracts that were the subject of such proceedings. The FERC also dismissed a complaint filed by three customers under long-term power sales agreements seeking to lower the equity return component in such agreements. These customers have filed applications for rehearing regarding each FERC order. In response to a requirement of the September 1998 FERC order, Southern Company filed a new equity return component on the long-term power sales contracts, to be effective January 5, 1999. The proposed equity return was lowered from 13.75 percent to 12.50 percent. The estimated impact on the Company's revenues at a 12.50% equity return would be approximately $0.8 million annually. The FERC placed the new rates into effect subject to refund. Also, this filing was consolidated with the new proceeding discussed below.

On December 28, 1998, the FERC staff filed a motion asking the FERC to initiate a new proceeding regarding the equity return and other issues involving the Company's formula rate contracts. The motion was submitted pursuant to review procedures applicable to these contracts, and would be applicable to billings under such contracts on and after January 1, 1999.

Environmental Cost Recovery

In April 1993, the Florida Legislature adopted legislation for an Environmental Cost Recovery Clause (ECRC), which allows a utility to petition the FPSC for recovery of all prudent environmental compliance costs that are not being recovered through base rates or any other recovery mechanism. Such environmental costs include operation and maintenance expense, emission allowance expense, depreciation, and a return on invested capital.

In January 1994, the FPSC approved the Company's initial petition under the ECRC for recovery of environmental costs. Initially, recovery under the ECRC was determined semi-annually. The FPSC approved annual recovery periods beginning with the October 1996 through September 1997 period. As of January 1999, the annual recovery period will be on a calendar-year basis as approved by the FPSC in May 1998. Recovery includes a true-up of the prior period and a projection of the ensuing

period. During 1998 and 1997, the Company recorded ECRC revenues of $15.1 million and $10.2 million, respectively.

At December 31, 1998, the Company's liability for the estimated costs of environmental remediation projects for known sites was $7.1 million. These estimated costs are expected to be expended from 1999 through 2005. These projects have been approved by the FPSC for recovery through the ECRC discussed above. Therefore, the Company recorded $1.7 million in current assets and current liabilities and $5.4 million in deferred assets and liabilities representing the future recoverability of these costs.

4. CONSTRUCTION PROGRAM

The Company is engaged in a continuous construction program, the cost of which is currently estimated to total $72 million in 1999, $100 million in 2000, and $262 million in 2001. The construction program is 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; revised load growth estimates; changes in environmental regulations; increasing costs of labor, equipment, and materials; and cost of capital. At December 31, 1998, significant purchase commitments were outstanding in connection with the construction program. The Company has budgeted $263.6 million for the years 1999 through 2002 for the estimated cost of a 532 megawatt combined cycle gas unit to be located in the eastern portion of its service area. The unit is expected to have an in-service date of June 2002, subject to regulatory approval. The Company will continue its construction program related to transmission and distribution facilities and the upgrading and extension of the useful lives of generating plants.

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.

5. FINANCING AND COMMITMENTS

General

Current projections indicate that funds required for construction and other purposes, including compliance with environmental regulations, will be derived from operations; the sale of additional first mortgage bonds, long-term unsecured debt, pollution control bonds, and preferred securities; bank notes; and capital contributions from Southern Company. In addition, the Company may issue additional long-term debt and preferred securities primarily for debt maturities and redemptions of higher-cost securities.

Bank Credit Arrangements

At December 31, 1998, the Company had $41.5 million of lines of credit with banks subject to renewal June 1 of each year, of which $35.5 million remained unused. In addition, the Company has two unused committed lines of credit totaling $61.9 million that were established for liquidity support of its variable rate pollution control bonds. In connection with these credit lines, the Company has agreed to pay commitment fees and/or to maintain compensating balances with the banks. The compensating balances, which represent substantially all of the cash of the Company except for daily working funds and like items, are not legally restricted from withdrawal. In addition, the Company has bid-loan facilities with thirteen major money center banks that total $205 million, of which $25.5 million was committed at December 31, 1998.

Assets Subject to Lien

The Company's mortgage, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises.

Fuel Commitments

To supply a portion of the fuel requirements of its generating plants, the Company has entered into long-term commitments for the procurement of fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. Total estimated long-term obligations at December 31, 1998, including the Company's portion relating to jointly owned facilities, were as follows:

Year	Fuel
	(in millions)
1999	$132
2000	88
2001	79
2002	78
2003	83
2004 - 2008	359
Total commitments	$819

In 1988, the Company made an advance payment of $60 million to a coal supplier under an arrangement to lower the cost of future coal purchased under an existing contract. This payment was fully amortized to expense on a per ton basis as of March 1998.

In December 1995, the Company made another payment of $22 million to the same coal supplier under an arrangement to lower the cost of future coal and/or to suspend the purchase of coal under an existing contract for 25 months. This payment was fully amortized to expense on a per ton basis as of March 1998.

The amortization expense of these contract renegotiations was recovered through the fuel cost recovery clause discussed under "Revenues and Regulatory Cost Recovery Clauses" in Note 1.

Lease Agreements

In 1989, the Company and Mississippi Power jointly entered into a twenty-two year operating lease agreement for the use of 495 aluminum railcars. In 1994, a second lease agreement for the use of 250 additional aluminum railcars was entered into for twenty-two years. Both of these leases are for the transportation of coal to Plant Daniel. At the end of each lease term, the Company has the option to renew the lease. In 1997, three additional lease agreements for 120 cars each were entered into for three years, with a monthly renewal option for up to an additional nine months.

The Company, as a joint owner of Plant Daniel, is responsible for one half of the lease costs. The lease costs are charged to fuel inventory and are allocated to fuel expense as the fuel is used. The Company's share of the lease costs charged to fuel inventories was $2.8 million in 1998, and $2.3 million in 1997. The annual amounts for 1999 through 2003 are expected to be $2.8 million, $2.1 million, $1.7 million, $1.7 million, and $1.7 million respectively, and after 2003 are expected to total $16.1 million.

6. JOINT OWNERSHIP AGREEMENTS

The Company and Mississippi Power jointly own Plant Daniel, a steam-electric generating plant located in Jackson County, Mississippi. In accordance with an operating agreement, Mississippi Power acts as the Company's agent with respect to the construction, operation, and maintenance of the plant.

The Company and Georgia Power jointly own Plant Scherer Unit No. 3. Plant Scherer is a steam-electric generating plant located near Forsyth, Georgia. In accordance with an operating agreement, Georgia Power acts as the Company's agent with respect to the construction, operation, and maintenance of the unit.

The Company's pro rata share of expenses related to both plants is included in the corresponding operating expense accounts in the Statements of Income.

At December 31, 1998, the Company's percentage ownership and its investment in these jointly owned facilities were as follows:

	Plant Scherer Unit No. 3 (coal-fired)	Plant Daniel (coal-fired)
	(in thousands)	
Plant In Service	$185,497(1)	$224,907
Accumulated Depreciation	$62,255	$113,327
Construction Work in Progress	$615	$8,686
Nameplate Capacity (2) (megawatts)	205	500
Ownership	25%	50%

(1) Includes net plant acquisition adjustment.
(2) Total megawatt nameplate capacity:
Plant Scherer Unit No. 3: 818
Plant Daniel: 1,000

7. LONG-TERM POWER SALES AGREEMENTS

The Company and the other operating affiliates have long-term contractual agreements for the sale of capacity and energy to certain non-affiliated utilities located outside the system's service area. The unit power sales agreements are firm and pertain to capacity related to specific generating units. Because the energy is generally sold at cost under these agreements, profitability is primarily affected by revenues from capacity sales. The capacity revenues from these sales were $22.5 million in 1998, $24.9 million in 1997, and $25.4 million in 1996. See Note 3 to the financial statements under "FERC Review of Equity Returns."

Unit power from specific generating plants of Southern Company is currently being sold to Florida Power Corporation (FPC), Florida Power & Light Company (FP&L), Jacksonville Electric Authority (JEA), and the City of Tallahassee, Florida. Under these agreements, 214 megawatts of net dependable capacity were sold by the Company during 1998, and sales will remain at that level until the expiration of the contracts in 2010, unless reduced by FPC, FP&L, and JEA after 2002.

Capacity and energy sales to FP&L, the Company's largest single customer, provided revenues of $22.3 million in 1998, $25.4 million in 1997, and $27.2 million in 1996, or 3.4 percent, 4.1 percent, and 4.3 percent of operating revenues, respectively.

8. INCOME TAXES

At December 31, 1998, the tax-related regulatory assets to be recovered from customers were $25.3 million. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. At December 31, 1998, the tax-related regulatory liabilities to be credited to customers were $52.5 million. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are as follows:

	1998	1997	1996
	(in thousands)		
Total provision for income taxes:			
Federal--			
Currently payable	$31,746	$34,522	$31,022
Deferred--current year	18,485	19,297	26,072
--reversal of prior years	(22,952)	(25,778)	(24,780)
	27,279	28,041	32,314
State--			
Currently payable	5,137	5,975	4,394
Deferred--current year	2,745	2,868	3,904
--reversal of prior years	(2,962)	(3,434)	(3,039)
	4,920	5,409	5,259
Total	32,199	33,450	37,573
Less income taxes credited to other income	(1,890)	(1,584)	(248)
Total income taxes charged to operations	$34,089	$35,034	$37,821

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:

	1998	1997
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$155,833**	$156,328
Property basis differences	**20,330**	19,220
Other	**17,645**	14,242
Total	**193,808**	189,790
Deferred tax assets:		
Federal effect of state deferred taxes	**9,509**	9,268
Postretirement benefits	**7,644**	6,976
Other	**10,702**	10,861
Total	**27,855**	27,105
Net deferred tax liabilities	**165,953**	162,685
Less current portion, net	**(165)**	(3,617)
Accumulated deferred income taxes in the Balance Sheets	**$166,118**	$166,302

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation and amortization in the Statements of Income. Credits amortized in this manner amounted to $1.9 million in 1998, $2.2 million in 1997, and $2.3 million in 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory rate	**35%**	35%	35%
State income tax, net of federal deduction	**4**	4	4
Non-deductible book depreciation	**1**	1	1
Difference in prior years' deferred and current tax rate	**(2)**	(1)	(1)
Other, net	**(2)**	(4)	(2)
Effective income tax rate	**36%**	35%	37%

The Company and the other subsidiaries of Southern Company file a consolidated federal tax return. Under a joint consolidated income tax agreement, each subsidiary's current and deferred tax expense is computed on a stand-alone basis. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

9. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES

In January 1997, Gulf Power Capital Trust I (Trust I), of which the Company owns all of the common securities, issued $40 million of 7.625 percent mandatorily redeemable preferred securities. Substantially all of the assets of Trust I are $41 million aggregate principal amount of the Company's 7.625 percent junior subordinated notes due December 31, 2036.

In January 1998, Gulf Power Capital Trust II (Trust II), of which the Company owns all of the common securities, issued $45 million of 7.0 percent mandatorily redeemable preferred securities. Substantially all of the assets of Trust II are $46 million aggregate principal amount of the Company's 7.0 percent junior subordinated notes due December 31, 2037.

The Company considers that the mechanisms and obligations relating to the preferred securities, taken together, constitute a full and unconditional guarantee by the Company of payment obligations with respect to the preferred securities of Trust I and Trust II. Trust I and Trust II are subsidiaries of the Company, and accordingly are consolidated in the Company's financial statements.

10. SECURITIES DUE WITHIN ONE YEAR

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

	1998	1997
	(in thousands)	
Bond improvement fund requirement	**$ 850**	$ 1,300
Less portion to be satisfied by certifying property additions	**850**	1,300
Cash requirement	**-**	-
Maturities of first mortgage bonds	**-**	45,000
Current portion of other long-term debt	**27,000**	8,327
Total	**$27,000**	$53,327

The first mortgage bond improvement fund requirement amounts to 1 percent of each outstanding series of bonds

authenticated under the indenture prior to January 1 of each year, other than those issued to collateralize pollution control revenue bond obligations. The requirement may be satisfied by depositing cash, reacquiring bonds, or by pledging additional property equal to 1 and 2/3 times the requirement.

11. COMMON STOCK DIVIDEND RESTRICTIONS

The Company's first mortgage bond indenture contains various common stock dividend restrictions which remain in effect as long as the bonds are outstanding. At December 31, 1998, retained earnings of $127 million were restricted against the payment of cash dividends on common stock under the terms of the mortgage indenture.

12. QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data for 1998 and 1997 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
		(in thousands)	
March 1998	**$140,950**	**$15,237**	**$ 6,853**
June 1998	**177,130**	**23,742**	**13,364**
September 1998	**199,377**	**34,070**	**26,989**
December 1998	**133,061**	**15,216**	**9,315**
March 1997	$141,374	$20,212	$10,740
June 1997	145,292	19,153	10,386
September 1997	193,710	34,750	27,484
December 1997	145,480	15,068	9,000

The Company's business is influenced by seasonal weather conditions and the timing of rate changes, among other factors.

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SELECTED FINANCIAL AND OPERATING DATA

Gulf Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands)	**$650,518**	$625,856	$634,365
Net Income after Dividends on Preferred Stock (in thousands)	**$56,521**	$57,610	$57,845
Dividends on Common Stock (in thousands)	**$57,200**	$64,600	$58,300
Return on Average Common Equity (percent)	**13.20**	13.33	13.27
Total Assets (in thousands)	**$1,267,901**	$1,265,612	$1,308,366
Gross Property Additions (in thousands)	**$69,731**	$54,289	$61,386
Capitalization (in thousands):			
Common stock equity	**$427,652**	$428,718	$435,758
Preferred stock	**4,236**	13,691	65,102
Preferred stock subject to mandatory redemption	**-**	-	-
Trust preferred securities	**85,000**	40,000	-
Long-term debt	**317,341**	296,993	331,880
Total (excluding amounts due within one year)	**$834,229**	$779,402	$832,740
Capitalization Ratios (percent):			
Common stock equity	**51.3**	55.0	52.3
Preferred stock	**0.5**	1.8	7.8
Trust preferred securities	**10.2**	5.1	-
Long-term debt	**38.0**	38.1	39.9
Total (excluding amounts due within one year)	**100.0**	100.0	100.0
First Mortgage Bonds (in thousands):			
Issued	**-**	-	55,000
Retired	**45,000**	25,000	50,930
Preferred Stock (in thousands):			
Issued	**-**	-	-
Retired	**9,455**	75,911	-
Security Ratings:			
First Mortgage Bonds -			
Moody's	A1	A1	A1
Standard and Poor's	AA-	AA-	A+
Duff & Phelps	AA-	AA-	AA-
Preferred Stock -			
Moody's	a2	a2	a2
Standard and Poor's	A	A	A
Duff & Phelps	A+	A+	A+
Customers (year-end):			
Residential	**307,077**	300,257	291,196
Commercial	**46,370**	44,589	43,196
Industrial	**257**	267	278
Other	**268**	264	162
Total	**353,972**	345,377	334,832
Employees (year-end)	**1,328**	1,328	1,384

SELECTED FINANCIAL AND OPERATING DATA (continued)

Gulf Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$619,077	$578,813	$583,142	$570,902	$565,207	$567,825	$527,821	$550,827
$57,154	$55,229	$54,311	$54,090	$57,796	$38,714	$37,361	$45,698
$46,400	$44,000	$41,800	$39,900	$38,000	$37,000	$37,200	$35,400
13.27	13.15	13.29	13.62	15.17	10.51	10.32	13.41
$1,341,859	$1,315,542	$1,307,809	$1,062,699	$1,095,736	$1,084,579	$1,093,430	$1,097,225
$63,113	$78,869	$78,562	$64,671	$64,323	$62,462	$70,726	$67,042
$436,242	$425,472	$414,196	$403,190	$390,981	$371,185	$365,471	$358,310
89,602	89,602	89,602	74,662	55,162	55,162	55,162	55,162
-	-	1,000	2,000	7,500	9,250	11,000	12,750
-	-	-	-	-	-	-	-
323,376	356,393	369,259	382,047	434,648	475,284	484,608	497,069
$849,220	$871,467	$874,057	$861,899	$888,291	$910,881	$916,241	$923,291
51.4	48.8	47.4	46.8	44.0	40.8	39.9	38.8
10.5	10.3	10.4	8.9	7.1	7.1	7.2	7.4
-	-	-	-	-	-	-	-
38.1	40.9	42.2	44.3	48.9	52.1	52.9	53.8
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
-	-	75,000	25,000	50,000	-	-	35,000
1,750	48,856	88,809	117,693	32,807	6,455	9,344	9,369
-	-	35,000	29,500	-	-	-	-
1,000	1,000	21,060	15,500	2,500	1,750	1,250	1,750
A1	A2	A2	A2	A2	A2	A1	A1
A+	A	A	A	A	A	A	A
A+	A+	A+	A	A	A	AA-	4
a2	a2	a2	a2	a2	a2	a1	a1
A	A-	A-	A-	A-	A-	A-	A-
A	A	A	A-	A-	A-	A+	5
283,421	280,859	274,194	267,591	261,210	256,111	251,341	246,450
41,281	40,398	39,253	37,105	34,685	34,019	33,678	33,030
278	283	274	270	264	252	240	206
134	106	86	74	72	67	67	61
325,114	321,646	313,807	305,040	296,231	290,449	285,326	279,747
1,501	1,540	1,565	1,613	1,598	1,615	1,614	1,601

SELECTED FINANCIAL AND OPERATING DATA (continued)

Gulf Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands):			
Residential	**$276,208**	$277,609	$285,498
Commercial	**160,960**	164,435	164,181
Industrial	**69,850**	77,492	78,994
Other	**2,100**	2,084	2,056
Total retail	**509,118**	521,620	530,729
Sales for resale - non-affiliates	**61,893**	63,697	63,201
Sales for resale - affiliates	**42,642**	16,760	17,762
Total revenues from sales of electricity	**613,653**	602,077	611,692
Other revenues	**36,865**	23,779	22,673
Total	**$650,518**	$625,856	$634,365
Kilowatt-Hour Sales (in thousands):			
Residential	**4,437,558**	4,119,492	4,159,924
Commercial	**3,111,933**	2,897,887	2,808,634
Industrial	**1,833,575**	1,903,050	1,808,086
Other	**18,952**	18,101	17,815
Total retail	**9,402,018**	8,938,530	8,794,459
Sales for resale - non-affiliates	**1,341,990**	1,531,179	1,534,097
Sales for resale - affiliates	**1,758,150**	848,135	709,647
Total	**12,502,158**	11,317,844	11,038,203
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**6.22**	6.74	6.86
Commercial	**5.17**	5.67	5.85
Industrial	**3.81**	4.07	4.37
Total retail	**5.41**	5.84	6.03
Sales for resale	**3.37**	3.38	3.61
Total sales	**4.91**	5.32	5.54
Average Annual Kilowatt-Hour Use Per Residential Customer	**14,577**	13,894	14,457
Average Annual Revenue Per Residential Customer	**$907.35**	$936.30	$992.17
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**2,188**	2,174	2,174
Maximum Peak-Hour Demand - Net of SEPA (megawatts):			
Winter	**2,040**	1,844	2,136
Summer	**2,146**	2,032	1,961
Annual Load Factor (percent)	**55.3**	55.5	51.4
Plant Availability - Fossil-Steam (percent)	**87.6**	91.0	91.8
Source of Energy Supply (percent):			
Coal	**89.2**	87.1	87.8
Oil and gas	**2.0**	0.4	0.5
Purchased power -			
From non-affiliates	**5.5**	3.5	2.7
From affiliates	**3.3**	9.0	9.0
Total	**100.0**	100.0	100.0
Total Fuel Economy Data:			
BTU per net kilowatt-hour generated	**10,523**	10,436	10,484
Cost of fuel per million BTU (cents)	**160.22**	190.75	192.22
Average cost of fuel per net kilowatt-hour generated (cents)	**1.69**	1.99	2.02

1995	1994	1993	1992	1991	1990	1989	1988
$276,155	$252,598	$244,967	$235,296	$231,220	$217,843	$203,781	$184,036
159,260	146,394	137,308	133,071	130,691	124,066	118,897	107,615
81,606	82,169	87,526	91,320	92,300	91,041	84,671	72,634
1,993	1,955	1,882	1,784	1,860	1,805	1,586	1,402
519,014	483,116	471,683	461,471	456,071	434,755	408,935	365,687
60,413	66,111	72,209	70,078	69,636	73,855	67,554	117,466
18,619	17,353	23,166	24,075	29,343	38,563	39,244	48,277
598,046	566,580	567,058	555,624	555,050	547,173	515,733	531,430
21,031	12,233	16,084	15,278	10,157	20,652	12,088	19,397
$619,077	$578,813	$583,142	$570,902	$565,207	$567,825	$527,821	$550,827
4,014,142	3,751,932	3,712,980	3,596,515	3,455,100	3,360,838	3,293,750	3,154,541
2,708,243	2,548,846	2,433,382	2,369,236	2,272,690	2,217,568	2,169,497	2,088,598
1,794,754	1,847,114	2,029,936	2,179,435	2,117,408	2,177,872	2,094,670	1,968,091
17,345	17,354	16,944	16,649	17,118	18,866	17,209	16,257
8,534,484	8,165,246	8,193,242	8,161,835	7,862,316	7,775,144	7,575,126	7,227,487
1,396,474	1,418,977	1,460,105	1,430,908	1,550,018	1,775,703	1,640,355	1,911,759
759,341	874,050	1,029,787	1,208,771	1,236,223	1,435,558	1,461,036	2,326,238
10,690,299	10,458,273	10,683,134	10,801,514	10,648,557	10,986,405	10,676,517	11,465,484
6.88	6.73	6.60	6.54	6.69	6.48	6.19	5.83
5.88	5.74	5.64	5.62	5.75	5.59	5.48	5.15
4.55	4.45	4.31	4.19	4.36	4.18	4.04	3.69
6.08	5.92	5.76	5.65	5.80	5.59	5.40	5.06
3.67	3.64	3.83	3.57	3.55	3.50	3.44	3.91
5.59	5.42	5.31	5.14	5.21	4.98	4.83	4.64
14,148	13,486	13,671	13,553	13,320	13,173	13,173	12,883
$973.35	$907.92	$901.96	$886.66	$891.38	$853.86	$815.00	$751.60
2,174	2,174	2,174	2,174	2,174	2,174	2,174	2,174
1,732	1,801	1,571	1,533	1,418	1,310	1,814	1,395
2,040	1,795	1,898	1,828	1,740	1,778	1,691	1,613
53.0	56.7	54.5	55.0	57.0	55.2	52.6	56.5
84.0	92.2	88.9	91.2	92.2	89.2	89.1	88.2
86.8	87.2	84.5	87.7	82.0	69.8	78.3	93.2
0.4	0.2	0.5	0.1	0.1	0.5	0.2	0.4
4.0	2.8	1.5	0.8	0.5	0.6	0.4	0.4
8.8	9.8	13.5	11.4	17.4	29.1	21.1	6.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,609	10,614	10,390	10,347	10,636	10,765	10,621	10,461
196.62	189.55	197.37	200.30	203.60	206.06	193.70	178.00
2.09	2.01	2.05	2.07	2.17	2.22	2.06	1.86

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MISSISSIPPI POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT

Mississippi Power Company 1998 Annual Report

The management of Mississippi Power Company has prepared--and is responsible for--the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances and necessarily include amounts that are based on 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 books and records reflect only authorized transactions of the Company. Limitations exist in any system of internal controls, however, based upon a recognition that the cost of the system should not exceed its benefits. The Company believes its system of internal accounting control maintains an appropriate cost/benefit relationship.

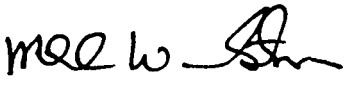
The Company's system of internal accounting controls is evaluated on an ongoing basis by the internal audit staff. The Company's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an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

Dwight H. Evans
President and Chief Executive Officer

The audit committee of the board of directors, composed of four directors who are not employees, 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 financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Mississippi Power Company in conformity with generally accepted accounting principles.



Michael W. Southern
Vice President, Secretary, Treasurer and
Chief Financial Officer

February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mississippi Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Mississippi Power Company (a Mississippi corporation and a wholly owned subsidiary of Southern Company) as of December 31, 1998 and 1997, and the related statements of income, retained earnings, paid-in capital, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial statements (pages II-167 through II-182) referred to above present fairly, in all material respects, the financial position of Mississippi Power Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

RESULTS OF OPERATIONS

Earnings

Mississippi Power Company's 1998 net income after dividends on preferred stock was $55.1 million, reflecting a 2.0 percent or $1.1 million increase over the prior year. This change is primarily attributable to higher retail and wholesale revenues. In 1997, earnings were $54.0 million, up $1.3 million from the prior year. This earnings increase resulted primarily from lower operating expenses.

Revenues

The following table summarizes the factors impacting operating revenues for the past three years:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
	(in thousands)		
Retail --			
Change in base rates (PEP and ECO Plan)	**$ 335**	$ 3,177	$ (402)
Sales growth	**4,787**	109	11,187
Weather	**7,091**	(1,118)	(5,585)
Fuel cost recovery and other	**13,112**	948	(1,255)
Total retail	**25,325**	3,116	3,945
Sales for resale --			
Non-affiliates	**16,084**	5,464	7,776
Affiliates	**8,142**	(11,606)	14,139
Total sales for resale	**24,226**	(6,142)	21,915
Other operating revenues	**1,992**	2,585	1,616
Total operating revenues	**$51,543**	$ (441)	$27,476
Percent change	**9.5%**	(0.1)%	5.3%

Retail revenues of $443 million in 1998 increased 6.1 percent from 1997. Continued growth in the service area and the positive impact of weather on energy sales were the predominant factors contributing to the rise in revenues. Retail revenues for 1997 reflected a 0.8 percent increase over the prior year due to the 1996 Performance Evaluation Plan (PEP) retail rate increase and the January 1997 Environmental Compliance Overview Plan (ECO Plan) retail rate increase. Changes in base rates reflect any rate changes made under the PEP and ECO Plan.

Fuel revenues generally represent the direct recovery of fuel expense including purchased power. Therefore, changes in recoverable fuel expenses are offset with corresponding changes in fuel revenues and have no effect on net income.

Energy sales to non-affiliates include economy sales and amounts sold under short-term contracts. Sales for resale to non-affiliates are influenced by those utilities' own customer demand, plant availability, and the cost of their predominant fuels.

Included in sales for resale to non-affiliates are revenues from rural electric cooperative associations and municipalities located in southeastern Mississippi. Energy sales to these customers increased 9.8 percent in 1998 and 3.6 percent in 1997, with the related revenues rising 11.3 percent and 1.6 percent, respectively. The customer demand experienced by these utilities is determined by factors very similar to Mississippi Power's. Revenues from other sales outside the service area increased in 1998 and 1997 primarily due to power marketing activities. These increases were primarily offset by increases in purchased power from non-affiliates and, as a result, had no significant effect on net income.

Sales to affiliated companies within the Southern electric system will vary from year to year depending on demand and the availability and cost of generating resources at each company. These sales have no material impact on earnings.

Below is a breakdown of kilowatt-hour sales for 1998 and the percent change for the last three years:

	1998	Percent Change		
	KWH (in millions)	1998	1997	1996
Residential	2,249	10.3%	(2.0)%	1.9%
Commercial	2,623	9.0	4.0	3.3
Industrial	3,729	(6.4)	0.6	3.8
Other	40	-	2.6	1.9
Total retail	8,641	2.0	0.9	3.2
Sales for Resale --				
Non-affiliates	3,158	9.1	6.2	9.4
Affiliates	552	15.2	(31.0)	184.7
Total	12,351	4.3	0.2	8.7

Residential and commercial sales increased in 1998 10.3 percent and 9.0 percent respectively, and industrial sales decreased 6.4 percent. The increases can be attributed primarily to sales growth and hotter temperatures in the summer months. The decrease in industrial sales was due primarily to a large industrial customer being out of service because of damages incurred from Hurricane Georges. Residential sales in 1997 declined 2.0 percent while sales to commercial and industrial customers increased by 4.0 percent and 0.6 percent, respectively. Milder-than-normal temperatures experienced in 1997 contributed to the moderate sales.

The Company anticipates continued growth in energy sales as the economy improves within its service area. The casino industry and ancillary services, such as lodging, food, transportation, etc., are some of the factors that may influence the economy of the Company's service area. Also, energy demand is expected to grow as a result of a larger and more fully employed population.

Expenses

Total operating expenses were $515 million in 1998 reflecting an increase of $49.1 million or 10.6 percent over the prior year. The increase was due primarily to higher fuel expenses, higher maintenance and higher other operation costs. In 1997, total operating expenses decreased by 0.3 percent from the prior year due primarily to lower administrative and general expenses.

Fuel costs are the single largest expense for the Company. Fuel expenses in 1998 increased 10.2 percent due to a 3.1 percent increase in generation and a higher average cost of fuel. In 1998, expenses related to purchased power from non-affiliates increased 133.0 percent and expenses related to purchased power from affiliates decreased 4.6 percent. The increased generation was due to higher demand for energy across the Southern electric system. Further, the higher demand for energy resulted in higher purchased power costs from non-affiliates.

In 1997, fuel costs increased because of a 1.1 percent increase in generation caused by the higher demand for energy in the retail sector. Expenses related to purchased power from non-affiliates decreased and expenses related to purchased power from affiliates increased due to the availability of energy within the Southern electric system.

Purchased power expense increased $18 million (128.4 percent) to meet higher territorial energy demands and power marketing activities. Energy purchased for power marketing activities was resold to non-affiliated third parties and had no significant effect on net income. Sales and purchases among Mississippi Power and its affiliates will vary from period to period depending on demand and the availability and variable production cost at each generating unit in the Southern electric system.

The amount and sources of generation and the average cost of fuel per net kilowatt-hour generated were as follows:

	1998	1997	1996
Total generation (millions of kilowatt hours)	10,610	10,289	10,180
Sources of generation (percent) --			
Coal	80	85	85
Gas	20	15	15
Average cost of fuel per net kilowatt-hour generated (cents) --	1.62	1.54	1.57

Other operation expenses increased 7.5 percent in 1998 primarily due to continuing expenses related to a new customer service system, modification of certain information systems for year 2000 readiness discussed below, and costs related to work force reduction programs. In 1997, other operation expense decreased 3.5 percent due to lower administrative and general expenses.

Maintenance expenses increased 6.6 percent in 1998 due to scheduled maintenance performed at Plants Daniel and Watson, as well as other projects.

In 1998, depreciation and amortization expenses increased 4.1 percent primarily due to additional plant investment and increased amortization of regulatory assets.

Comparisons of taxes other than income taxes for 1998 and 1997 show increases of 4.4 percent and 1.1 percent, respectively, due to higher municipal franchise taxes resulting from higher retail revenues.

Effects of Inflation

Mississippi Power is 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 the Company because of the large investment in long-lived utility plant. Conventional accounting for historical costs 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 stock. Any recognition of inflation by regulatory authorities is reflected in the rate of return allowed.

Future Earnings Potential

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from regulatory matters to energy sales growth to a less regulated more competitive environment. Expenses are subject to constant review and cost control programs. See Note 2 to the financial statements under "Workforce Reduction Programs" for information regarding the Company's workforce reduction plan of 1997.

The Company currently operates as a vertically integrated company providing electricity to customers within its traditional service area located in southeastern Mississippi. Prices for electricity provided by the Company to retail customers are set by the MPSC under cost-based regulatory principles.

Mississippi Power is also maximizing the utility of invested capital and minimizing the need for capital by refinancing, decreasing the average fuel stockpile, raising generating plant availability and efficiency, and aggressively controlling the construction budget.

Operating revenues will be affected by any changes in rates under the PEP, the Company's performance based ratemaking plan, and the ECO Plan. PEP has proven to be a stabilizing force on electric rates, with only moderate changes in rates taking place. The ECO Plan provides for recovery of costs (including costs of capital) associated with environmental projects approved by the Mississippi Public Service Commission (MPSC), most of which are required to comply with Clean Air Act Amendments of 1990 (Clean Air Act) regulations. The ECO Plan is operated independently of PEP. The Clean Air Act and other important environmental items are discussed later under "Environmental Matters."

The Federal Energy Regulatory Commission (FERC) regulates the Company's wholesale rate schedules, power sales contracts and transmission facilities. The FERC is currently reviewing the rate of return on common equity included in certain contracts and may require such returns to be lowered, possibly retroactively.

Further discussion of PEP, the ECO Plan, and proceedings before the FERC is found in Note 3 to the financial statements herein.

Future earnings in the near term will depend upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in Mississippi Power's service area.

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 being driven down by wholesale transmission access and numerous potential new energy suppliers, including power marketers and brokers. The Company is aggressively working to maintain and expand its share of wholesale sales in the Southeastern power markets.

Although the Energy Act does not permit retail transmission access, it was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in various stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. Restructuring initiatives are being discussed in Mississippi; none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. In the event that a portion of the 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. The inability of Mississippi Power to recover its investment, including regulatory assets, could have a material adverse effect on the financial condition of the Company.

The Company is attempting to minimize or reduce its cost exposure. Continuing to be a low-cost producer could provide significant opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless Mississippi Power remains a low-cost producer and provides quality service, the Company's retail energy sales growth could be limited, and this could significantly erode earnings. The Company is subject to the provisions of FASB Statement 71, Accounting for the Effects of Certain Types of Regulation. In the event that a portion of the Company's operation 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.

Exposure to Market Risks

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates and prices of electricity. To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statements as incurred. At December 31, 1998, exposure from these activities was not material to the Company's financial position, results of operation, or cash flow. Also, based on the Company's overall interest rate exposure at December 31, 1998, a near-term 100 basis point change in interest rates would not materially affect the financial statements.

New Accounting Standards

The FASB has issued Statement No.133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments – including certain derivative instruments embedded in other contracts – and for hedging activities. The Company has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings and other comprehensive income.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Cost of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, reflecting gains and losses rather than revenues and purchased power expense. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. The Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the financial statements.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard wired into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space was used until the mid-1990s. Unless corrected before the year 2000, affected software systems and devices containing a chip or microprocessor with date and time function could incorrectly process dates or the systems may cease to function.

The Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. The Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

The Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed on a monthly basis by a steering committee of Southern Company executives.

The Company's Year 2000 program was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in the phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices and applications into the year 2000.

The Southern Company has completed more than 70 percent of the activities in its work plan. The percentage of completion and projected completion by function is as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

Year 2000 Costs

Current projected costs for Year 2000 readiness are approximately $4.9 million. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through December 31, 1998, the year 2000 program costs, recognized as expense, amounted to $3.2 million.

Year 2000 Risks

The Company is implementing a detailed process to minimize the possibility of service interruptions related to Year 2000. The Company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operations. The Company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruption in service that may occur within the service territory to be isolated and short in duration.

The Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the loss of any single bulk transmission element in its service territory. The Company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, the Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council-coordinated national drills during 1999.

The Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to the Company's operations. Among such critical third parties are fuel, transportation, telecommunication, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to the Company is being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their Year 2000 issues.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the Company is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, the Company is drawing on that experience to make risk assessments and is developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. The Company is identifying critical operational location, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the service territory isolated and short in duration.

FINANCIAL CONDITION

Overview

The principal change in Mississippi Power's financial condition during 1998 was gross property additions to utility plant of $68 million. Funding for gross property additions and other capital requirements has been provided from operating activities, principally earnings and the non-cash charges to income of depreciation and amortization. The Statements of Cash Flows provide additional details.

Financing Activity

The Company continued to improve its financial position by issuing pollution control bonds and retiring higher-cost issues in 1998. The Company sold $13.5 million of pollution control bonds and increased unsecured debt by $90 million. Retirements, including maturities during 1998, totaled $75 million of first mortgage bonds and $13 million of pollution control bonds. See the Statements of Cash Flows for further details.

Composite financing rates for the years 1996 through 1998 as of year-end were as follows:

	1998	1997	1996
Composite interest rate on long-term debt	**6.14%**	6.16%	6.03%
Composite preferred stock dividend rate	**6.33%**	6.33%	6.58%
Composite interest rate on preferred securities	**7.75%**	7.75%	-

The decrease in the composite dividend rate on preferred stock in 1997 was primarily the result of retirements.

Capital Structure

At year-end 1998, the Company's ratio of common equity to total capitalization, excluding long-term debt due within one year, remained at the same level as in 1997 at 52.1 percent.

Capital Requirements for Construction

The Company's projected construction expenditures for the next three years total $164 million ($67 million in 1999, $52 million in 2000, and $45 million in 2001). The major emphasis within the construction program will be on the upgrade of existing facilities.

In February 1999, the Company signed an interim construction agency agreement with Escatawpa Funding ("Escatawpa"), a limited partnership, that calls for the Company to design and construct, as agent for Escatawpa, a 1064 megawatt natural gas combined cycle facility. On or before April 30, 1999, Escatawpa and the Company anticipate entering into an Agreement for Lease (which will supersede the interim construction agency agreement), and a Lease Agreement. It is anticipated that the total project will cost approximately $406 million, and upon project completion, the Company will lease the facility from Escatawpa. If the anticipated lease arrangement is not reached, the Company will either exercise its purchase option or Escatawpa will sell the facility to a third party.

Revisions to projected construction expenditures may be necessary because of factors such as changes in business conditions, revised load projections, the availability and cost of capital, and changes in environmental regulations, and alternatives such as leasing.

Other Capital Requirements

In addition to the funds required for the Company's construction program, approximately $80.1 million will be required by the end of 2001 for present sinking fund requirements and maturities of long-term debt. Mississippi Power plans to continue, when economically feasible, to retire higher cost debt and preferred stock and replace these obligations with lower-cost capital if market conditions permit.

Environmental Matters

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act -- the acid rain compliance provision of the law -- significantly affected Mississippi Power and the other operating companies of Southern Company. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating plants in the Southern electric system. As a result of Southern Company's compliance strategy, an additional 22 generating units were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected plants by switching to low-sulfur coal, which required some equipment upgrades. Construction expenditures for Phase I compliance totaled approximately $65 million for Mississippi Power.

For Phase II sulfur dioxide compliance, Southern Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Current compliance strategy for Phase II could require total estimated construction expenditures of approximately $70 million, of which $16 million remains to be spent. Phase II compliance is not expected to have a material impact on Mississippi Power.

Mississippi Power's ECO Plan is designed to allow recovery of costs of compliance with the Clean Air Act, as well as other environmental statutes and regulations. The MPSC reviews environmental projects and the Company's environmental policy through the ECO Plan. Under the ECO Plan, any increase in the annual revenue requirement is limited to 2 percent of retail revenues. Mississippi Power's management believes that the ECO Plan provides for recovery of the Clean Air Act costs. See Note 3 to the financial statements under "Environmental Compliance Overview Plan" for additional information.

A significant portion of costs related to the acid rain provision 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.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the new rules. The final rules affect 22 states that at present does not include Mississippi. The EPA is presently evaluating whether or not to bring an additional 15 states under this regional haze rule. Misssissippi is one of those new 15 states. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various matters including: emission control strategies for ozone non-attainment areas; additional controls for hazardous air pollutant emissions; and hazardous waste disposal requirements. The impact of new standards will depend on the development and implementation of applicable regulations.

The 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 Company could incur costs to clean up properties currently or previously owned. Upon identifying potential sites, the Company conducts studies, when possible, to determine the extent of any required cleanup costs. Should remediation be determined to be probable, reasonable estimates of costs to clean up such sites are developed and recognized in the financial statements. A currently owned site where manufactured gas plant operations were located prior to the Company's ownership has been investigated for potential remediation. Remediation is scheduled for 1999. See Note 3 to the financial statements under "Environmental Compliance Overview Plan" for additional information.

Several major pieces of environmental legislation are being 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; and the Endangered Species Act. Changes to these laws could affect many areas of the 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 the 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 lawsuits alleging damages caused by electromagnetic fields. The likelihood or outcome of such potential lawsuits cannot be determined at this time.

Sources of Capital

At December 31, 1998, the Company had $76.3 million of unused committed credit agreements. The Company had $13 million of short term notes payable outstanding at year end 1998.

It is anticipated that the funds required for construction and other purposes, including compliance with environmental regulations, will be derived from sources similar to those used in the past. These sources were primarily the issuances of first mortgage bonds and preferred securities, in addition to pollution control revenue bonds issued for the Company's benefit by public authorities. The Company issued unsecured debt in 1998. In this regard, Mississippi Power sought and obtained stockholder approval in 1997 to amend its corporate charter eliminating restrictions on the amounts of unsecured indebtedness the Company may incur.

Mississippi Power is required to meet certain coverage requirements specified in its mortgage indenture and corporate charter to issue new first mortgage bonds and preferred stock. The Company's coverage ratios are sufficiently high enough to permit, at present interest rate levels, any foreseeable security sales. The amount of securities which the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

Cautionary Statement Regarding Forward-Looking Information

This annual report, including the foregoing Management's Discussion and Analysis, contains forward-looking and historical information. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the Company's markets; potential business strategies -- including acquisitions or dispositions of assets or internal restructuring -- that may be pursued by the Company; state and federal rate regulation; changes in or application of environmental and other laws and regulations to which the Company is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; and other factors discussed in the reports (including Form 10-K) filed from time to time by the Company with the SEC.

STATEMENTS OF INCOME

For the Years Ended December 31, 1998, 1997, and 1996
Mississippi Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Revenues (Notes 1, 3, and 7):			
Revenues	$ 576,846	$ 533,445	$ 522,199
Revenues from affiliates	18,285	10,143	21,830
Total operating revenues	595,131	543,588	544,029
Operating Expenses:			
Operation--			
Fuel	156,539	142,059	141,532
Purchased power from non-affiliates	33,872	14,536	17,960
Purchased power from affiliates	36,037	37,794	33,245
Other	109,993	102,365	106,061
Maintenance	50,404	47,302	47,091
Depreciation and amortization	47,450	45,574	44,906
Taxes other than income taxes	45,965	44,034	43,545
Federal and state income taxes (Note 8)	34,499	31,968	32,618
Total operating expenses	514,759	465,632	466,958
Operating Income	80,372	77,956	77,071
Other Income (Expense):			
Interest income	947	857	239
Other, net	2,498	2,368	4,145
Income taxes applicable to other income	(165)	588	(932)
Income Before Interest and Other Charges	83,652	81,769	80,523
Interest and Other Charges:			
Interest on long-term debt	20,567	19,856	19,898
Interest on notes payable	943	96	1,416
Amortization of debt discount, premium, and expense, net	1,446	1,577	1,547
Other interest charges	790	574	40
Distributions on preferred securities of subsidiary trust	2,796	2,369	-
Interest and other charges, net	26,542	24,472	22,901
Net Income	57,110	57,297	57,622
Dividends on Preferred Stock	2,005	3,287	4,899
Net Income After Dividends on Preferred Stock	$ 55,105	$ 54,010	$ 52,723

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1997, and 1996
Mississippi Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Activities:			
Net income	$ **57,110**	$ 57,297	$ 57,622
Adjustments to reconcile net income to net cash provided by operating activities--			
Depreciation and amortization	**51,517**	49,661	50,551
Deferred income taxes	**11,620**	(1,809)	74
Other, net	**(12,175)**	3,206	9,443
Changes in certain current assets and liabilities--			
Receivables, net	**(5,486)**	(8,583)	5,118
Inventories	**(5,050)**	3,148	4,973
Payables	**(389)**	8,357	2,077
Taxes accrued	**(2,457)**	2,515	532
Other	**(1,604)**	1,465	(240)
Net cash provided from operating activities	**93,086**	115,257	130,150
Investing Activities:			
Gross property additions	**(68,231)**	(55,375)	(61,314)
Other	**(324)**	(489)	(2,258)
Net cash used for investing activities	**(68,555)**	(55,864)	(63,572)
Financing Activities:			
Proceeds--			
Capital contribution	**85**	-	27
Pollution control bonds	**13,520**	-	-
Preferred securities	**-**	35,000	-
Other long-term debt	**90,000**	-	80,000
Retirements--			
Preferred stock	**(87)**	(42,518)	-
First mortgage bonds	**(75,000)**	-	(45,447)
Pollution control bonds	**(13,020)**	(10)	(10)
Other long-term debt	**-**	-	(55,000)
Increase (decrease) in notes payable, net	**13,000**	-	-
Payment of preferred stock dividends	**(2,005)**	(3,287)	(4,899)
Payment of common stock dividends	**(51,700)**	(49,400)	(43,900)
Miscellaneous	**(2,429)**	(1,804)	(2,932)
Net cash used for financing activities	**(27,636)**	(62,019)	(72,161)
Net Change in Cash and Cash Equivalents	**(3,105)**	(2,626)	(5,583)
Cash and Cash Equivalents at Beginning of Year	**4,432**	7,058	12,641
Cash and Cash Equivalents at End of Year	$ **1,327**	$ 4,432	$ 7,058
Supplemental Cash Flow Information:			
Cash paid during the period for--			
Interest (net of amount capitalized)	$ **26,133**	$ 22,297	$ 21,467
Income taxes	**26,847**	33,450	34,072

( ) Denotes use of cash.

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

At December 31, 1998 and 1997
Mississippi Power Company 1998 Annual Report

ASSETS	1998	1997
		(in thousands)
Utility Plant:		
Plant in service, at original cost (Notes 1 and 6)	**$ 1,553,112**	$ 1,518,402
Less accumulated provision for depreciation	**583,957**	559,098
	969,155	959,304
Construction work in progress	**51,517**	41,083
Total	**1,020,672**	1,000,387
Other Property and Investments	**979**	650
Current Assets:		
Cash and cash equivalents	**1,327**	4,432
Receivables--		
Customer accounts receivable	**29,829**	32,220
Regulatory clauses under recovery	**8,042**	7,619
Other accounts and notes receivable	**12,495**	8,666
Affiliated companies	**10,946**	7,398
Accumulated provision for uncollectible accounts	**(621)**	(698)
Fossil fuel stock, at average cost	**16,418**	10,651
Materials and supplies, at average cost	**18,735**	19,452
Current portion of accumulated deferred income taxes	**4,248**	8,379
Prepayments	**1,651**	1,791
Vacation pay deferred	**4,717**	5,030
Total	**107,787**	104,940
Deferred Charges:		
Debt expense and loss, being amortized	**13,713**	12,234
Deferred charges related to income taxes (Note 8)	**22,697**	21,906
Long-term notes receivable	**2,072**	2,837
Workforce Reduction Plan	**12,748**	18,236
Miscellaneous	**8,937**	5,639
Total	**60,167**	60,852
Total Assets	**$ 1,189,605**	$ 1,166,829

The accompanying notes are an integral part of these statements.

CAPITALIZATION AND LIABILITIES	1998	1997
		(in thousands)
Capitalization (See accompanying statements):		
Common stock equity	$ **391,231**	$ 387,824
Preferred stock	**31,809**	31,896
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding Company Junior Subordinated Notes (Note 9)	**35,000**	35,000
Long-term debt	**292,744**	291,665
Total	**750,784**	746,385
Current Liabilities:		
Long-term debt due within one year (Note 10)	**50,020**	35,020
Notes payable	**13,000**	-
Accounts payable--		
Affiliated companies	**8,788**	8,548
Regulatory clauses over recovery	**4,412**	15,476
Other	**47,113**	34,065
Customer deposits	**3,272**	3,225
Taxes accrued--		
Federal and state income	**1,124**	1,101
Other	**31,379**	33,859
Interest accrued	**2,955**	4,098
Miscellaneous	**11,753**	12,797
Total	**173,816**	148,189
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 8)	**143,852**	134,645
Accumulated deferred investment tax credits	**25,913**	27,121
Deferred credits related to income taxes (Note 8)	**37,277**	38,203
Postretirement benefits other than pension	**25,869**	25,145
Accumulated provision for property damage (Note 1)	**910**	13,991
Workforce Reduction Plan	**13,051**	15,700
Miscellaneous	**18,133**	17,450
Total	**265,005**	272,255
Commitments and Contingent Matters (Notes 2, 3, 4, and 5)		
Total Capitalization and Liabilities	**$ 1,189,605**	$ 1,166,829

The accompanying notes are an integral part of these statements.

STATEMENTS OF CAPITALIZATION

At December 31, 1998 and 1997
Mississippi Power Company 1998 Annual Report

	1998	1997	1998	1997
	(in thousands)		(percent of total)	
Common Stock Equity:				
Common stock, without par value --				
Authorized -- 1,130,000 shares				
Outstanding -- 1,121,000 shares in				
1998 and 1997	$ **37,691**	$ 37,691		
Paid-in capital	**179,474**	179,389		
Premium on preferred stock	**326**	327		
Retained earnings (Note 11)	**173,740**	170,417		
Total common stock equity	**391,231**	387,824	**52.1 %**	52.0 %
Cumulative Preferred Stock:				
$100 par value --				
Authorized -- 1,244,139 shares				
Outstanding -- 318,090 shares in 1998 and				
318,955 shares in 1997				
4.40% to 4.72%	**3,421**	3,492		
6.32% to 7.00%	**28,388**	28,404		
Total (annual dividend requirement -- $2,013,000)	**31,809**	31,896	**4.2**	4.3
Company Obligated Mandatorily				
Redeemable Preferred Securities (Note 9):				
$25 liquidation value -- 7.75%	**35,000**	35,000		
Total (annual dividend requirement -- $2,713,000)	**35,000**	35,000	**4.7**	4.7
Long-Term Debt:				
First mortgage bonds --				
Maturity / Interest Rates				
1998 5.38%	-	35,000		
2000 6.63%	-	40,000		
2004 6.60%	**35,000**	35,000		
2023 7.45%	**35,000**	35,000		
2025 6.88%	**30,000**	30,000		
Pollution control obligations --				
Collateralized:				
5.65% to 5.80% due 2007-2023	**26,805**	39,825		
4.00% to 5.25% due 2020-2025	**33,900**	33,900		
Non-collateralized:				
Variable rate (5.25% at 1/1/99) due 2028	**13,520**	-		
Other long-term notes payable--				
6.05% due 2003	**35,000**	-		
6.75% due 2038	**55,000**	-		
Adjustable rates (5.71% to 5.79%) due 1999-2000	**80,000**	80,000		
Unamortized debt premium (discount), net	**(1,461)**	(2,040)		
Total long-term debt (annual interest				
requirement--$21,131,000)	**342,764**	326,685		
Less amount due within one year (Note 10)	**50,020**	35,020		
Long-term debt excluding amount due within one year	**292,744**	291,665	**39.0**	39.0
Total Capitalization	$ **750,784**	$ 746,385	**100.0 %**	100.0 %

The accompanying notes are an integral part of these statements.

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1998, 1997, and 1996
Mississippi Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Period	**$ 170,417**	$ 166,282	$ 157,459
Net income after dividends on preferred stock	**55,105**	54,010	52,723
Cash dividends on common stock	**(51,700)**	(49,400)	(43,900)
Preferred stock transactions and other, net	**(82)**	(475)	-
Balance at End of Period (Note 11)	**$ 173,740**	$ 170,417	$ 166,282

STATEMENTS OF PAID-IN CAPITAL

For the Years Ended December 31, 1998, 1997, and 1996

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Period	**$ 179,389**	$ 179,389	$ 179,362
Contributions to capital by parent company	**85**	-	27
Balance at End of Period	**$ 179,474**	$ 179,389	$ 179,389

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mississippi Power Company is a wholly owned subsidiary of Southern Company, which is the parent company of five operating companies, Southern Company Services (SCS), Southern Communications Services (Southern LINC), Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), and Southern Energy Solutions, and other direct and indirect subsidiaries. The operating companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Savannah Electric and Power Company) provide electric service in four southeastern states. Contracts among the companies--dealing with 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. SCS provides, at cost, specialized services to Southern Company and to the subsidiary companies. Southern LINC provides digital wireless communications services to the operating companies and also markets these services to the public within the Southeast. Worldwide, Southern Energy develops and manages electricity and other energy related projects, including domestic energy trading and marketing. Southern Nuclear provides services to Southern Company's nuclear power plants. Southern Energy Solutions develops new business opportunities related to energy products and services.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. Mississippi Power is also subject to regulation by the FERC and the Mississippi Public Service Commission (MPSC). The Company follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by the respective commissions. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and the actual results may differ from those estimates.

Certain prior years' data presented in the financial statements have been reclassified to conform with current year presentation.

Regulatory Assets and Liabilities

Mississippi Power is 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 to the Company 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 Balance Sheets as of December 31 relate to:

	1998	1997
	(in thousands)	
Deferred income taxes	**$ 22,697**	$ 21,906
Vacation pay	**4,717**	5,030
Workforce reduction plan of 1997	**12,748**	18,236
Premium on reacquired debt	**9,304**	9,508
Deferred environmental costs	**1,500**	1,583
Property damage reserve	**(910)**	(13,991)
Deferred income tax credits	**(37,277)**	(38,203)
Other, net	**(2,538)**	(2,982)
Total	**$ 10,241**	$ 1,087

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

Revenues

The Company currently operates as a vertically integrated utility providing electricity to retail customers within its traditional service area located within the state of Mississippi, and to wholesale customers in the southeast.

Revenues, less affiliated transactions, by type of service were as follows:

	1998	1997	1996
		(in thousands)	
Retail	**$442,567**	$417,242	$414,126
Wholesale	**121,225**	105,141	99,596
Other	**13,054**	11,062	8,477
Total	**$576,846**	$533,445	$522,199

Mississippi Power accrues revenues for service rendered but unbilled at the end of each fiscal period. The Company's retail and wholesale rates include provisions to adjust billings for fluctuations in fuel costs, the energy component of purchased power costs and certain other costs. Retail rates also include provisions to adjust billings for fluctuations in costs for ad valorem taxes and certain qualifying environmental costs. Revenues are adjusted for differences between actual allowable amounts and the amounts included in rates.

The 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.

Depreciation

Depreciation of the original cost of depreciable utility plant in service is provided by using composite straight-line rates which approximated 3.3 percent in 1998, 1997, and 1996. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost -- together with the cost of removal, less salvage -- is charged to the accumulated provision for 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 cost of removal of facilities.

Income Taxes

Mississippi Power 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.

Utility Plant

Utility plant is stated at original cost. This 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. If applicable, the cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense except for the maintenance of coal cars and a portion of the railway track maintenance, which are charged to fuel stock. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, temporary cash investments are considered cash equivalents. Temporary cash investments are securities with original maturities of 90 days or less.

Financial Instruments

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

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt		
At December 31, 1998	**$343**	**$348**
At December 31, 1997	$327	$330
Capital trust preferred securities:		
At December 31, 1998	**$35**	**$36**
At December 31, 1997	35	36

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

Materials and Supplies

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

Provision for Property Damage

Mississippi Power is self-insured for the cost of storm, fire and other uninsured casualty damage to its property, including transmission and distribution facilities. As permitted by regulatory authorities, the Company provided for such costs by charges to income of $1.5 million in each of the years 1998, 1997 and 1996. The cost of repairing damage resulting from such events that individually exceed $50 thousand is charged to the accumulated provision to the extent it is available. Effective January 1995, regulatory treatment by the MPSC allowed a maximum accumulated provision of $18 million.

Hurricane Georges struck Mississippi's service area on September 28, 1998, causing power outages and widespread flooding in certain counties. Current estimates place the cost of repairing Mississippi's damaged facilities at approximately $16.4 million, of which $1.5 million is expected to be recovered from insurance. Substantially all of the cost ($13.9 million) was charged to the property damage reserve; income will not be significantly affected by these restoration costs. As of December 31, 1998, the accumulated provision amounted to $0.9 million.

2. RETIREMENT BENEFITS

Mississippi Power has a defined benefit, trusteed, pension plan that covers substantially all regular employees. The Company provides certain medical care and life insurance benefits for retired employees. Substantially all these employees may become eligible for such benefits when they retire. The Company funds trusts to the extent deductible under federal income tax regulations or to the extent required by the MPSC. In 1998, the Company adopted FASB Statement No. 132 Employers' Disclosure about Pensions and Other Postretirement Benefits The measurement date is September 30 for each year.

Pension Plan

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$132,131**	$127,834
Service cost	**3,848**	4,015
Interest cost	**9,613**	9,407
Benefits paid	**(7,845)**	(5,384)
Actuarial (gain) loss and employee transfers	**5,060**	(3,571)
Effect of workforce reduction	**-**	(170)
Balance at end of year	**$142,807**	$132,131

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$207,457**	$179,658
Actual return on plan assets	**1,252**	33,718
Benefits paid	**(7,845)**	(5,385)
Employee transfers	**(2,764)**	(534)
Balance at end of year	**$198,100**	$207,457

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

	1998	1997
	(in thousands)	
Funded status	**$ 55,293**	$ 75,326
Unrecognized transition obligation	**(4,359)**	(4,903)
Unrecognized prior service cost	**5,405**	5,818
Unrecognized net gain	**(56,590)**	(78,936)
Accrued liability recognized in the Balance Sheets	**$ (251)**	$ 2,695

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in thousands)		
Service cost	**$ 3,848**	$ 4,015	$ 3,842
Interest cost	**9,613**	9,407	9,310
Expected return on plan assets	**(13,817)**	(12,805)	(12,562)
Recognized net gain	**(1,956)**	(1,729)	(1,202)
Net amortization	**(131)**	(119)	(232)
Net pension income	**$ (2,443)**	$ (1,231)	$ (844)

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

	1998	1997
Discount	**6.75%**	7.50%
Annual salary increase	**4.25**	5.00
Long-term return on plan assets	**8.50**	8.50

Postretirement Benefits

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$43,417**	$41,108
Service cost	**806**	867
Interest cost	**3,162**	2,922
Benefits paid	**(2,302)**	(1,495)
Actuarial loss and employee transfers	**2,177**	2,824
Effect of work force reduction	**-**	(2,809)
Balance at end of year	**$47,260**	$43,417

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$12,189**	$10,210
Actual return on plan assets	**176**	1,661
Employer contributions	**2,716**	1,813
Benefits paid	**(2,302)**	(1,495)
Balance at end of year	**$12,779**	$12,189

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

	1998	1997
	(in thousands)	
Funded status	**$(34,481)**	$(31,228)
Unrecognized transition obligation	**4,967**	5,313
Unrecognized net loss (gain)	**1,010**	(1,980)
Fourth quarter contributions	**577**	728
Accrued liability recognized in the Balance Sheets	**$(27,927)**	$(27,167)

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in thousands)		
Service cost	**$ 806**	$ 867	$ 958
Interest cost	**3,162**	2,922	2,830
Expected return on plan assets	**(989)**	(815)	(696)
Recognized net (gain) loss	**-**	(7)	18
Net amortization	**346**	362	362
Net postretirement cost	**$3,325**	$3,329	$3,472

An additional assumption used in measuring the accumulated postretirement benefit obligation was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005 and remaining at that level thereafter. An annual increase or decrease in the assumed medical care cost trend rate of 1 percent would increase the accumulated benefit obligation and the service and interest cost components at December 31, 1998 as follows:

	1 Percent Increase	1 Percent Decrease
	(in thousands)	
Benefit obligation	**$3,128**	$(2,652)
Service and interest costs	**281**	(236)

Workforce Reduction Programs

In 1997, approximately one hundred employees of Mississippi Power accepted the terms of a workforce reduction plan. The total cost to be incurred in connection with this voluntary plan is expected to be $18.2 million, including a $2.5 million pension and postretirement benefits curtailment loss. The MPSC approved the deferral and amortization of these program costs over a period not to exceed 60 months beginning no later than July 1998. The unamortized balance of this program was $12.7 million at December 31, 1998.

3. LITIGATION AND REGULATORY MATTERS

Retail Rate Adjustment Plans

Mississippi Power's retail base rates are set under a Performance Evaluation Plan (PEP) approved by the MPSC in 1994. PEP was designed with the objective that the plan would reduce the impact of rate changes on the customer and provide incentives for Mississippi Power to keep customer prices low. PEP includes a mechanism for sharing rate adjustments based on the Company's ability to maintain low rates for customers and on the Company's performance as measured by three indicators that emphasize price and service to the customer. PEP provides for semiannual evaluations of Mississippi's performance-based return on investment. Any change in rates is limited to 2 percent of retail revenues per evaluation period. PEP will remain in effect until the MPSC modifies or terminates the plan. In September 1996, the MPSC under PEP approved a retail revenue increase of $4.5 million (1.06 percent of annual retail revenue) which became effective in October 1996. There were no PEP retail revenue changes for 1998 or 1997.

FERC Reviews Equity Returns

On September 21, 1998, the FERC entered separate orders affirming the outcome of its administrative law judge's opinions in two proceedings in which the return on common equity component contained in substantially all of the operating companies' wholesale formula rate contracts was being challenged as unnecessarily high. These orders resulted in no change in the wholesale contracts. The FERC also dismissed a complaint filed by the three customers under long-term power sales agreements seeking to lower the equity return component in such agreements. These customers have filed applications for rehearing regarding each FERC order. In response to a requirement of the September 1998 FERC orders, Southern Company filed a new equity return component on the long-term power sales contracts, to be effective January 5, 1999. The proposed equity return was lowered from 13.75 percent to 12.5 percent. The FERC placed the new rates into effect subject to refund. Also this filing was consolidated with the new proceeding discussed below.

On December 28, 1998, the FERC staff filed a motion asking the FERC to initiate a new proceeding regarding the equity return and other issues involving the operating companies' formula rate contracts. The motion was submitted pursuant to review procedures applicable to these contracts, and would be applicable to billings under such contracts on and after January 1, 1999.

Environmental Compliance Overview Plan

The MPSC approved Mississippi Power's Environmental Compliance Overview Plan (ECO) in 1992. The plan establishes procedures to facilitate the MPSC's overview of the Company's environmental strategy and provides for recovery of costs (including costs of capital) associated with environmental projects approved by the MPSC. Under the ECO Plan any increase in the annual revenue requirement is limited to 2 percent of retail revenues. However, the plan also provides for carryover of any amount over the 2 percent limit into the next year's revenue requirement. In 1997, the Company's filing with the MPSC under the ECO Plan resulted in an annual retail rate increase of $0.9 million. The 1998 ECO filing resulted in a small decrease in customer prices.

Mississippi Power conducts studies, when possible, to determine the extent of any required environmental remediation. Should such remediation be determined to be probable, reasonable estimates of costs to clean up such sites are developed and recognized in the financial statements. A currently owned site where manufactured gas plant operations were located prior to the Company's ownership is being investigated for potential remediation. In recognition of probable remediation, the Company in 1995 recorded a liability and a deferred debit (regulatory asset) of $1.8 million, including feasibility study costs. The Company recognizes such costs as they are incurred and recovers them under the ECO Plan as provided in the Company's 1995 ECO order. As of December 31, 1998, the balance in the liability and regulatory asset accounts was $1.5 million. The remedial investigation has been approved by the Mississippi Department of Environmental Quality. The site is scheduled to be remediated in 1999. The Company currently estimates the remediation costs to be approximately $1.5 million before recovery from potentially responsible parties.

Approval for New Capacity

In January of 1998, the Company was granted a Certificate of Public Convenience and Necessity by the MPSC to build approximately 1,000 megawatts of combined cycle generation at the Company's Plant Daniel site, to be placed in service by June 2001. In December 1998, the Company requested approval to transfer the ownership rights under the certificate to Escatawpa Funding, Limited Partnership, which will lease the facility to the Company (see Note 4, Construction Program). The Company also requested approval from the MPSC to exclude the costs of the new facility from retail rate base and to assign the Company's existing generating capacity to its retail business, beginning in 2001. In January 1999, the Company and Mississippi Public Utility Staff entered a stipulation covering the details of cost allocation and ratemaking to effect this change. In February 1999, the Commission held hearings on this matter and subsequently granted the Company's request, as modified by the stipulation.

4. CONSTRUCTION PROGRAM

Mississippi Power is engaged in continuous construction programs, the costs of which are currently estimated to total $67 million in 1999, $52 million in 2000, and $45 million in 2001.

The construction program is 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; revised load growth estimates; changes in environmental regulations; increasing costs of labor, equipment and materials; and cost of capital. Significant construction will continue related to transmission and distribution facilities, the upgrading of generating plants, and the addition of combined cycle generation.

In February 1999, the Company signed an interim construction agency agreement with Escatawpa Funding ("Escatawpa"), a limited partnership, that calls for the Company to design and construct, as agent for Escatawpa, a 1064 megawatt natural gas combined cycle facility. On or before April 30, 1999, Escatawpa and the Company anticipate entering into an Agreement for Lease (which will supersede the interim construction agency agreement), and a Lease Agreement. It is anticipated that the total project will cost approximately $406 million. Upon project completion, the Company will lease the facility from Escatawpa. If the anticipated lease arrangement is not reached, the Company will either exercise its purchase option or Escatawpa will sell the facility to a third party.

5. FINANCING AND COMMITMENTS

Financing

Mississippi Power's construction program is expected to be financed from internal and other sources, such as the issuance of additional long-term debt and preferred securities and the receipt of capital contributions from Southern Company.

The amounts of first mortgage bonds and preferred stock that can be issued in the future will be contingent upon market conditions, adequate earnings levels, regulatory authorizations and other factors.

At December 31, 1998, Mississippi Power had total committed credit agreements with banks for $96.3 million. At year-end 1998, the unused portion of these committed credit agreements was $76.3 million. These credit agreements expire at various dates in 1999 and in 2000.

Some of these agreements allow short-term borrowings to be converted into term loans, payable in 12 equal quarterly installments, with the first installment due at the end of the first calendar quarter after the applicable termination date or at an earlier date at the Company's option. In connection with these credit arrangements, the Company agrees to pay commitment fees based on the unused portions of the commitments or to maintain compensating balances with the banks. At December 31, 1998, the Company had $13 million of short-term borrowings outstanding.

Assets Subject to Lien

Mississippi Power's mortgage indenture dated as of September 1, 1941, as amended and supplemented, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises.

Lease Agreements

In 1984, Mississippi Power and Gulf States Utilities (now Entergy) entered into a forty-year transmission facilities agreement whereby Entergy began paying a use fee to the Company covering all expenses relative to ownership and operation and maintenance of a 500 kV line, including amortization of its original $57 million cost. For the three years ended 1998 use fees collected under this agreement, net of related expenses, amounted to $3.4 million each year, and are included within Other Income in the Statements of Income.

In 1989, Mississippi Power entered into a twenty-two year lease agreement for the use of 495 aluminum railcars. In 1994, a second lease agreement for the use of 250 additional aluminum railcars was also entered into for twenty-two years. The Company has the option to purchase the 745 railcars at the greater of lease termination value or fair market value, or to renew the leases at the end of the lease term. In 1997, a third lease agreement for the use of 360 railcars was also entered into for three years, with a monthly renewal option for up to an additional nine months. All of these leases, totaling 1,105 railcars, were for the transport of coal at Plant Daniel.

Gulf Power, as joint owner of Plant Daniel, is responsible for one half of the lease cost. The Company's share (50%) of the leases, charged to fuel inventory, was $2.8 million in 1998, $2.0 million in 1997, and $1.7 million in 1996. The Company's annual lease payments for 1999 through 2003 will average approximately $2.2 million and after 2003, lease payments total in aggregate approximately $16 million.

Fuel and Purchased Power Commitments

To supply a portion of the fuel requirements of its generating plants, Mississippi Power has entered into various long-term commitments for the procurement of fuel. In most cases, these contracts contain provisions for price escalations, minimum production levels, and other financial commitments.

Total estimated obligations at December 31, 1998, were as follows:

Year	Fuel
	(in millions)
1999	$111
2000	80
Total commitments	$191

Additional commitments for fuel will be required in the future to supply the Company's fuel needs.

In 1996, Mississippi Power entered into agreements to purchase options for summer peaking power for the years 1997 through 2000. The Company has purchased options from power marketers for up to 250 megawatts of peaking power in 1997; 300 megawatts in 1998; 250 megawatts in 1999; and 400 megawatts in 2000. In 1997and 1998, Mississippi Power exercised its option to purchase 250 megawatts and 300 megawatts of peaking capacity respectively. In June 1997, the MPSC approved Mississippi Power's request that it be allowed to earn a return on the capacity portion of this agreement. Mississippi Power expects to exercise its option to purchase 250 megawatts of summer peaking capacity in 1999.

6. JOINT OWNERSHIP AGREEMENTS

Mississippi Power and Alabama Power own as tenants in common Units 1 and 2 at Greene County Electric Generating Plant located in Alabama; and Mississippi Power and Gulf Power own as tenants in common Daniel Electric Generating Plant located in Mississippi.

At December 31, 1998, Mississippi Power's percentage ownership and investment in these jointly owned facilities were as follows:

Generating Plant	Total Capacity (Megawatts)	Percent Ownership	Company's Gross Investment (in thousands)	Accumulated Depreciation
Greene County Units 1 and 2	500	40%	$ 60,868	$27,767
Daniel	1,000	50%	219,082	99,006

Mississippi Power's share of plant operating expenses is included in the corresponding operating expenses in the Statements of Income.

7. LONG-TERM POWER SALES AGREEMENTS

Mississippi Power and the other operating affiliates of Southern Company have long-term contractual agreements for the sale of capacity and energy to certain non-affiliated utilities located outside the system's service area. Because the energy is generally sold at cost under these agreements, profitability is primarily affected by revenues from capacity sales. The capacity revenues have been $10,389 in 1998; $8,000 in 1997; and none in 1996.

8. INCOME TAXES

At December 31, 1998, the tax-related regulatory assets and liabilities were $23 million and $37 million, respectively. These assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. These liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of the federal and state income tax provisions are shown below:

	1998	1997	1996
		(in thousands)	
Total provision for income taxes			
Federal --			
Currently payable	**$20,500**	$27,651	$29,888
Deferred --current year	**7,007**	8,171	13,816
--reversal of prior years	**2,435**	(9,236)	(14,913)
	29,942	26,586	28,791
State --			
Currently payable	**2,544**	5,537	3,588
Deferred --current year	**1,568**	1,756	4,727
--reversal of prior years	**610**	(2,499)	(3,556)
	4,722	4,794	4,759
Total	**34,664**	31,380	33,550
Less income taxes charged to other income	**165**	(588)	932
Federal and state income taxes charged to operations	**$34,499**	$31,968	$32,618

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:

	1998	1997
	(in thousands)	
Deferred tax liabilities:		
Accelerated depreciation	**$153,768**	$149,941
Basis differences	**9,642**	10,037
Other	**26,038**	25,097
Total	**189,448**	185,075
Deferred tax assets:		
Other property basis differences	**22,391**	23,139
Pension and other benefits	**9,441**	9,803
Property insurance	**1,526**	5,351
Unbilled fuel	**2,080**	802
Other	**14,406**	19,714
Total	**49,844**	58,809
Net deferred tax liabilities	**139,604**	126,266
Portion included in current assets, net	**4,248**	8,379
Accumulated deferred income taxes in the Balance Sheets	**$143,852**	$134,645

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $1.2 million in 1998, $1.2 million in 1997, and $1.4 million in 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory rate	**35.00%**	35.00%	35.00%
State income tax, net of federal deduction	**3.34**	3.51	3.39
Non-deductible book depreciation	**.47**	.47	.46
Other	**(1.04)**	(3.60)	(2.05)
Effective income tax rate	**37.77%**	35.38%	36.80%

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. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

9. COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES

In February 1997, Mississippi Power Capital Trust I (Trust I), of which the Company owns all the common securities, issued $35 million of 7.75 percent mandatorily redeemable preferred securities. Substantially all of the assets of Trust I are $36 million aggregate principal amount of the Company's 7.75 percent junior subordinated notes due February 15, 2037.

The Company considers that the mechanisms and obligations relating to the preferred securities, taken together, constitute a full and unconditional guarantee by Mississippi Power Capital Trust for the obligation with respect to the preferred securities.

The Trust is a subsidiary of the Company, and accordingly is consolidated in the Company's financial statements.

10. 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 is as follows:

	1998	1997
	(in thousands)	
Bond improvement fund requirement	**$ 1,000**	$1,750
Less: Portion to be satisfied by certifying property additions	**1,000**	1,750
Cash sinking fund requirement	**-**	-
Redemptions of first mortgage bonds	**-**	35,000
Current portion of other long-term debt	**50,000**	
Pollution control bond cash sinking fund requirements	**20**	20
Total	**$50,020**	$35,020

The first mortgage bond improvement fund requirement is one percent of each outstanding series authenticated under

the indenture of Mississippi Power prior to January 1 of each year, other than first mortgage bonds issued as collateral security for certain pollution control obligations. The requirement must be satisfied by June 1 of each year by depositing cash or reacquiring bonds, or by pledging additional property equal to 166-2/3 percent of such requirement.

11. COMMON STOCK DIVIDEND RESTRICTIONS

Mississippi Power's first mortgage bond indenture and the corporate charter contain various common stock dividend restrictions. At December 31, 1998, approximately $118 million of retained earnings was restricted against the payment of cash dividends on common stock under the most restrictive terms of the mortgage indenture or corporate charter.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1998 and 1997 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends On Preferred Stock
		(in thousands)	
March 1998	**$122,156**	**$15,367**	**$8,388**
June 1998	**156,612**	**20,123**	**13,713**
September 1998	**191,699**	**34,167**	**28,309**
December 1998	**124,664**	**10,715**	**4,696**
March 1997	$116,903	$17,132	$10,645
June 1997	128,915	19,340	12,618
September 1997	171,874	30,441	25,163
December 1997	125,896	11,043	5,584

Mississippi Power's business is influenced by seasonal weather conditions and the timing of rate changes.

SELECTED FINANCIAL AND OPERATING DATA

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	1998	1997	1996
Operating Revenues (in thousands)	**$595,131**	$543,588	$544,029
Net Income after Dividends on Preferred Stock (in thousands)	**$55,105**	$54,010	$52,723
Cash Dividends on Common Stock (in thousands)	**$51,700**	$49,400	$43,900
Return on Average Common Equity (percent)	**14.2**	14.0	13.9
Total Assets (in thousands)	**$1,189,605**	$1,166,829	$1,142,327
Gross Property Additions (in thousands)	**$68,231**	$55,375	$61,314
Capitalization (in thousands):			
Common stock equity	**$391,231**	$387,824	$383,734
Preferred stock	**31,809**	31,896	74,414
Preferred stock subject to mandatory redemption	**-**	-	-
Company obligated mandatorily redeemable preferred securities	**35,000**	35,000	-
Long-term debt	**292,744**	291,665	326,379
Total (excluding amounts due within one year)	**$750,784**	$746,385	$784,527
Capitalization Ratios (percent):			
Common stock equity	**52.1**	52.0	48.9
Preferred stock	**4.2**	4.3	9.5
Company obligated mandatorily redeemable preferred securities	**4.7**	4.7	-
Long-term debt	**39.0**	39.0	41.6
Total (excluding amounts due within one year)	**100.0**	100.0	100.0
First Mortgage Bonds (in thousands):			
Issued	**-**	-	-
Retired	**75,000**	-	45,447
Preferred Stock (in thousands):			
Issued	**-**	-	-
Retired	**87**	42,518	-
Company Obligated Mandatorily Redeemable Preferred Securities (in thousands):			
Issued	**-**	35,000	-
Security Ratings:			
First Mortgage Bonds -			
Moody's	**Aa3**	Aa3	Aa3
Standard and Poor's	**AA-**	AA-	A+
Duff & Phelps	**AA-**	AA-	AA-
Preferred Stock -			
Moody's	**a1**	a1	a1
Standard and Poor's	**A**	A	A
Duff & Phelps	**A+**	A+	A+
Customers (year-end):			
Residential	**156,530**	156,650	154,630
Commercial	**31,319**	31,667	30,366
Industrial	**587**	642	639
Other	**200**	200	200
Total	**188,636**	189,159	185,835
Employees (year-end)	**1,230**	1,245	1,363

SELECTED FINANCIAL AND OPERATING DATA

Mississippi Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$516,553	$499,162	$474,883	$434,447	$432,386	$446,871	$442,650	$437,939
$52,531	$49,157	$42,436	$36,790	$22,627	$34,176	$38,576	$36,081
$39,400	$34,100	$29,000	$28,000	$28,500	$27,500	$27,000	$27,600
14.26	14.38	14.09	13.27	8.17	12.36	14.43	14.03
$1,148,953	$1,123,711	$1,050,334	$791,283	$790,641	$800,026	$786,570	$779,319
$67,570	$104,014	$139,976	$68,189	$53,675	$49,009	$43,916	$54,550
$374,884	$361,753	$321,768	$280,640	$273,855	$279,833	$273,157	$261,473
74,414	74,414	74,414	74,414	39,414	39,414	39,414	39,414
-	-	-	-	-	3,750	4,500	5,250
-	-	-	-	-	-	-	-
288,820	306,522	250,391	238,650	304,150	270,724	277,693	287,525
$738,118	$742,689	$646,573	$593,704	$617,419	$593,721	$594,764	$593,662
50.8	48.7	49.8	47.3	44.4	47.1	45.9	44.1
10.1	10.0	11.5	12.5	6.4	7.3	7.4	7.5
-	-	-	-	-	-	-	-
39.1	41.3	38.7	40.2	49.2	45.6	46.7	48.4
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
30,000	35,000	70,000	40,000	50,000	-	-	-
1,625	32,628	51,300	104,703	-	4,000	3,823	-
-	-	23,404	35,000	-	-	-	-
-	-	23,404	-	4,118	750	750	1,500
-	-	-	-	-	-	-	-
Aa3	Aa3	A1	A1	A1	A1	A1	A1
A+	A+	A+	A+	A+	A+	A+	A+
AA-	A+	A+	A+	A+	A+	A+	5
a1	a1	a1	a1	a1	a1	a1	a1
A	A	A	A	A	A	A	A
A+	A	A	A	A	A	A	6
154,014	152,891	151,692	150,248	148,978	147,738	147,308	146,750
29,903	29,276	28,648	28,056	27,441	27,134	26,867	26,751
642	650	570	573	562	574	525	478
194	189	190	189	400	411	404	399
184,753	183,006	181,100	179,066	177,381	175,857	175,104	174,378
1,421	1,535	1,586	1,619	1,630	1,842	1,750	1,831

SELECTED FINANCIAL AND OPERATING DATA (continued)

Mississippi Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands):			
Residential	**$157,642**	$138,608	$137,055
Commercial	**145,677**	134,208	131,734
Industrial	**135,039**	140,233	141,324
Other	**4,209**	4,193	4,013
Total retail	**442,567**	417,242	414,126
Sales for resale - non-affiliates	**121,225**	105,141	99,596
Sales for resale - affiliates	**18,285**	10,143	21,830
Total revenues from sales of electricity	**582,077**	532,526	535,552
Other revenues	**13,054**	11,062	8,477
Total	**$595,131**	$543,588	$544,029
Kilowatt-Hour Sales (in thousands):			
Residential	**2,248,915**	2,039,042	2,079,611
Commercial	**2,623,276**	2,407,520	2,315,860
Industrial	**3,729,166**	3,981,875	3,960,243
Other	**39,772**	40,508	39,297
Total retail	**8,641,129**	8,468,945	8,395,011
Sales for resale - non-affiliates	**3,157,837**	2,895,182	2,726,993
Sales for resale - affiliates	**552,142**	478,884	693,510
Total	**12,351,108**	11,843,011	11,815,514
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**7.01**	6.80	6.59
Commercial	**5.55**	5.57	5.69
Industrial	**3.62**	3.52	3.57
Total retail	**5.12**	4.93	4.93
Total sales	**4.71**	4.50	4.53
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,375**	13,132	13,469
Residential Average Annual Revenue Per Customer	**$1,007.68**	$892.68	$887.66
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**2,086**	2,086	2,086
Maximum Peak-Hour Demand (megawatts):			
Winter	**1,740**	1,922	2,030
Summer	**2,339**	2,209	2,117
Annual Load Factor (percent)	**58.0**	59.1	60.7
Plant Availability - Fossil-Steam (percent)	**90.0**	92.4	91.8
Source of Energy Supply (percent):			
Coal	**66.0**	70.0	70.4
Oil and gas	**15.0**	13.0	12.0
Purchased power -			
From non-affiliates	**8.0**	3.0	6.5
From affiliates	**11.0**	14.0	11.1
Total	**100.0**	100.0	100.0
Total Fuel Economy Data:			
BTU per net kilowatt-hour generated	**10,261**	10,078	10,038
Cost of fuel per million BTU (cents)	**157.93**	153.32	156.08
Average cost of fuel per net kilowatt-hour generated (cents)	**1.62**	1.54	1.57

SELECTED FINANCIAL AND OPERATING DATA (continued)

Mississippi Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$134,286	$124,257	$118,793	$109,781	$103,820	$102,243	$100,068	$96,711
131,034	124,716	115,152	107,131	103,666	103,352	103,403	98,772
140,947	142,268	130,198	117,010	116,972	123,754	128,983	123,038
3,914	3,882	3,760	3,533	5,869	6,078	5,992	5,874
410,181	395,123	367,903	337,455	330,327	335,427	338,446	324,395
91,820	88,122	83,511	80,213	78,826	86,194	82,111	75,525
7,691	9,538	15,519	10,055	18,044	20,157	16,938	33,747
509,692	492,783	466,933	427,723	427,197	441,778	437,495	433,667
6,861	6,379	7,950	6,724	5,189	5,093	5,155	4,272
$516,553	$499,162	$474,883	$434,447	$432,386	$446,871	$442,650	$437,939
2,040,608	1,922,217	1,929,835	1,804,858	1,832,266	1,804,838	1,741,855	1,686,722
2,242,163	2,100,625	1,933,685	1,811,042	1,768,441	1,718,074	1,686,302	1,607,988
3,813,456	3,847,011	3,623,543	3,536,634	3,297,247	3,311,460	3,204,208	2,879,457
38,559	38,147	38,357	38,261	89,375	85,938	87,611	86,049
8,134,786	7,908,000	7,525,420	7,190,795	6,987,329	6,920,310	6,719,976	6,260,216
2,493,519	2,555,914	2,544,982	2,687,917	2,706,320	2,883,581	2,798,086	2,280,341
243,554	174,342	426,919	280,443	617,696	714,365	527,970	1,100,808
10,871,859	10,638,256	10,497,321	10,159,155	10,311,345	10,518,256	10,046,032	9,641,365
6.58	6.46	6.16	6.08	5.67	5.66	5.74	5.73
5.84	5.94	5.96	5.92	5.86	6.02	6.13	6.14
3.70	3.70	3.59	3.31	3.55	3.74	4.03	4.27
5.04	5.00	4.89	4.69	4.73	4.85	5.04	5.18
4.69	4.63	4.45	4.21	4.14	4.20	4.35	4.50
13,307	12,611	12,780	12,066	12,338	12,228	11,842	11,499
$875.69	$815.21	$786.71	$733.90	$699.11	$692.70	$680.32	$659.30
2,086	2,086	2,011	2,011	2,011	1,998	1,998	1,966
1,637	1,636	1,401	1,386	1,267	1,201	1,556	1,284
2,095	1,874	1,872	1,755	1,682	1,724	1,682	1,621
60.0	63.4	60.0	60.8	61.5	59.0	58.8	57.6
92.1	85.4	88.0	92.0	89.8	93.3	94.0	93.0
58.0	56.0	63.5	60.4	64.1	62.6	63.4	86.3
15.2	10.2	7.6	5.8	8.1	14.0	13.5	4.8
2.4	1.2	1.3	1.2	0.7	0.8	0.5	0.4
24.4	32.6	27.6	32.6	27.1	22.6	22.6	8.5
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10,249	10,295	10,075	9,888	10,142	10,319	10,159	10,220
160.48	165.96	170.13	162.27	177.52	183.27	178.38	185.13
1.64	1.71	1.71	1.60	1.80	1.89	1.81	1.89

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SAVANNAH ELECTRIC AND POWER COMPANY

FINANCIAL SECTION

MANAGEMENT'S REPORT

Savannah Electric and Power Company 1998 Annual Report

The management of Savannah Electric and Power Company has prepared--and is responsible for--the financial statements and related information included in this report. These statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances 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 books and 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 directors who are not employees, 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 the 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 financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Savannah Electric and Power Company in conformity with generally accepted accounting principles.

G. Edison Holland, Jr.
President
and Chief Executive Officer

K. R. Willis
Vice-President
Treasurer, Chief Financial Officer
and Assistant Secretary

February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
of Savannah Electric and Power Company:

We have audited the accompanying balance sheets and statements of capitalization of Savannah Electric and Power Company (a Georgia corporation and a wholly owned subsidiary of Southern Company) as of December 31, 1998 and 1997, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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 financial statements (pages II-198 through II-210) referred to above present fairly, in all material respects, the financial position of Savannah Electric and Power Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

RESULTS OF OPERATIONS

Earnings

Savannah Electric and Power Company's net income after dividends on preferred stock for 1998 totaled $23.6 million, representing a $0.2 million decrease from the prior year. This 0.9 percent decline in earnings from 1997 is principally the result of a decrease in other income, net.

In 1997, earnings were $23.8 million, representing a $0.1 million, or 0.4 percent decrease from the prior year. This was principally the result of an increase in other operation expense, partially offset by an increase in other income, net.

Revenues

Total revenues for 1998 were $254.5 million, reflecting a 12.5 percent increase compared to 1997. The following table summarizes the factors affecting operating revenues for the 1996-1998 period:

	Increase (Decrease) From Prior Year		
	1998	1997	1996
	(in thousands)		
Retail --			
Sales growth	**$ (479)**	$ 7,664	$ 3,679
Weather	**8,336**	(6,186)	(2,813)
Fuel cost recovery and other	**15,012**	(10,002)	12,365
Total retail	**22,869**	(8,524)	13,231
Sales for resale--			
Non-affiliates	**1,081**	1,469	147
Affiliates	**964**	(1,078)	(4,070)
Total sales for resale	**2,045**	391	(3,923)
Other operating revenues	**3,264**	336	(963)
Total operating revenues	**$28,178**	$(7,797)	$ 8,345
Percent change	**12.5%**	(3.3)%	3.7%

Retail revenues increased 10.4 percent in 1998, compared to a decline of 3.7 percent in 1997. The increase in 1998 retail revenues is primarily attributable to the unusually hot summer weather, which led to the increases in the residential and commercial classes. The base rate decrease to the small business customer class, ordered by the Georgia Public Service Commission (GPSC) effective July 1998, more than offset the sales growth in all classes. See Note 3 to the financial statements for additional information. The number of customers was also up in both the residential and commercial categories.

The decline in 1997 retail revenues was attributable to the mild summer weather and a decrease in fuel cost recovery revenues, somewhat offset by customer growth and increased industrial energy sales. Industrial energy sales were higher primarily due to an increase in the demand of a major customer.

Under the Company's fuel cost recovery provisions, fuel revenues--including the fuel component of purchased energy--generally equal fuel expense and have no effect on earnings.

Revenues from sales to utilities outside the service area under long-term contracts consist of 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. Capacity revenues remained unchanged in 1998. The capacity and energy components were as follows:

	1998	1997	1996
	(in thousands)		
Capacity	**$ 2**	$ 2	$ 2
Energy	**401**	746	1,329
Total	**$403**	$748	$1,331

Sales to affiliated companies within the Southern electric system vary from year to year depending on demand and the availability and cost of generating resources at each company. These sales do not have a significant impact on earnings.

Energy Sales

Changes in revenues are influenced heavily by the amount of energy sold each year. Kilowatt-hour (KWH) sales for 1998 and the percent change by year were as follows:

	KWH	Percent Change		
	1998	**1998**	1997	1996
	(in millions)			
Residential	**1,540**	**7.8%**	(1.9)%	3.9%
Commercial	**1,236**	**6.9**	1.3	3.8
Industrial	**900**	**2.1**	5.1	(5.5)
Other	**131**	**5.3**	(1.4)	0.1
Total retail	**3,807**	**6.0**	0.8	1.4
Sales for resale--				
Non-affiliates	**53**	**(43.5)**	2.9	4.4
Affiliates	**59**	**7.2**	30.4	(34.4)
Total	**3,919**	**4.8 %**	1.2 %	0.8%

Total retail energy sales were up 6.0% in 1998, the strongest showing since 1995. Both residential and commercial energy sales reflected the impact of the hotter-than-normal weather. Industrial energy sales reflected high demand from one industrial customer.

Expenses

Total operating expenses for 1998 were $216.6 million, reflecting a $27.6 million increase from 1997. Major components of this increase include a $17.5 million increase in fuel, a $7.1 million increase in purchased power from non-affiliates, and a $5.5 million increase in maintenance expense. These increases were partially offset by a decrease of $6.4 million in purchased power from affiliates. The increase in fuel expense was primarily attributable to higher demand for energy. The increase in purchased power from non-affiliates primarily resulted from increased power marketing activities. Maintenance expenses were higher primarily due to scheduled turbine dismantle inspection costs. The decline in purchased power from affiliates was due primarily to an increase in internal generation reflecting system load growth.

In 1997, total operating expenses were $189.1 million, reflecting a $6.1 million decrease from 1996. This decrease includes a $16.5 million reduction in purchased power from affiliates, partially offset by increases of $6.4 million in fuel and $3.7 million in other operation expenses. The decrease in purchased power from affiliates was due to an increase in internal generation and to an adjustment in affiliated billings. The increase in fuel expense was primarily attributable to higher generation and to fuel mix. The increase in other operation expense primarily resulted from a one-time charge for work force reductions of $1.9 million, and expenses associated with the implementation of a new computer software system.

Fuel and purchased power costs constitute the single largest expense for the Company. The mix of energy supply is determined primarily by system load, the unit cost of fuel consumed, and the availability of units.

The amount and sources of energy supply and the total average cost of energy supply were as follows:

	1998	1997	1996
Total energy supply (millions of KWHs)	**4,182**	3,964	3,917
Sources of energy supply (percent) --			
Coal	**42**	34	28
Oil	**1**	-	-
Gas	**12**	5	3
Purchased Power	**45**	61	69
Total average cost of energy supply (cents)	**2.35**	2.02	2.30

Effects of Inflation

The Company is 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 the Company because of the large investment in utility plant with long economic life. 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

The results of operations for the past three years are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from energy sales growth to a less regulated, more competitive environment.

Savannah Electric currently operates as a vertically integrated utility providing electricity to customers within the traditional service area of southeastern Georgia. Prices for electricity provided by the Company to retail customers are set by the GPSC. Prices for electricity relating to jointly owned generating facilities, interconnecting transmission lines, and the exchange of electric power are set by the Federal Energy Regulatory Commission (FERC).

Future earnings in the near term will depend upon growth in energy sales, which is subject to a number of factors. These factors include weather, competition, changes in contracts with neighboring utilities, energy conservation practiced by customers, the elasticity of demand, and the rate of economic growth in the Company's service area.

The electric utility industry in the United States is currently undergoing a period of dramatic change 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 Company is positioning the business to meet the challenge of this major change in the traditional practice of selling electricity. The Energy Act allows independent power producers (IPPs) to access the Company's transmission network in order to sell electricity to other utilities. This enhances the incentive for IPPs to build cogeneration plants for industrial and commercial customers and sell energy generation to other utilities. Also, electricity sales for resale rates are being driven down 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 was a major catalyst for the current restructuring and consolidation taking place within the utility industry. Numerous federal and state initiatives are in varying stages to promote wholesale and retail competition. Among other things, these initiatives allow customers to choose their electricity provider. As these initiatives materialize, the structure of the utility industry could radically change. 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 or are being discussed in Georgia, none have been enacted to date. Enactment would require numerous issues to be resolved, including significant ones relating to transmission pricing and recovery of any stranded investments. The inability of the Company to recover its investments, including the regulatory assets described in Note 1 to the financial statements, could have a material adverse effect on the financial condition of the Company. The Company is attempting to minimize or reduce its cost exposure.

Continuing to be a low-cost producer could provide significant opportunities to increase market share and profitability in markets that evolve with changing regulation. Conversely, unless the Company remains a low-cost producer and provides quality service, the Company's retail energy sales growth could be limited, and this could significantly erode 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."

Rates to retail customers served by the Company are regulated by the GPSC. As part of the Company's rate settlement in 1992, it was informally agreed that the Company's earned rate of return on common equity should be 12.95 percent. In June 1998, the GPSC issued a four-year accounting order which settled its review of the Company's earnings. See Note 3 to the financial statements for additional information.

The Company is subject to the provisions of Financial Accounting Standards Board (FASB) Statement No. 71, Accounting for the Effects of Certain Types of Regulation. In the event that a portion of the 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.

Exposure to Market Risks

Due to cost-based rate regulation, the Company has limited exposure to market volatility in interest rates and prices of electricity. To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed price contracts for the purchase and sale of electricity through the wholesale electricity market. Realized gains and losses are recognized in the income statement as incurred. At December 31, 1998, exposure from these activities was not material to the Company's financial statements. Also, based on the Company's overall interest rate exposure at December 31, 1998, a near-term 100 basis point change in interest rates would not materially affect the financial statements.

New Accounting Standards

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments -- including certain derivative instruments embedded in other contracts -- and for hedging activities. The Company has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In April 1998, the AICPA issued a new Statement of Position, Reporting on the Cost of Start-up Activities. This statement requires that the costs of start-up activities and organizational costs be expensed as incurred. Any of these costs previously capitalized by a company must be written off in the year of adoption. The Company adopted this statement in January 1999, and it is not expected to have a material impact on the financial statements.

In December 1998, the Emerging Issues Task Force (EITF) of the FASB issued EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. The EITF requires that energy trading contracts must be marked to market through the income statement, with gains and losses reflected rather than revenues and purchased power. Energy trading contracts are defined as energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. The Company adopted the required accounting in January 1999, and it is not expected to have a material impact on the financial statements.

Year 2000

Year 2000 Challenge

In order to save storage space, computer programmers in the 1960s and 1970s shortened the year portion of date entries to just two digits. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach, intended to save processing time and storage space, was used until the mid-1990s. Unless corrected before the Year 2000, affected software systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

The Company depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. The Company's goal is to have critical devices or software that are required to maintain operations to be Year 2000 ready by June 1999. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

The Company's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed on a monthly basis by a steering committee of Southern Company executives.

The Company's Year 2000 program was divided into two phases. Phase I began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consists of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. Completion of Phase 2 is targeted for June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the Year 2000.

Southern Company has completed more than 70 percent of the activities contained in its work plan. The percentage of completion and projected completion by function are as follows:

	Work Plan			
	Inventory	Assessment	Remediation Testing	Project Completion
Generation	100%	100%	70%	6/99
Energy Management	100	100	90	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	50	6/99
Corporate Applications	100	100	90	3/99

Year 2000 Costs

Current projected total costs for Southern Company for Year 2000 readiness are approximately $91 million, which includes $6 million of cost billed to non-affiliated companies. These costs include labor necessary to identify, test, and remediate affected devices and systems. From its inception through December 31, 1998, the Year 2000 program costs for Southern Company, recognized as expense, amounted to $56 million. The Company's total estimated costs related to the project are approximately $1.2 million. Year 2000 costs of $0.5 million and $0.2 million were expensed in 1998 and 1997, respectively. The Company's estimated cost of completion is $0.5 million.

Year 2000 Risks

The Company is implementing a detailed process to minimize the possibility of service interruptions related to the Year 2000. The Company believes, based on current tests, that the system can provide customers with electricity. These tests increase confidence, but do not guarantee error-free operations. The Company is taking what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the service territory to be isolated and short in duration.

The Company expects the risks associated with Year 2000 to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its service territory. The Company has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices are in progress. Following risk assessment, the Company is preparing contingency plans as appropriate and is participating in North American Electric Reliability Council-coordinated national drills during 1999.

The Company is currently reviewing the Year 2000 readiness of material third parties that provide goods and services crucial to the Company's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to the Company are being developed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their own Year 2000 issues.

Year 2000 Contingency Plans

Because of experience with hurricanes and other storms, the Company is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, the Company is drawing on that experience to make risk assessments and developing additional plans to deal specifically with situations that could arise relative to Year 2000 challenges. The Company is identifying critical operational locations, and key employees will be on duty at those locations during the Year 2000 transition. In September 1999, drills are scheduled to be conducted to test contingency plans. Because of the level of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the service territory isolated and short in duration.

FINANCIAL CONDITION

Overview

The principal change in the Company's financial condition in 1998 was the addition of $18.1 million to utility plant. The funds needed for gross property additions are currently provided from operating activities, principally from earnings and non-cash charges to income such as depreciation and deferred income taxes and from financing activities. See Statements of Cash Flows for additional information.

Capital Structure

As of December 31, 1998, the Company's capital structure consisted of 46.4 percent common stock equity, 10.5 percent trust preferred securities, and 43.1 percent long-term debt, excluding amounts due within one year. The Company's long-term financial objective for capitalization ratios is to maintain a capital structure of common equity at 48 percent, preferred securities at 10 percent and debt at 42 percent.

In March 1998, the Company issued $30 million of Series A 6 5/8% senior retail intermediate bonds maturing in 2015. The Company used these proceeds to redeem the remaining amount of its 8.30% first mortgage bonds due in 2022. Maturities and retirements of long-term debt were $30 million in 1998, $14 million in 1997, and $29 million in 1996.

In November 1998, the Company redeemed all of its 1,400,000 shares of 6.64% Series Preferred Stock at a redemption price of $25 per share, plus accrued dividends through the date of redemption.

In December 1998, Savannah Electric Capital Trust I, of which the Company owns all of the common securities, issued $40 million of 6.85% mandatorily redeemable preferred securities.

The composite interest rates and dividend rates for the years 1996 through 1998 as of year-end were as follows:

	1998	1997	1996
Composite interest rates on long-term debt	**6.5%**	6.9%	7.0%
Preferred stock dividend rate	**-%**	6.6%	6.6%
Trust preferred securities dividend rate	**6.9%**	-%	-%

Capital Requirements for Construction

The Company's projected construction expenditures for the next three years total $92 million ($29 million in 1999, $32 million in 2000, and $31 million in 2001). Actual construction costs may vary from this estimate because of factors such as changes in: business conditions; environmental 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. In early 1999, the Company will issue a Request for Proposal for bids to provide its capacity requirements for 2002. These bids will be compared to self-build options to identify the least cost supply option. The supply decision should be made by late summer. 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 $31.9 million will be needed by the end of 2001 for maturities of long-term debt and present sinking fund requirements.

Environmental Matters

In November 1990, the Clean Air Act was signed into law. Title IV of the Clean Air Act--the acid rain compliance provision of the law--significantly affected the Company and other subsidiaries of Southern Company. Specific reductions in sulfur dioxide and nitrogen oxide emissions from fossil-fired generating plants are required in two phases. Phase I compliance began in 1995 and initially affected 28 generating units of Southern Company. As a result of Southern Company's compliance strategy, an additional 22 generating units, which included four of the Company's units, were brought into compliance with Phase I requirements. Phase II compliance is required in 2000, and all fossil-fired generating plants will be affected.

Southern Company achieved Phase I sulfur dioxide compliance at the affected plants by switching to low-sulfur coal, which required some equipment upgrades. This compliance strategy resulted in unused emission allowances being banked for later use. Construction expenditures for Phase I compliance totaled approximately $2 million for Savannah Electric.

For Phase II sulfur dioxide compliance, Southern Company could use emission allowances, increase fuel switching, and/or install flue gas desulfurization equipment at selected plants. Also, equipment to control nitrogen oxide emissions will be installed on additional system fossil-fired plants as necessary to meet Phase II limits. Current compliance strategy for Phase II and ozone non-attainment could require total estimated construction expenditures for Southern Company of approximately $70 million, of which $16 million remains to be spent. Phase II compliance is not expected to have a material impact on Savannah Electric.

A significant portion of costs related to the acid rain provision 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.

In July 1997, the Environmental Protection Agency (EPA) revised the national ambient air quality standards for ozone and particulate matter. This revision makes the standards significantly more stringent. In September 1998, the EPA issued the final regional nitrogen oxide rules to the states for implementation. The states have one year to adopt and implement the rules. The final rules affect 22 states including Georgia. The EPA rules are being challenged in the courts by several states and industry groups. Implementation of the final state rules could require substantial further reductions in nitrogen oxide emissions from fossil-fired generating facilities and other industry in these states. Implementation of the standards could result in significant additional compliance costs and capital expenditures that cannot be determined until the results of legal challenges are known, and the states have adopted their final rules.

The EPA and state environmental regulatory agencies are reviewing and evaluating various other matters including: nitrogen oxide emission control strategies for ozone non-attainment areas; additional controls for hazardous air pollutant emissions; control strategies to reduce regional haze; and hazardous waste disposal requirements. The impact of new standards will depend on the development and implementation of applicable regulations.

The 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 Company could incur substantial costs to clean up properties currently or previously owned. The Company conducts studies to determine the extent of any required cleanup costs and will recognize in the financial statements any costs to clean up known sites.

Several major pieces of environmental legislation are being 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

At December 31, 1998, the Company had $6.0 million of cash and $40.5 million of unused short-term credit arrangements with banks to meet its short-term cash needs. Revolving credit arrangements of $20 million, which expire December 31, 2001, are also used to meet short-term cash needs and to provide additional interim funding for the Company's construction program. Of the revolving credit arrangements, $20 million remained unused at December 31, 1998.

It is anticipated that the funds required for construction and other purposes, including compliance with environmental regulation, will be derived from sources similar to those used in the past. These sources were primarily from the issuances of first mortgage bonds, other long-term debt, and preferred stock, in addition to pollution control revenue bonds issued for the Company's benefit by public authorities, to meet long-term external financing requirements. Recently, the Company's financings have consisted of unsecured debt and trust preferred securities. The Company is required to meet certain earnings coverage requirements specified in its mortgage indenture and corporate charter to issue new first mortgage bonds and preferred stock. The Company's coverage ratios are sufficiently high to permit, at present interest rate levels, any foreseeable security sales. In December 1998, the Company obtained stockholder approval to amend the corporate charter including the elimination of the restrictions on the amount of unsecured indebtedness allowed. The amount of securities which the Company will be permitted to issue in the future will depend upon market conditions and other factors prevailing at that time.

Cautionary Statement Regarding Forward-Looking Information

Savannah Electric and Power Company's 1998 Annual Report contains forward-looking and historical information. The Company cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking information; accordingly, there can be no assurance that such indicated results will be realized. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the Company's markets; potential business strategies--including acquisitions or dispositions of assets or internal restructuring--that may be pursued by the Company; state and federal rate regulation; Year 2000 issues; changes in or application of environmental and other laws and regulations to which the Company is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; and other factors discussed in the reports--including Form 10-K--filed from time to time by the Company with the Securities and Exchange Commission.

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STATEMENTS OF INCOME

For the Years Ended December 31, 1998, 1997, and 1996
Savannah Electric and Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Revenues (Note 1):			
Revenues	**$ 251,439**	$ 224,225	$ 230,944
Revenues from affiliates	**3,016**	2,052	3,130
Total operating revenues	**254,455**	226,277	234,074
Operating Expenses:			
Operation --			
Fuel	**53,021**	35,563	29,139
Purchased power from non-affiliates	**9,460**	2,347	2,350
Purchased power from affiliates	**35,687**	42,107	58,591
Other	**49,055**	47,735	44,007
Maintenance	**18,711**	13,236	14,140
Depreciation and amortization (Notes 1 and 3)	**22,032**	20,152	19,113
Taxes other than income taxes	**12,342**	11,494	11,675
Federal and state income taxes (Notes 1 and 6)	**16,335**	16,419	16,175
Total operating expenses	**216,643**	189,053	195,190
Operating Income	**37,812**	37,224	38,884
Other Income (Expense):			
Allowance for equity funds used during construction	**83**	239	317
Interest income	**384**	279	201
Other, net	**(1,781)**	(781)	(1,756)
Income taxes applicable to other income (Notes 1 and 6)	**1,234**	1,233	1,034
Income Before Interest Charges	**37,732**	38,194	38,680
Interest and Other Charges:			
Interest on long-term debt	**10,383**	10,907	11,563
Allowance for debt funds used during construction	**(133)**	(164)	(333)
Interest on notes payable	**278**	172	229
Amortization of debt discount, premium, and expense, net	**853**	739	579
Distributions on preferred securities of subsidiary trust	**167**	-	-
Other interest charges	**474**	369	378
Interest and other charges, net	**12,022**	12,023	12,416
Net Income	**25,710**	26,171	26,264
Dividends on Preferred Stock	**2,066**	2,324	2,324
Net Income After Dividends on Preferred Stock	**$ 23,644**	$ 23,847	$ 23,940

STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1998, 1997, and 1996

	1998	1997	1996
		(in thousands)	
Balance at Beginning of Year	**$ 112,720**	$ 109,373	$ 105,033
Net income after dividends on preferred stock	**23,644**	23,847	23,940
Cash dividends on common stock	**(23,500)**	(20,500)	(19,600)
Preferred stock transactions, net and other adjustments	**90**	-	-
Balance at End of Year (Note 9)	**$ 112,954**	$ 112,720	$ 109,373

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1998, 1997, and 1996
Savannah Electric and Power Company 1998 Annual Report

	1998	1997	1996
		(in thousands)	
Operating Activities:			
Net income	$ 25,710	$ 26,171	$ 26,264
Adjustments to reconcile net income to net cash provided from operating activities --			
Depreciation and amortization	23,531	21,083	20,246
Deferred income taxes and investment tax credits, net	7,011	3,841	7,482
Allowance for equity funds used during construction	(83)	(239)	(317)
Other, net	(6)	(2,577)	(641)
Changes in certain current assets and liabilities --			
Receivables, net	(9,969)	(3,239)	(641)
Inventories	705	1,720	410
Payables	470	(1,608)	4,242
Taxes accrued	(434)	2,310	(569)
Other	(4,331)	2,357	(4,038)
Net cash provided from operating activities	42,604	49,819	52,438
Investing Activities:			
Gross property additions	(18,071)	(18,846)	(28,950)
Other	1,617	(1,418)	(3,173)
Net cash used for investing activities	(16,454)	(20,264)	(32,123)
Financing Activities and Capital Contributions:			
Proceeds:			
Preferred securities	40,000	-	-
First mortgage bonds	-	-	20,000
Pollution control notes	-	13,870	-
Other long-term debt	30,000	-	17,000
Retirements:			
Preferred stock	(35,000)	-	-
First mortgage bonds	(30,000)	-	(29,400)
Pollution control bonds	-	(13,870)	-
Other long-term debt	(478)	(433)	(397)
Notes payable, net	-	(5,000)	1,000
Payment of preferred stock dividends	(2,556)	(2,324)	(2,324)
Payment of common stock dividends	(23,500)	(20,500)	(19,600)
Miscellaneous	(4,798)	(368)	(2,257)
Net cash used for financing activities	(26,332)	(28,625)	(15,978)
Net Change in Cash and Cash Equivalents	(182)	930	4,337
Cash and Cash Equivalents at Beginning of Year	6,144	5,214	877
Cash and Cash Equivalents at End of Year	$ 5,962	$ 6,144	$ 5,214
Supplemental Cash Flow Information:			
Cash paid during the year for-			
Interest (net of amount capitalized)	$12,198	$11,619	$12,960
Income taxes	9,666	11,150	10,926

( ) Denotes use of cash.
The accompanying notes are an integral part of these statements.

BALANCE SHEETS

At December 31, 1998 and 1997
Savannah Electric and Power Company 1998 Annual Report

Assets	1998	1997
		(in thousands)
Utility Plant:		
Plant in service, at original cost (Notes 1, 4, 5, and 8)	**$ 781,964**	$ 760,694
Less accumulated provision for depreciation	**341,930**	321,509
	440,034	439,185
Construction work in progress	**2,908**	7,709
Total	**442,942**	446,894
Other Property and Investments	**1,420**	1,783
Current Assets:		
Cash and cash equivalents	**5,962**	6,144
Special deposits	**-**	94
Receivables-		
Customer accounts receivable	**18,030**	21,148
Other accounts and notes receivable	**3,543**	720
Affiliated companies	**1,388**	1,128
Accumulated provision for uncollectible accounts	**(284)**	(354)
Fuel cost under recovery	**17,628**	7,694
Fossil fuel stock, at average cost	**4,984**	5,205
Materials and supplies, at average cost (Note 1)	**6,496**	6,980
Prepayments	**4,772**	5,922
Total	**62,519**	54,681
Deferred Charges and Other Assets:		
Deferred charges related to income taxes (Note 6)	**17,130**	17,267
Debt issue expense, being amortized	**3,554**	2,255
Premium on reacquired debt, being amortized	**8,570**	7,121
Prepaid pension costs (Note 2)	**3,281**	3,424
Cash surrender value of life insurance for deferred compensation plans	**14,179**	12,130
Miscellaneous	**2,204**	1,797
Total	**48,918**	43,994
Total Assets	**$ 555,799**	$ 547,352

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

At December 31, 1998 and 1997

Savannah Electric and Power Company 1998 Annual Report

Capitalization and Liabilities	1998	1997
		(in thousands)
Capitalization (See accompanying statements):		
Common stock equity	**$ 175,865**	$ 175,631
Preferred stock	**-**	35,000
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding company junior subordinated notes (Note 7)	**40,000**	-
Long-term debt	**163,443**	142,846
Total	**379,308**	353,477
Current Liabilities:		
Amount of securities due within one year (Note 8)	**689**	21,764
Accounts payable-		
Affiliated companies	**5,014**	6,025
Other	**10,833**	7,862
Customer deposits	**5,224**	5,541
Taxes accrued-		
Federal and state income	**2,467**	534
Other	**2,891**	2,791
Interest accrued	**3,815**	4,963
Vacation pay accrued	**1,978**	1,893
Miscellaneous	**6,700**	9,031
Total	**39,611**	60,404
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 6)	**82,778**	80,697
Accumulated deferred investment tax credits (Note 6)	**11,943**	12,607
Deferred credits related to income taxes (Note 6)	**21,349**	21,469
Deferred compensation plans	**9,788**	9,272
Postretirement benefits (Note 2)	**6,434**	6,011
Miscellaneous	**4,588**	3,415
Total	**136,880**	133,471
Commitments and Contingent Matters (Notes 1, 2, 3, 4, 5, and 8)		
Total Capitalization and Liabilities	**$ 555,799**	$ 547,352

The accompanying notes are an integral part of these statements.

STATEMENTS OF CAPITALIZATION

At December 31, 1998 and 1997
Savannah Electric and Power Company 1998 Annual Report

	1998	1997	1998	1997
	(in thousands)		(percent of total)	
Common Stock Equity (Note 9):				
Common stock, par value $5 per share --				
Authorized -- 16,000,000 shares				
Outstanding -- 10,844,635 shares in				
1998 and 1997	**$ 54,223**	$ 54,223		
Paid-in capital	**8,688**	8,688		
Retained earnings	**112,954**	112,720		
Total common stock equity	**175,865**	175,631	**46.4 %**	49.7 %
Cumulative Preferred Stock (Note 7):				
$25 par value --				
Authorized -- 2,200,000 shares				
6.64% Series -- Outstanding -- 1,400,000 shares				
in 1997	**-**	35,000		
Total (annual dividend requirement -- $2,324,000)	**-**	35,000	**-**	9.9
Company Obligated Mandatorily Redeemable				
Preferred Securities (Note 7):				
$25 Liquidation Value -- 6.85%	**40,000**	-		
Total (annual distribution requirement -- $2,740,000)	**40,000**	-	**10.5**	-
Long-Term Debt (Note 8):				
First mortgage bonds --				
Maturity / Interest Rates				
July 1, 2003 — 6 3/8%	**20,000**	20,000		
May 1, 2006 — 6.90%	**20,000**	20,000		
July 1, 2022 — 8.30%	**-**	30,000		
July 1, 2023 — 7.40%	**25,000**	25,000		
May 1, 2025 — 7 7/8%	**15,000**	15,000		
Other long-term debt --				
Pollution control revenue bonds --				
Collateralized:				
Variable rate (4.00% at 1/1/99) due 2016	**4,085**	4,085		
Variable rate bank note (5.10% at 1/1/99) due 2037	**13,870**	13,870		
Long-term notes payable --				
6.88% due 2001	**10,000**	10,000		
Variable rate (5.38% at 1/1/99) due 2001	**10,000**	15,000		
Variable rate (5.77% at 1/1/99) due 2001	**10,000**	5,000		
6 5/8% Retail Intermediate Bond due 2015	**30,000**	-		
Capitalized lease obligations --				
Coal unloading facility variable rate (5.80% at 1/1/99)	**5,467**	5,867		
Transportation fleet	**710**	788		
Total long-term debt (annual interest				
requirement -- $10,717,000)	**164,132**	164,610		
Less amount due within one year (Note 8)	**689**	21,764		
Long-term debt excluding amount due within one year	**163,443**	142,846	**43.1**	40.4
Total Capitalization	**$ 379,308**	$ 353,477	**100.0 %**	100.0 %

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Savannah Electric and Power Company (the Company), is a wholly owned subsidiary of Southern Company, which is the parent company of five operating companies, a system service company, Southern Communications Services (Southern LINC), Southern Energy, Inc. (Southern Energy), Southern Nuclear Operating Company (Southern Nuclear), Southern Company Energy Solutions, and other direct and indirect subsidiaries. The operating companies provide electric service in four southeastern states. Contracts among the companies--dealing with 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. Worldwide, Southern Energy develops and manages electricity and other energy related projects, including domestic energy trading and marketing. Southern Nuclear provides services to Southern Company's nuclear power plants. Southern Company Energy Solutions develops new business opportunities related to energy products and services.

Southern Company is registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). Both Southern Company and its subsidiaries are subject to the regulatory provisions of the PUHCA. The Company also is subject to regulation by the FERC and the Georgia Public Service Commission (GPSC). The Company follows generally accepted accounting principles and complies with the accounting policies and practices prescribed by the GPSC. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates, and the actual results may differ from those estimates.

Certain prior years' data presented in the financial statements has been reclassified to conform with the current year presentation.

Regulatory Assets and Liabilities

The Company is 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 to the Company 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 Balance Sheets at December 31 relate to:

	1998	1997
	(in thousands)	
Deferred income taxes	**$ 17,130**	$ 17,267
Premium on reacquired debt	**8,570**	7,121
Deferred income tax credits	**(21,349)**	(21,469)
Storm damage reserves	**(1,580)**	(1,500)
Accelerated depreciation	**(1,000)**	-
Total	**$ 1,771**	$ 1,419

In the event that a portion of the Company's operations is no longer subject to the provisions of Statement No. 71, the Company would be required to write off related net 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.

Revenues and Fuel Costs

The Company currently operates as a vertically integrated utility providing electricity to retail customers within its traditional service area of southeastern Georgia, and to non-affiliated customers in the Southeast. Revenues, less affiliated transactions, by type of service were as follows:

	1998	1997	1996
		(in thousands)	
Retail	**$242,327**	$219,458	$227,982
Sales for resale--			
Non-affiliates	**4,548**	3,467	1,998
Other	**4,564**	1,300	964
Total	**$251,439**	$224,225	$230,944

Other revenues include rents and revenues from non-utility services.

The Company accrues revenues for service rendered but unbilled at the end of each fiscal period. Fuel costs are expensed as the fuel is used. The Company's electric rates 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 rates.

The Company has a diversified base of customers. No single customer or industry comprises 10 percent or more of revenues. In 1998, uncollectible accounts continued to average less than 1 percent of revenues.

In January 1999, the GPSC approved an increase of slightly over one-tenth of a cent per kilowatt-hour in the Company's fuel allowance, effective in February 1999.

Depreciation and Amortization

Depreciation of the original cost of depreciable utility plant in service is provided primarily by using composite straight-line rates, which approximated 2.9 percent in 1998 and 1997 and 2.8 percent in 1996. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its cost--together with the cost of removal, less salvage--is charged to the accumulated provision for 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 cost of removal of certain facilities. See Note 3 to the financial statements for more information.

Income Taxes

The Company, which is included in the consolidated federal income tax return filed by 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.

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new facilities. While cash is not realized currently from such allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense. The composite rates used by the Company to calculate AFUDC were 8.00 percent in 1998, 9.24 percent in 1997 and 8.69 percent in 1996.

Utility Plant

Utility plant is stated at original cost, which includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and AFUDC. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. The cost of replacements of property (exclusive of minor items of property) is charged to utility plant.

Cash and Cash Equivalents

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

Financial Instruments

The Company's financial instruments for which the carrying amounts did not equal fair value at December 31 were as follows:

	Carrying Amount	Fair Value
	(in millions)	
Long-term debt:		
At December 31, 1998	**$158**	**$162**
At December 31, 1997	158	161
Trust preferred securities:		
At December 31, 1998	**$40**	**$40**
At December 31, 1997	-	-

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

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.

2. RETIREMENT BENEFITS

The Company has defined benefit, trusteed, non-contributory pension plans that cover substantially all employees. The Company provides certain medical care and life insurance benefits for retired employees. Substantially all these employees may become eligible for such benefits when they retire. The Company funds trusts to the extent deductible under federal income tax regulations or to the extent required by the GPSC. In 1998, the Company adopted FASB Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits. The measurement date is September 30 of each year.

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

	1998	1997
Discount	**6.75%**	7.50%
Annual salary increase	**4.25**	5.00
Long-term return on plan assets	**8.50**	8.50

Pension Plan

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$51,720**	$49,914
Service cost	**1,495**	1,393
Interest cost	**3,806**	3,556
Benefits paid	**(3,392)**	(2,403)
Actuarial (gain) loss and employee transfers	**4,343**	(740)
Amendments	**1,235**	-
Balance at end of year	**$59,207**	$51,720

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$50,630**	$42,430
Actual return on plan assets	**171**	7,603
Employer contributions	**2,464**	3,000
Benefits paid	**(3,392)**	(2,403)
Employee transfers	**(243)**	-
Balance at end of year	**$49,630**	$50,630

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

	1998	1997
	(in thousands)	
Funded status	**$(9,577)**	$ (1,090)
Unrecognized transition obligation	**266**	355
Unrecognized prior service cost	**2,874**	1,884
Unrecognized net loss	**9,718**	1,275
Fourth quarter contributions	**-**	1,000
Prepaid asset recognized in the Balance Sheets	**$ 3,281**	$ 3,424

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
		(in thousands)	
Service cost	**$1,495**	$1,393	$1,352
Interest cost	**3,806**	3,556	3,389
Expected return on plan assets	**(3,992)**	(3,782)	(3,263)
Recognized net loss	**2**	475	626
Net amortization	**334**	280	224
Net pension cost	**$1,645**	$1,922	$2,328

Postretirement Benefits

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

	Projected Benefit Obligations	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$20,899**	$20,520
Service cost	**348**	319
Interest cost	**1,527**	1,499
Benefits paid	**(839)**	(526)
Actuarial (gain) loss and employee transfers	**1,621**	(913)
Balance at end of year	**$23,556**	$20,899

	Plan Assets	
	1998	1997
	(in thousands)	
Balance at beginning of year	**$3,110**	$2,473
Actual return on plan assets	**85**	365
Employer contributions	**1,447**	798
Benefits paid	**(839)**	(526)
Balance at end of year	**$3,803**	$3,110

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

	1998	1997
	(in thousands)	
Funded status	**$(19,753)**	$(17,789)
Unrecognized transition obligation	**6,913**	7,407
Unrecognized net loss	**5,444**	3,737
Fourth quarter contributions	**1,152**	749
Accrued liability recognized in the Balance Sheets	**$ (6,244)**	$ (5,896)

Components of the plans' net periodic cost were as follows:

	1998	1997	1996
	(in thousands)		
Service cost	**$ 348**	$ 319	$ 360
Interest cost	**1,528**	1,499	1,422
Expected return on plan assets	**(276)**	(211)	(129)
Recognized net loss	**104**	125	171
Net amortization	**494**	494	494
Net postretirement cost	**$2,198**	$2,226	$2,318

An additional assumption used in measuring the accumulated postretirement benefit obligations was a weighted average medical care cost trend rate of 8.30 percent for 1998, decreasing gradually to 4.75 percent through the year 2005, 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, 1998 as follows:

	1 Percent Increase	1 Percent Decrease
	(in thousands)	
Benefit obligation	$1,301	$(1,227)
Service and interest costs	107	(101)

The Company has a supplemental retirement plan for certain executive employees. The plan is unfunded and payable from the general funds of the Company. The Company has purchased life insurance on participating executives, and plans to use these policies to satisfy this obligation. Benefit costs associated with this plan were $0.4 million for 1998, 1997 and 1996.

Work Force Reduction Program

In 1997, the Company incurred a $1.9 million, one-time charge to other operation expense for costs related to the implementation of a work force reduction program.

3. REGULATORY MATTERS

Rates to retail customers served by the Company are regulated by the GPSC. As part of the Company's rate settlement in 1992, it was informally agreed that the Company's earned rate of return on common equity should be 12.95 percent.

In June 1998, the GPSC approved a four-year accounting order for the Company. Under this order, the Company will reduce the electric rates of its small business customers by approximately $11 million over the next four years. The Company will also expense an additional $1.95 million in storm damage accruals and accrue an additional $8 million in depreciation on generating assets over the term of the order. The additional depreciation will be accumulated in a regulatory liability account to be available to mitigate any potential stranded costs. In addition, the Company has discretionary authority to provide up to an additional $0.3 million per year in storm damage accruals and up to an additional $4.0 million in depreciation expense over the four years. The Company is also precluded from asking for a rate increase except upon significant changes in economic conditions, new laws, or regulations. There will be a quarterly monitoring of the Company's earnings performance.

4. CONSTRUCTION PROGRAM

The Company is engaged in a continuous construction program, currently estimated to total $29 million in 1999, $32 million in 2000, and $31 million in 2001. The construction program is 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; revised load growth estimates; changes in environmental regulations; increasing costs of labor, equipment, and materials; and changes in cost of capital. The Company does not have any traditional baseload generating plants under construction. However, construction related to transmission and distribution facilities and the upgrading of generating plants will continue.

5. FINANCING AND COMMITMENTS

General

To the extent possible, the Company's construction program is expected to be financed from internal sources and from the issuance of additional long-term debt, preferred securities, and capital contributions from Southern Company.

The amounts of long-term debt and preferred securities that can be issued in the future will be contingent on market conditions, the maintenance of adequate earnings levels, regulatory authorizations, and other factors.

Bank Credit Arrangements

At the end of 1998, unused credit arrangements with six banks totaled $40.5 million and expire at various times during 1999 and 2000.

The Company's revolving credit arrangements of $20 million, all of which remained unused as of December 31, 1998, expire December 31, 2001. These agreements allow short-term borrowings to be converted into term loans, payable in 12 equal quarterly installments, with the first installment due at the end of the first calendar quarter after the applicable termination date or at an earlier date at the Company's option.

In connection with these credit arrangements, the Company agrees to pay commitment fees based on the unused portions of the commitments.

Assets Subject to Lien

As amended and supplemented, the Company's Indenture of Mortgage, which secures the first mortgage bonds issued by the Company, constitutes a direct first lien on substantially all of the Company's fixed property and franchises. A second lien for $10 million of bank debt is secured by a portion of the Plant Kraft property and a second lien for $34 million in bank notes is secured by a portion of the Plant McIntosh property.

Fuel Commitments

To supply a portion of the fuel requirements of its generating plants, the Company has entered into long-term commitments for the procurement of fuel. In most cases, these contracts contain provisions for price escalations, minimum purchase levels, and other financial commitments. The Company has fuel commitments of $12.0 million and $9.0 million for 1999 and 2000, respectively.

Operating Leases

The Company has rental agreements with various terms and expiration dates. Rental expenses totaled $1.1 million for 1998, $1.2 million for 1997, and $1.6 million for 1996. The Company entered into a 22.5 year lease agreement effective December 1, 1995 for 100 new aluminum rail cars at an annual cost of approximately $0.5 million. The rail cars are used to transport coal to one of the Company's generating plants.

At December 31, 1998, estimated future minimum lease payments for noncancelable operating leases were as follows:

	Rental Commitments
	(in thousands)
1999	$ 483
2000	483
2001	483
2002	483
2003	483
2004 and thereafter	6,969

6. INCOME TAXES

At December 31, 1998, tax-related regulatory assets and liabilities were $17 million and $21 million, respectively. The assets are attributable to tax benefits flowed through to customers in prior years and to taxes applicable to capitalized AFUDC. The liabilities are attributable to deferred taxes previously recognized at rates higher than current enacted tax law and to unamortized investment tax credits.

Details of income tax provisions are as follows:

	1998	1997	1996
	(in thousands)		
Total provision for income taxes			
Federal --			
Currently payable	**$ 6,763**	$ 9,743	$ 7,084
Deferred -- current year	**8,377**	4,522	8,216
-- reversal of prior years	**(2,565)**	(1,381)	(1,989)
	12,575	12,884	13,311
State --			
Currently payable	**1,327**	1,603	575
Deferred -- current year	**1,174**	569	1,216
-- reversal of prior years	**25**	130	39
	2,526	2,302	1,830
Total	**15,101**	15,186	15,141
Less income taxes credited to other income	**(1,234)**	(1,233)	(1,034)
Total income taxes charged to operations	**$16,335**	$16,419	$16,175

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:

	1998	1997
Deferred tax liabilities:	(in thousands)	
Accelerated depreciation	**$75,187**	$72,663
Property basis differences	**7,591**	8,034
Other	**10,187**	5,850
Total	**92,965**	86,547
Deferred tax assets:		
Pension and other benefits	**4,892**	5,338
Other	**2,828**	2,957
Total	**7,720**	8,295
Net deferred tax liabilities	**85,245**	78,252
Portions included in current assets, net	**(2,467)**	2,445
Accumulated deferred income taxes in the Balance Sheets	**$82,778**	$80,697

Deferred investment tax credits are amortized over the life of the related property with such amortization normally applied as a credit to reduce depreciation in the Statements of Income. Credits amortized in this manner amounted to $0.7 million in 1998, 1997, and 1996. At December 31, 1998, all investment tax credits available to reduce federal income taxes payable had been utilized.

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	1998	1997	1996
Federal statutory tax rate	35%	35%	35%
State income tax, net of federal income tax benefit	4	4	3
Other	(2)	(2)	(1)
Effective income tax rate	37%	37%	37%

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. Tax benefits from losses of the parent company are allocated to each subsidiary based on the ratio of taxable income to total consolidated taxable income.

7. CUMULATIVE PREFERRED STOCK AND TRUST PREFERRED SECURITIES

In November 1998, the Company redeemed all of its 1,400,000 shares of 6.64% Series Preferred Stock at a redemption price of $25 per share, plus accrued dividends through the date of redemption.

In December 1998, Savannah Electric Capital Trust I, of which the Company owns all of the common securities, issued $40 million of 6.85% mandatorily redeemable preferred securities. Substantially all of the assets of Trust I are $40 million aggregate principal amount of the Company's 6.85% junior subordinated notes due December 31, 2028.

The Company considers that the mechanisms and obligations relating to the preferred securities, taken together, constitute a full and unconditional guarantee by the Company of payment obligations with respect to the preferred securities of Savannah Electric Capital Trust I.

Savannah Electric Capital Trust I is a subsidiary of the Company, and accordingly is consolidated in the Company's financial statements.

8. LONG-TERM DEBT AND LONG-TERM DEBT DUE WITHIN ONE YEAR

The Company's Indenture related to its First Mortgage Bonds is unlimited as to the authorized amount of bonds which may be issued, provided that required property additions, earnings and other provisions of such Indenture are met.

In March 1998, the Company issued $30 million of Series A 6 5/8% senior retail intermediate bonds maturing in 2015. The Company used these proceeds to redeem the remaining amount of its 8.30% first mortgage bonds due in 2022. Maturities and retirements of long-term debt were $30 million in 1998, $14 million in 1997 and $29 million in 1996.

In April 1997, the Company issued $14 million in variable rate pollution control obligations (bank note) maturing in 2037. The Company redeemed all of its remaining outstanding 6 ¾% Pollution Control Bonds due 2022.

Assets acquired under capital leases are recorded as utility plant in service, and the related obligation is classified as other long-term debt. Leases are capitalized at the net present value of the future lease payments. However, for ratemaking purposes, these obligations are treated as operating leases, and as such, lease payments are charged to expense as incurred.

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

	1998	1997
	(in thousands)	
Bond sinking fund requirement	$800	$ 1,100
Less:		
Portion to be satisfied by certifying property additions	800	-
Cash sinking fund requirement	-	1,100
Other long-term debt maturities	689	20,664
Total	$689	$21,764

The first mortgage bond improvement (sinking) fund requirements amount to 1 percent of each outstanding series of bonds authenticated under the Indenture prior to January 1 of each year, other than those issued to collateralize pollution control and other obligations. The requirements may be satisfied by depositing cash or reacquiring bonds, or by pledging additional property equal to 1 2/3 times the requirements.

The sinking fund requirements of first mortgage bonds were satisfied by cash redemption in 1998 and by certifying property additions in 1997. It is anticipated that the 1999 requirement will be satisfied by certifying property additions. Sinking fund requirements and/or maturities through 2003 applicable to long-term debt are as follows: $0.7 million in 1999; $0.6 million in 2000; $30.5 million in 2001; $0.5 million in 2002; and $20.4 million in 2003.

9. COMMON STOCK DIVIDEND RESTRICTIONS

The Company's Indenture contains certain limitations on the payment of cash dividends on common stock. At December 31, 1998, approximately $68 million of retained earnings was restricted against the payment of cash dividends on common stock under the terms of the Indenture.

10. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Summarized quarterly financial data for 1998 and 1997 are as follows (in thousands):

Quarter Ended	Operating Revenues	Operating Income	Net Income After Dividends on Preferred Stock
March 1998	**$48,381**	**$ 6,214**	**$ 2,426**
June 1998	**69,616**	**11,606**	**7,807**
September 1998	**84,224**	**16,056**	**12,518**
December 1998	**52,234**	**3,936**	**893**
March 1997	$42,945	$ 6,117	$ 2,545
June 1997	52,516	8,626	5,136
September 1997	79,900	17,531	14,276
December 1997	50,916	4,950	1,890

The Company's business is influenced by seasonal weather conditions and a seasonal rate structure, among other factors.

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SELECTED FINANCIAL AND OPERATING DATA

Savannah Electric and Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands)	**$254,455**	$226,277	$234,074
Net Income after Dividends on Preferred and Preference Stocks (in thousands)	**$23,644**	$23,847	$23,940
Cash Dividends on Common Stock (in thousands)	**$23,500**	$20,500	$19,600
Return on Average Common Equity (percent)	**13.45**	13.71	14.08
Total Assets (in thousands)	**$555,799**	$547,352	$544,900
Gross Property Additions (in thousands)	**$18,071**	$18,846	$28,950
Capitalization (in thousands):			
Common stock equity	**$175,865**	$175,631	$172,284
Preferred stock	**-**	35,000	35,000
Preferred and preference stock subject to mandatory redemption	**-**	-	-
Trust preferred securities	**40,000**	-	-
Long-term debt	**163,443**	142,846	164,406
Total (excluding amounts due within one year)	**$379,308**	$353,477	$371,690
Capitalization Ratios (percent):			
Common stock equity	**46.4**	49.7	46.4
Preferred and preference stock	**-**	9.9	9.4
Trust preferred securities	**10.5**	-	-
Long-term debt	**43.1**	40.4	44.2
Total (excluding amounts due within one year)	**100.0**	100.0	100.0
First Mortgage Bonds (in thousands):			
Issued	**-**	-	20,000
Retired	**30,000**	-	29,400
Preferred Stock and Preferred Securities (in thousands):			
Issued	**40,000**	-	-
Retired	**35,000**	-	-
Security Ratings:			
First Mortgage Bonds -			
Moody's	**A1**	A1	A1
Standard and Poor's	**AA-**	AA-	A+
Preferred Stock -			
Moody's	**"a2"**	"a2"	"a2"
Standard and Poor's	**A**	A	A
Customers (year-end):			
Residential	**110,437**	109,092	106,657
Commercial	**15,328**	14,233	13,877
Industrial	**63**	64	65
Other	**377**	1,129	1,097
Total	**126,205**	124,518	121,696
Employees (year-end)	**542**	535	571

SELECTED FINANCIAL AND OPERATING DATA

Savannah Electric and Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$225,729	$211,785	$218,442	$197,761	$189,646	$205,635	$201,799	$182,440
$23,395	$22,110	$21,459	$20,512	$24,030	$26,254	$25,535	$24,272
$17,600	$16,300	$21,000	$22,000	$22,000	$22,000	$20,000	$11,700
14.20	14.00	13.73	12.89	15.13	16.85	16.88	17.03
$524,662	$518,305	$527,187	$352,175	$352,505	$340,050	$349,887	$347,051
$26,503	$30,078	$72,858	$30,132	$19,478	$20,086	$18,831	$23,254
$167,812	$161,581	$154,269	$158,376	$159,841	$157,811	$153,737	$148,883
35,000	35,000	35,000	20,000	20,000	20,000	22,300	22,300
-	-	-	-	-	-	2,884	3,075
-	-	-	-	-	-	-	-
153,679	155,922	151,338	110,767	119,280	112,377	117,522	98,285
$356,491	$352,503	$340,607	$289,143	$299,121	$290,188	$296,443	$272,543
47.1	45.8	45.3	54.8	53.4	54.4	51.9	54.6
9.8	9.9	10.3	6.9	6.7	6.9	8.5	9.3
-	-	-	-	-	-	-	-
43.1	44.3	44.4	38.3	39.9	38.7	39.6	36.1
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15,000	-	45,000	30,000	30,000	-	30,000	-
29,250	5,065	-	38,750	22,500	9,135	18,275	12,231
-	-	35,000	-	-	-	-	20,000
-	-	20,000	-	-	5,374	6,591	553
A1	A1	A1	A1	A1	A1	A1	A1
A+	A	A	A	A	A	A	A-
"a2"	"a2"	"a2"	"a2"	"a2"	"a2"	"a2"	"a2"
A	A-	A-	A-	A-	A-	A-	BBB+
104,624	103,199	101,032	99,164	97,446	96,452	94,766	93,486
13,339	13,015	12,702	12,416	12,153	12,045	12,298	12,135
65	65	69	73	73	76	69	69
1,048	1,007	957	940	897	867	856	828
119,076	117,286	114,760	112,593	110,569	109,440	107,989	106,518
584	616	665	688	672	648	643	655

SELECTED FINANCIAL AND OPERATING DATA (continued)

Savannah Electric and Power Company 1998 Annual Report

	1998	1997	1996
Operating Revenues (in thousands):			
Residential	**$109,393**	$96,587	$101,607
Commercial	**86,231**	78,949	80,494
Industrial	**37,865**	35,301	37,077
Other	**8,838**	8,621	8,804
Total retail	**242,327**	219,458	227,982
Sales for resale - non-affiliates	**4,548**	3,467	1,998
Sales for resale - affiliates	**3,016**	2,052	3,130
Total revenues from sales of electricity	**249,891**	224,977	233,110
Other revenues	**4,564**	1,300	964
Total	**$254,455**	$226,277	$234,074
Kilowatt-Hour Sales (in thousands):			
Residential	**1,539,792**	1,428,337	1,456,651
Commercial	**1,236,337**	1,156,078	1,141,218
Industrial	**900,012**	881,261	838,753
Other	**131,142**	124,490	126,215
Total retail	**3,807,283**	3,590,166	3,562,837
Sales for resale - non-affiliates	**53,294**	94,280	91,610
Sales for resale - affiliates	**58,415**	54,509	41,808
Total	**3,918,992**	3,738,955	3,696,255
Average Revenue Per Kilowatt-Hour (cents):			
Residential	**7.10**	6.76	6.98
Commercial	**6.97**	6.83	7.05
Industrial	**4.21**	4.01	4.42
Total retail	**6.36**	6.11	6.40
Sale for resale	**6.77**	3.71	3.84
Total sales	**6.38**	6.02	6.31
Residential Average Annual Kilowatt-Hour Use Per Customer	**14,061**	13,231	13,771
Residential Average Annual Revenue Per Customer	**$998.95**	$894.73	$960.58
Plant Nameplate Capacity Ratings (year-end) (megawatts)	**788**	788	788
Maximum Peak-Hour Demand (megawatts):			
Winter	**582**	625	666
Summer	**846**	802	811
Annual Load Factor (percent)	**54.9**	54.3	53.1
Plant Availability - Fossil-Steam (percent)	**72.9**	93.7	77.6
Source of Energy Supply (percent):			
Coal	**41.6**	34.4	27.7
Oil and gas	**12.9**	5.2	3.1
Purchased power -			
From non-affiliates	**3.4**	1.4	2.1
From affiliates	**42.1**	59.0	67.1
Total	**100.0**	100.0	100.0
Total Fuel Economy Data:			
BTU per net kilowatt-hour generated	**11,730**	11,495	11,888
Cost of fuel per million BTU (cents)	**198.75**	197.19	203.36
Average cost of fuel per net kilowatt-hour generated (cents)	**2.33**	2.27	2.42

SELECTED FINANCIAL AND OPERATING DATA (continued)

Savannah Electric and Power Company 1998 Annual Report

1995	1994	1993	1992	1991	1990	1989	1988
$95,208	$89,195	$93,883	$82,670	$80,541	$87,063	$85,113	$81,098
75,117	71,227	71,320	64,756	61,827	65,462	65,474	62,640
36,040	32,906	36,180	33,171	30,492	30,237	28,304	26,865
8,386	7,946	7,810	7,095	6,561	6,782	6,892	6,557
214,751	201,274	209,193	187,692	179,421	189,544	185,783	177,160
1,851	4,786	6,021	7,821	7,813	9,482	8,814	808
7,200	6,446	2,433	1,505	1,430	5,566	6,025	3,567
223,802	212,506	217,647	197,018	188,664	204,592	200,622	181,535
1,927	(721)	795	743	982	1,043	1,177	905
$225,729	$211,785	$218,442	$197,761	$189,646	$205,635	$201,799	$182,440
1,402,148	1,298,122	1,329,362	1,216,993	1,195,005	1,183,486	1,109,976	1,067,411
1,099,570	1,045,831	1,015,935	953,840	925,757	892,931	839,756	806,687
887,141	799,543	854,324	861,121	825,862	644,704	561,063	533,604
126,057	119,593	115,969	110,270	106,683	103,539	101,164	97,072
3,514,916	3,263,089	3,315,590	3,142,224	3,053,307	2,824,660	2,611,959	2,504,774
87,747	201,716	247,203	367,066	372,085	441,090	437,943	24,168
63,731	93,001	75,384	37,632	32,581	294,042	303,142	156,106
3,666,394	3,557,806	3,638,177	3,546,922	3,457,973	3,559,792	3,353,044	2,685,048
6.79	6.87	7.06	6.79	6.74	7.36	7.67	7.60
6.83	6.81	7.02	6.79	6.68	7.33	7.80	7.77
4.06	4.12	4.23	3.85	3.69	4.69	5.04	5.03
6.11	6.17	6.31	5.97	5.88	6.71	7.11	7.07
5.98	3.81	2.62	2.30	2.28	2.05	2.00	2.43
6.10	5.97	5.98	5.55	5.46	5.75	5.98	6.76
13,478	12,686	13,269	12,369	12,323	12,339	11,781	11,489
$915.15	$871.68	$937.07	$840.23	$830.54	$907.68	$903.37	$872.87
788	788	628	628	605	605	605	605
630	617	524	533	526	428	548	471
811	729	747	695	691	648	613	574
52.9	54.3	54.1	55.0	54.1	53.2	52.4	53.4
83.3	81.0	90.2	89.1	76.9	89.6	94.7	77.1
23.9	18.6	21.5	12.0	16.3	52.8	63.5	79.8
5.9	1.8	4.5	2.9	1.7	3.4	1.4	5.4
2.3	1.5	0.9	1.0	0.4	0.8	1.5	5.9
67.9	78.1	73.1	84.1	81.6	43.0	33.6	8.9
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
12,146	11,786	11,515	12,547	10,917	10,741	10,611	10,683
179.25	205.03	215.97	201.50	199.42	188.18	180.48	178.31
2.18	2.42	2.49	2.53	2.18	2.02	1.92	1.90

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PART III

Items 10, 11, 12 and 13 for SOUTHERN are incorporated by reference to ELECTION OF DIRECTORS in SOUTHERN's definitive Proxy Statement relating to the 1999 annual meeting of stockholders. The ages of directors and executive officers in Item 10 set forth below are as of December 31, 1998.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

ALABAMA

Identification of directors of ALABAMA.

Elmer B. Harris (1)
President and Chief Executive Officer
Age 59
Served as Director since 3-1-89

Whit Armstrong (2)
Age 51
Served as Director since 9-24-82

David J. Cooper, Sr. (2)
Age 53
Served as Director since 4-24-98

A. W. Dahlberg (2)
Age 58
Served as Director since 4-22-94

Peter V. Gregerson, Sr. (2)
Age 70
Served as Director since 10-22-93

Carl E. Jones, Jr. (2)
Age 58
Served as Director since 4-22-88

Patricia M. King (2)
Age 53
Served as Director since 7-25-97

James K. Lowder (2)
Age 49
Served as Director since 7-25-97

Wallace D. Malone, Jr. (2)
Age 62
Served as Director since 6-22-90

Thomas C. Meredith (2)
Age 57
Served as Director since 10-23-98

William V. Muse (2)
Age 59
Served as Director since 2-26-93

John T. Porter (2)
Age 67
Served as Director since 10-22-93

Robert D. Powers (2)
Age 48
Served as Director since 1-24-92

Andreas Renschler (2)
Age 40
Served as Director since 1-23-98

C. Dowd Ritter (2)
Age 51
Served as Director since 7-25-97

William J. Rushton, III (2)
Age 69
Served as Director since 9-18-70

James H. Sanford (2)
Age 54
Served as Director since 8-1-83

John C. Webb, IV (2)
Age 56
Served as Director since 4-22-77

(1) *Previously served as Director of ALABAMA from 1980 to 1985.*
(2) *No position other than Director.*

Each of the above is currently a director of ALABAMA, serving a term running from the last annual meeting of ALABAMA's stockholder (April 24, 1998) for one year until the next annual meeting or until a successor is elected and qualified, except for Dr. Meredith, who was elected on the date indicated.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of ALABAMA acting solely in their capacities as such.

Identification of executive officers of ALABAMA.

Elmer B. Harris (1)
President, Chief Executive Officer and Director
Age 59
Served as Executive Officer since 3-1-89

Banks H. Farris
Executive Vice President
Age 63
Served as Executive Officer since 12-3-91

Michael D. Garrett
Executive Vice President - External Affairs
Age 49
Served as Executive Officer since 3-1-98

William B. Hutchins, III
Executive Vice President, Chief Financial Officer and Treasurer
Age 55
Served as Executive Officer since 12-3-91

Earl B. Parsons, Jr.
Senior Vice President
Age 60
Served as Executive Officer since 6-1-98

(1) *Previously served as executive officer of ALABAMA from 1979 to 1985.*

Each of the above is currently an executive officer of ALABAMA, serving a term running from the last annual meeting of the directors (April 24, 1998) for one year until the next annual meeting or until his successor is elected and qualified, except for Mr. Parsons, who was elected on the date indicated.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of ALABAMA acting solely in their capacities as such.

Identification of certain significant employees.
None.

Family relationships.
None.

Business experience.

Elmer B. Harris – President and Chief Executive Officer since 1989. Director of SOUTHERN and AmSouth Bancorporation.

Whit Armstrong – President, Chairman of the Board and Director of The Citizens Bank, Enterprise, Alabama. Also, President, Chairman of the Board and Director of Enterprise Capital Corporation, Inc. Director of The Enstar Group, Inc.

David J. Cooper, Sr. – President of Cooper/T. Smith Corporation, a maritime company with a core business of stevedoring and tugboats. Director of Cooper/T. Smith Corporation and subsidiaries. Chairman of the Board, American Equity Underwriters, Inc., Mobile, Alabama.

A. W. Dahlberg - Chairman, President and Chief Executive Officer of SOUTHERN since 1995. He previously served as President of SOUTHERN from 1994 to 1995 and President and Chief Executive Officer of GEORGIA from 1988 through 1993. Director of SOUTHERN, GEORGIA, Equifax, Inc., Protective Life Corporation and SunTrust Banks, Inc.

Peter V. Gregerson, Sr. - Chairman Emeritus of Gregerson's Foods, Inc. (retail groceries), Gadsden, Alabama.

Carl E. Jones, Jr. - President and Chief Executive Officer of Regions Financial Corporation, Birmingham, Alabama.

Patricia M. King - President and Chief Executive Officer of King Motor Co., Inc., King's Highway, Inc. and King Imports, Inc., Anniston, Alabama. Director of Regions Bank, Anniston, Alabama.

James K. Lowder - President and Chief Executive Officer of The Colonial Company (real estate development and sales), Montgomery, Alabama.

Wallace D. Malone, Jr. - Chairman and Chief Executive Officer of SouthTrust Corporation, bank holding company, Birmingham, Alabama. Director of American Cast Iron Pipe Company, Birmingham, Alabama.

Thomas C. Meredith - Chancellor of The University of Alabama System, Tuscaloosa, Alabama. Director of ATMOS Energy Corporation, Dallas, Texas.

William V. Muse - President of Auburn University, Auburn, Alabama. Director of SouthTrust Bank and American Cast Iron Pipe Company, Birmingham, Alabama.

John T. Porter - Pastor of Sixth Avenue Baptist Church, Birmingham, Alabama. Director of Citizens Federal Savings Bank, Birmingham, Alabama.

Robert D. Powers - President and Director, The Eufaula Agency, Inc. (real estate and insurance), Eufaula, Alabama.

Andreas Renschler - President and Chief Executive Officer of Mercedes-Benz U.S. International, Inc., Tuscaloosa County, Alabama.

C. Dowd Ritter - Chairman, President, Chief Executive Officer and Director, AmSouth Bancorporation and AmSouth Bank, Birmingham, Alabama.

William J. Rushton, III - Chairman Emeritus of Protective Life Corporation (insurance holding company), Birmingham, Alabama. Director of SOUTHERN.

James H. Sanford - Chairman, HOME Place Farms Inc. (diversified farmers and ginners), Prattville, Alabama. President, Autauga Quality Cotton Association. Chairman of the Board, Sylvest Farms of Georgia, Inc., College Park, Georgia. Chairman of the Board, Sylvest Poultry Inc., Montgomery, Alabama.

John C. Webb, IV - President, Webb Lumber Company, Inc. (wholesale lumber and wood products sales), Demopolis, Alabama. Director of J. F. Suttle, Co.

Banks H. Farris – Executive Vice President – Customer Service since 1994. Responsible for providing the overall management of human resources, information resources, power delivery and marketing departments, customer service centers and the six geographic divisions. He previously served as Senior Vice President from 1991 to 1994.

Michael D. Garrett – Executive Vice President – External Affairs since 1998. Responsible for governmental relations, environmental, public relations, economic development, corporate real estate and corporate services. He previously served as Senior Vice President - External Affairs from February 1994 to March 1998. Director of AmSouth Bank, Birmingham, Alabama.

William B. Hutchins, III – Executive Vice President, and Chief Financial Officer since 1991. Treasurer was added to his responsibilities in 1998. Responsible for financial and accounting operations, corporate planning and treasury operations. He previously served as Senior Vice President and Chief Financial Officer from 1991 to 1994.

Earl B. Parsons, Jr. – Senior Vice president – Fossil and Hydro Generation since 1995. Responsible for providing the overall management of the Fossil Generation, Hydro Generation, Power Generation Support and Fuels Department. He previously served as Vice President of Power Generation and Transmission at GULF.

Involvement in certain legal proceedings.

None.

GEORGIA

Identification of directors of GEORGIA.

H. Allen Franklin
President and Chief Executive Officer
Age 54
Served as Director since 1-1-94

Warren Y. Jobe
Executive Vice President
Age 58
Served as Director since 8-1-82

Daniel P. Amos (1)
Age 47
Served as Director since 5-21-97

Juanita P. Baranco (1)
Age 49
Served as Director since 5-21-97

A. W. Dahlberg (1)
Age 58
Served as Director since 6-1-88

William A. Fickling, Jr. (1)
Age 66
Served as Director since 4-18-73

L. G. Hardman III (1)
Age 59
Served as Director since 6-25-79

James R. Lientz, Jr. (1)
Age 55
Served as Director since 7-21-93

Zell Miller (1)
Age 67
Served as Director since 2-17-99

G. Joseph Prendergast (1)
Age 53
Served as Director since 1-20-93

Herman J. Russell (1)
Age 68
Served as Director since 5-18-88

Gloria M. Shatto (1)
Age 67
Served as Director since 2-20-80

William Jerry Vereen (1)
Age 58
Served as Director since 5-18-88

Carl Ware (1) (2)
Age 55
Served as Director since 2-15-95

(1) *No position other than Director.*
(2) *Previously served as Director of GEORGIA from 1980 to 1991.*

Each of the above is currently a director of GEORGIA, serving a term running from the last annual meeting of GEORGIA's stockholder (May 20, 1998) for one year until the next annual meeting or until a successor is elected and qualified, except for Mr. Miller, who was elected on the date indicated.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he/she was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of GEORGIA acting solely in their capacities as such.

Identification of executive officers of GEORGIA.

H. Allen Franklin
President, Chief Executive Officer and Director
Age 54
Served as Executive Officer since 1-1-94

Warren Y. Jobe
Executive Vice President and Director
Age 58
Served as Executive Officer since 5-19-82

William C. Archer, III
Executive Vice President - External Affairs
Age 50
Served as Executive Officer since 4-6-95

Gene R. Hodges
Executive Vice President - Customer Operations
Age 60
Served as Executive Officer since 11-19-86

David M. Ratcliffe
Executive Vice President, Treasurer and
Chief Financial Officer
Age 50
Served as Executive Officer since 3-1-98

Wayne T. Dahlke
Senior Vice President - Power Delivery
Age 57
Served as Executive Officer since 4-19-89

James K. Davis
Senior Vice President - Corporate Relations
Age 58
Served as Executive Officer since 10-1-93

Robert H. Haubein
Senior Vice President - Fossil/Hydro Power
Age 58
Served as Executive Officer since 2-19-92

Leonard J. Haynes
Senior Vice President – Marketing
Age 48
Served as Executive Office since 10-13-98

Fred R. Williams
Senior Vice President – Resource Policy & Planning
Age 54
Served as Executive Officer since 11-18-92

Each of the above is currently an executive officer of GEORGIA, serving a term running from the last annual meeting of the directors (May 20, 1998) for one year until the next annual meeting or until his successor is elected and qualified, except for Mr. Haynes, who was elected on the date indicated.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of GEORGIA acting solely in their capacities as such.

Identification of certain significant employees.
None.

Family relationships.
None.

Business experience.

H. Allen Franklin - President and Chief Executive Officer since 1994. He previously served as President and Chief Executive Officer of SCS from 1988 through 1993. Director of SOUTHERN and SouthTrust Corporation.

Warren Y. Jobe - Executive Vice President since 1982. He previously served as Chief Financial Officer and Treasurer from 1982 to 1998. Effective February 1998, elected Senior Vice President of SOUTHERN with responsibilities for corporate development, including customer relations and civic and community affairs.

Daniel P. Amos - President and Chief Executive Officer, American Family Life Assurance Company, Incorporated (AFLAC), Columbus, Georgia. Director, AFLAC Incorporated (and subsidiaries), CIT Group and Greystone Capital Partners, I.L.P.

Juanita P. Baranco - Business owner of Baranco Automotive Group. Director of Federal Reserve Bank of Atlanta and John H. Harland Company, Decatur, Georgia.

A. W. Dahlberg - Chairman, President and Chief Executive Officer of SOUTHERN since 1995. He previously served as President of SOUTHERN from 1994 to 1995 and President and Chief Executive Officer of GEORGIA from 1988 through 1993. Director of SOUTHERN, ALABAMA, Equifax, Inc., Protective Life Corporation and SunTrust Banks, Inc.

William A. Fickling, Jr. - Chairman of the Board, Chief Executive Officer of Beech Street Corporation (provider of managed care services) and President from 1995 to 1996. He previously served as Chairman of the Board and Chief Executive Officer of Charter Medical Corporation (provider of psychiatric care).

L. G. Hardman III - Chairman of the Board and Chief Executive Officer of First Commerce Bancorp, Inc. Chairman of the Board of The First National Bank of Commerce, Georgia and Chairman of the Board, President and Treasurer of Harmony Grove Mills, Inc. (real estate investments). Director of SOUTHERN.

James R. Lientz, Jr. – President, NationsBank, Mid-South Banking Group since 1993. He previously served as President and Chief Executive Officer of former C&S of South Carolina (now NationsBank) from 1990 to 1993. Director of Cerulean Companies, Inc. and Blue Cross/Blue Shield of Georgia.

Zell Miller – Former Governor of Georgia. He served two terms as Governor of the State of Georgia, leaving office in January 1999. He previously served as Lieutenant Governor of Georgia. Director of Albany-based Gray Communications, Atlanta-based Post Properties, Atlanta-based Law Companies Group and United Community Banks, Inc., Blairsville, GA.

G. Joseph Prendergast - Senior Executive Vice President, Wachovia Corporation. Heads the banking division comprising the companies' consumer and corporate banking activities and Wachovia Bank, N.A.

Herman J. Russell - Chairman and Chief Executive Officer of H. J. Russell & Company (construction), Atlanta, Georgia. Chairman of the Board, Citizens Trust Bank, Atlanta, Georgia. Director of Wachovia Corporation and First Union Real Estate and Mortgage Investments.

Gloria M. Shatto – President Emerita, Berry College, Mount Berry, Georgia. Director of SOUTHERN, Becton Dickinson & Company and Texas Instruments Incorporated.

William Jerry Vereen - President, Treasurer and Chief Executive Officer of Riverside Manufacturing Company (manufacture and sale of uniforms), Moultrie, Georgia. Director of Gerber Scientific, Inc., Textile Clothing Technology Corporation, Cerulean Companies, Inc. and Blue Cross/Blue Shield of Georgia.

Carl Ware - President, Africa Group, The Coca-Cola Company since 1991.

William C. Archer, III - Executive Vice President - External Affairs since September 1995. Senior Vice President - External Affairs from April 1995 to September 1995. Vice President - Human Resources for SCS from 1992 to 1995. Responsible for governmental and regulatory affairs, corporate relations, land department, environmental affairs, corporate communications, risk management, corporate security, regulatory and litigation support and corporate concerns.

Gene R. Hodges - Executive Vice President - Customer Operations, Power Delivery and Safety since 2-19-92. Elected Vice President in charge of customer service and power delivery in 1992. Safety department was added to the Executive Vice President's responsibilities in 1995. Responsible for the northern and southern regions and power delivery, customer service, region safety and labor relations areas.

David M. Ratcliffe - Executive Vice President and Treasurer since 3-1-98 and Executive Vice President, Treasurer and Chief Financial Officer since 5-20-98. He previously served as Senior Vice President - External Affairs of SOUTHERN from 1995 to 1998. President and Chief Executive Officer of MISSISSIPPI from 1991 to 1995. Responsible for accounting, corporate secretary, finance and procurement.

Wayne T. Dahlke - Senior Vice President - Power Delivery since 1992. Senior Vice President - Marketing from 1989 to 1992. Responsible for transmission and construction, planning and projects, distribution, forestry and right of way services and system operations.

James K. Davis - Senior Vice President - Corporate Relations since 1993. Vice President of Corporate Relations from 1988 to 1993. Responsible for corporate relations and consumer affairs.

Robert H. Haubein - Senior Vice President - Fossil/ Hydro Power since 1994. Senior Vice President - Administrative Services from 1992 to 1994. Responsible for fossil/hydro power generation, labor relations, safety and health.

Leonard J. Haynes – Senior Vice President – Marketing since 1998. Vice President of Marketing from October 1995 to November 1998. Responsible for GEORGIA's and SAVANNAH's Power Marketing organizations as well as SOUTHERN's national accounts organization.

Fred R. Williams – Senior Vice President – Resource Policy and Planning since 1997. Senior Vice President – Wholesale Power Marketing from 1995 to 1997. Senior Vice President – Bulk Power Markets from 1992 to August 1995. Responsible for managing the supply needs for retail and wholesale customers and developing policy and recommendations for future industry structure.

Involvement in certain legal proceedings.

None.

Identification of directors of GULF.

Travis J. Bowden
President and Chief Executive Officer
Age 60
Served as Director since 2-1-94

Paul J. DeNicola (1)
Age 50
Served as Director since 4-19-91

Fred C. Donovan, Sr. (1)
Age 58
Served as Director since 1-18-91

W. Deck Hull, Jr. (1)
Age 66
Served as Director since 10-14-83

Joseph K. Tannehill (1)
Age 65
Served as Director since 7-19-85

Barbara H. Thames (1)
Age 58
Served as Director since 2-28-97

(1) *No position other than Director.*

Each of the above is currently a director of GULF, serving a term running from the last annual meeting of GULF's stockholder (June 30, 1998) for one year until the next annual meeting or until a successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of GULF acting solely in their capacities as such.

Identification of executive officers of GULF.

Travis J. Bowden
President, Chief Executive Officer and Director
Age 60
Served as Executive Officer since 2-1-94

Francis M. Fisher, Jr.
Vice President - Power Delivery and Customer Operations
Age 50
Served as Executive Officer since 5-19-89

John E. Hodges, Jr.
Vice President - Marketing and Employee/External Affairs
Age 55
Served as Executive Officer since 5-19-89

Robert G. Moore
Vice President - Power Generation and Transmission
Age 49
Served as Executive Officer since 7-25-97

Arlan E. Scarbrough
Vice President - Finance
Age 62
Served as Executive Officer since 9-21-77

Each of the above is currently an executive officer of GULF, serving a term running from the last annual meeting of the directors (July 24, 1998) for one year until the next annual meeting or until his successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of GULF acting solely in their capacities as such.

Identification of certain significant employees.
None.

Family relationships.
None.

Business experience.

Travis J. Bowden - President and Chief Executive Officer since 1994. He previously served as Executive Vice President of ALABAMA from 1985 to 1994.

Paul J. DeNicola - President and Chief Executive Officer of SCS since 1994. Executive Vice President and Group Executive of SOUTHERN since 1991. He previously served as Executive Vice President of SCS from 1991 through 1993. Director of SOUTHERN, MISSISSIPPI and SAVANNAH.

Fred C. Donovan, Sr. - President of Baskerville - Donovan, Inc., an architectural and engineering firm, Pensacola, Florida.

W. Deck Hull, Jr. - President and Director of Hull Company - Panama City, Florida. He previously served as Vice Chairman of the SunTrust Bank, West Florida, Panama City, Florida.

Joseph K. Tannehill – President, Chairman and Chief Executive Officer of Tannehill International Industries, Inc., Lynn Haven, Florida. Director of Regions Bank of North Florida, Panama City, Florida.

Barbara H. Thames – Vice President of West Florida Regional Medical Center, Pensacola, Florida. She previously served as Chief Executive Officer of Santa Rosa Medical Center, Milton, Florida.

Francis M. Fisher, Jr. - Vice President – Power Delivery and Customer Operations since 1996. He previously served as Vice President-Employee and External Relations from 1989 to 1996. Responsible for power delivery, customer operations, corporate real estate, and total quality management and serves as compliance officer.

John E. Hodges, Jr. - Vice President – Marketing and Employee/External Affairs since 1996. He previously served as Vice President – Customer Operations from 1989 to 1996. Responsible for corporate communications, marketing, govermental affairs, economic development, safety and health, employee relations and human resources-coastal region.

Robert G. Moore - Vice President - Power Generation and Transmission of GULF and Vice President of Fossil Generation of SCS since 1997. He previously served as Plant Manager - Bowen at GEORGIA. Responsible for the generation and transmission of electricity and bulk power marketing efforts.

Arlan E. Scarbrough - Vice President - Finance since 1980. Responsible for all accounting, financial and regulatory matters.

Involvement in certain legal proceedings.

None.

MISSISSIPPI

Identification of directors of MISSISSIPPI.

Dwight H. Evans
President and Chief Executive Officer
Age 50
Served as Director since 3-27-95

Paul J. DeNicola (1)
Age 50
Served as Director since 5-1-89

Edwin E. Downer (1)
Age 67
Served as Director since 4-24-84

Robert S. Gaddis (1)
Age 67
Served as Director since 1-21-86

Aubrey K. Lucas (1)
Age 64
Served as Director since 4-24-84

George A. Schloegel (1)
Age 58
Served as Director since 7-26-95

Philip J. Terrell (1)
Age 45
Served as Director since 2-22-95

N. Eugene Warr (1)
Age 63
Served as Director since 1-21-86

(1) *No position other than Director.*

Each of the above is currently a director of MISSISSIPPI, serving a term running from the last annual meeting of MISSISSIPPI's stockholder (April 7, 1998) for one year until the next annual meeting or until his successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he or she was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of MISSISSIPPI acting solely in their capacities as such.

Identification of executive officers of MISSISSIPPI.

Dwight H. Evans
President, Chief Executive Officer and Director
Age 50
Served as Executive Officer since 3-27-95

H. E. Blakeslee
Vice President - Customer Services and Marketing
Age 58
Served as Executive Officer since 1-25-84

Andrew J. Dearman, III
Vice President - Power Generation and Delivery
Age 45
Served as Executive Officer since 4-23-97

Don E. Mason
Vice President - External Affairs and Corporate Services
Age 57
Served as Executive Officer since 7-27-83

Michael W. Southern
Vice President, Secretary, Treasurer and
Chief Financial Officer
Age 46
Served as Executive Officer since 1-1-95

Each of the above is currently an executive officer of MISSISSIPPI, serving a term running from the last annual meeting of the directors (May 7, 1998) for one year until the next annual meeting or until his successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of MISSISSIPPI acting solely in their capacities as such.

Identification of certain significant employees.
None.

Family relationships.
None.

Business experience.

Dwight H. Evans - President and Chief Executive Officer since 1995. He previously served as Executive Vice President - External Affairs of GEORGIA from 1989 to 1995.

Paul J. DeNicola - President and Chief Executive Officer of SCS effective 1994. Executive Vice President and Group Executive of SOUTHERN since 1991. Executive Vice President of SCS from 1991 through 1993. Director of SOUTHERN, SAVANNAH and GULF.

Edwin E. Downer - Business consultant specializing in economic analysis, management controls and procedural studies, Meridian, Mississippi.

Robert S. Gaddis - Chairman of the Advisory Board of Trustmark National Bank, Laurel, Mississippi.

Aubrey K. Lucas - President Emeritus and Distinguished Professor of Higher Education at the University of Southern Mississippi, Hattiesburg, Mississippi.

George A. Schloegel - President of Hancock Bank. President, Chief Executive Officer and Director of Hancock Bank Securities Corporation. Vice Chairman of Hancock Holding Company. Director of Hancock Bank - Mississippi and Hancock Bank - Louisiana.

Philip J. Terrell - Superintendent of Pass Christian Public School District and adjunct professor at William Carey College.

N. Eugene Warr - Retailer (Biloxi and Gulfport, Mississippi). Director of Coast Community Bank, formerly SouthTrust Bank of Mississippi, Biloxi, Mississippi.

H. E. Blakeslee - Vice President – Customer Services and Marketing since 1984. Responsible for rate design, revenue forecasting, marketing, district operations, corporate compliance, distribution engineering, customer accounting, vehicle maintenance centers and customer call center.

Andrew J. Dearman, III - Vice President – Power Generation and Delivery since 1997. Responsible for generating plants, environmental quality, fuel services, power generation technical services, transmission, system planning, bulk power contracts, system operations and control, system protection and real estate. He served as Vice President - Southern Division of ALABAMA from 1995 to May 1997, and Division Manager - Customer Service of ALABAMA from 1989 to 1995.

Don E. Mason - Vice President- External Affairs and Corporate Services since 1983. Responsible for external affairs, corporate communications, security, risk management, economic development and general services, as well as the human resources function.

Michael W. Southern - Vice President, Secretary, Treasurer and Chief Financial Officer since 1995. Responsible for accounting, secretary/treasury, corporate planning, procurement and information resources. He previously served as Director of Corporate Finance of SCS from 1994 to 1995 and Director of Financial Planning of SCS from 1990 to 1994.

Involvement in certain legal proceedings.

None.

SAVANNAH

Identification of directors of SAVANNAH.

G. Edison Holland, Jr.
President and Chief Executive Officer
Age 46
Served as Director since 7-15-97

Archie H. Davis (1)
Age 57
Served as Director since 2-18-97

Paul J. DeNicola (1)
Age 50
Served as Director since 3-14-91

Walter D. Gnann (1)
Age 63
Served as Director since 5-17-83

Robert B. Miller, III (1)
Age 53
Served as Director since 5-17-83

Arnold M. Tenenbaum (1)
Age 62
Served as Director since 5-17-77

(1) *No position other than Director.*

Each of the above is currently a director of SAVANNAH, serving a term running from the last annual meeting of SAVANNAH's stockholder (May 19, 1998) for one year until the next annual meeting or until a successor is elected and qualified.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he/she was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of SAVANNAH acting solely in their capacities as such.

Identification of executive officers of SAVANNAH.

G. Edison Holland, Jr.
President, Chief Executive Officer and Director
Age 46
Served as Executive Officer since 7-15-97

W. Miles Greer
Vice President – Customer Operations, Marketing and External Affairs
Age 55
Served as Executive Officer since 11-20-85

Kirby R. Willis
Vice President, Treasurer, Chief Financial Officer and Assistant Corporate Secretary
Age 47
Served as Executive Officer since 1-1-94

Each of the above is currently an executive officer of SAVANNAH, serving a term running from the meeting of the directors held on July 21, 1998 for the ensuing year.

There are no arrangements or understandings between any of the individuals listed above and any other person pursuant to which he was or is to be selected as an officer, other than any arrangements or understandings with officers of SAVANNAH acting solely in their capacities as such.

Identification of certain significant employees.
None.

Family relationships.
None.

Business experience.

G. Edison Holland, Jr. - Elected President and Chief Executive Officer in 1997. Vice President - Power Generation/Transmission and Corporate Counsel of GULF from 1995 to 1997. Served as a partner in the law firm of Beggs & Lane from 1979 to 1997. Director of SunTrust Bank of Savannah.

Archie H. Davis - President and Chief Executive Officer of The Savannah Bancorp and The Savannah Bank, N.A., Savannah, Georgia. Member of the Board of Directors of Thomaston Mills, Thomaston, Georgia. Director of Bryan Bank & Trust.

Paul J. DeNicola - President and Chief Executive Officer of SCS since 1994. Executive Vice President and Group Executive of SOUTHERN since 1991. Executive Vice President of SCS from 1991 through 1993. Director of SOUTHERN, GULF and MISSISSIPPI.

Walter D. Gnann - President of Walt's TV, Appliance and Furniture Co., Inc., Springfield, Georgia. Past Chairman of the Development Authority of Effingham County, Georgia.

Robert B. Miller, III - President of American Building Systems, Inc., Savannah, Georgia.

Arnold M. Tenenbaum - President and Director of Chatham Steel Corporation. Director of First Union Bank of Georgia, First Union Bank of Savannah, Cerulean Corporation and Blue Cross/Blue Shield of Georgia.

W. Miles Greer - Vice President – Customer Operations, Marketing and External Affairs since 1998. Responsible for marketing, customer services, transmission and distribution, engineering, system operation and external affairs. He previously served as Vice President of Marketing and Customer Service from 1994 to 1998.

Kirby R. Willis – Vice President, Treasurer and Chief Financial Officer since 1994 and Assistant Corporate Secretary effective 1998. Responsible primarily for all accounting, financial, information resources, labor relations, corporate services, environmental and safety activities. He previously served as Treasurer, Controller and Assistant Secretary from 1991 to 1993.

Involvement in certain legal proceedings.

None

Section 16(a) Beneficial Ownership Reporting Compliance.

GEORGIA's Mr. Franklin filed one late report with the SEC representing one transaction in SOUTHERN common stock.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Tables. The following tables set forth information concerning any Chief Executive Officer and the four most highly compensated executive officers whose total annual salary and bonus exceeded $100,000 during 1998 for each of the operating affiliates (ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH).

Key terms used in this Item will have the following meanings:-

AME.....**Above-market earnings on deferred compensation**
ESP.....**Employee Savings Plan**
ESOP.....**Employee Stock Ownership Plan**
SBP.....**Supplemental Benefit Plan**
ERISA.....**Employee Retirement Income Security Act**

ALABAMA
SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
Name and Principal Position	Year	Salary($)	Bonus($)	Other Annual Compensation ($)[1]	Number of Securities Underlying Stock Options (Shares)	Long-Term Incentive Payouts ($)[2]	All Other Compensation ($)[3]
Elmer B. Harris							
President,							
Chief Executive	1998	545,102	192,751	19,060	29,411	249,971	30,180
Officer,	1997	500,700	101,002	20,453	35,648	247,224	30,172
Director	1996	480,310	72,697	7,112	31,608	439,508	25,068
Banks H. Farris	1998	275,822	32,631	8,530	11,473	178,829	14,764
Executive Vice	1997	247,170	37,500	7,218	13,513	155,313	14,379
President	1996	235,255	32,390	7,829	9,730	155,313	12,161
William B. Hutchins, III							
Executive Vice							
President,	1998	237,532	34,646	3,010	8,118	132,472	12,678
Chief Financial	1997	217,756	31,400	1,383	9,834	115,170	12,441
Officer	1996	209,213	28,806	3,029	8,654	115,169	10,853

See next page for footnotes.

ALABAMA
SUMMARY COMPENSATION TABLE
(Continued)

Name and Principal Position	Year	ANNUAL COMPENSATION Salary($)	Bonus($)	Other Annual Compensation ($)[1]	LONG-TERM COMPENSATION Number of Securities Underlying Stock Options (Shares)	Long-Term Incentive Payouts ($)[2]	All Other Compensation ($)[3]
Michael D. Garrett[4]	1998	221,731	25,966	12,389	7,800	105,866	11,558
Executive Vice	1997	-	-	-	-	-	-
President	1996	-	-	-	-	-	-
Earl B. Parsons, Jr.[4]	1998	213,075	26,758	7,285	7,282	114,911	11,249
Senior Vice President	1997	-	-	-	-	-	-
	1996	-	-	-	-	-	-

1 Tax reimbursement by ALABAMA and certain personal benefits.

2 Payouts made in 1997, 1998 and 1999 for the four-year performance periods ending December 31, 1996, 1997 and 1998, respectively.

3 ALABAMA contributions to the ESP, ESOP, and non-pension related accruals under the SBP (ERISA excess plan under which accruals are made to offset Internal Revenue Code imposed limitations under the ESP and ESOP) for the following:-

Name	ESP	ESOP	SBP
Elmer B. Harris	$5,792	$1,046	$23,342
Banks H. Farris	7,200	1,046	6,518
William B. Hutchins, III	7,200	1,046	4,432
Michael D. Garrett	6,093	1,046	4,419
Earl B. Parsons, Jr.	7,200	1,046	3,003

4 Messrs. Garrett and Parsons, Jr. were named executive officers effective April 24, 1998.

GEORGIA
SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	ANNUAL COMPENSATION Salary($)	Bonus($)	Other Annual Compensation ($)[1]	LONG-TERM COMPENSATION Number of Securities Underlying Stock Options (Shares)	Long-Term Incentive Payouts ($)[2]	All Other Compensation ($)[3]
H. Allen Franklin							
President,	1998	564,329	237,502	7,078	30,521	283,629	31,590
Chief Executive	1997	511,505	129,426	14,219	36,544	280,513	31,350
Officer, Director	1996	482,658	73,260	10,992	31,853	498,688	27,334
David M. Ratcliffe							
Executive							
Vice President,							
Treasurer,	1998	339,672	62,700	3,934	14,039	218,175	12,255
Chief Financial	1997	313,152	50,515	10,828	17,086	207,322	18,342
Officer	1996	347,985	39,465	8,446	15,179	207,322	16,889
Gene R. Hodges	1998	244,284	42,595	4,543	8,317	132,472	13,087
Executive	1997	228,336	39,058	5,544	10,271	126,075	13,111
Vice President	1996	221,708	26,209	1,783	9,214	126,075	12,193
Warren Y. Jobe							
Executive	1998	249,314	37,434	7,804	10,275	132,472	12,660
Vice President,	1997	238,948	39,862	98,870	10,483	126,075	13,408
Director	1996	227,496	26,749	4,308	9,404	126,075	12,476
Robert H.							
Haubein, Jr.	1998	239,448	35,683	1,922	8,175	132,472	13,007
Senior Vice	1997	220,358	35,683	657	9,952	115,170	11,981
President	1996	211,010	29,681	2,081	8,757	115,169	11,740

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1 Tax reimbursement by GEORGIA on certain personal benefits including membership fees of $94,429 in 1997 for Mr. Jobe.

2 Payouts made in 1997, 1998 and 1999 for the four-year performance periods ending December 31, 1996, 1997 and 1998, respectively.

3 GEORGIA contributions to the ESP, ESOP, and non-pension related accruals under the SBP (ERISA excess plan under which accruals are made to offset Internal Revenue Code imposed limitations under the ESP and ESOP) for the following:-

Name	ESP	ESOP	SBP
H. Allen Franklin	$7,200	$1,046	$23,344
David M. Ratcliffe	7,200	1,046	4,009
Gene R. Hodges	7,200	1,046	4,841
Warren Y. Jobe	6,450	1,046	5,164
Robert H. Haubein, Jr.	6,450	1,046	5,511

GULF
SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	ANNUAL COMPENSATION Salary($)	Bonus($)	Other Annual Compensation ($)[1]	LONG-TERM COMPENSATION Number of Securities Underlying Stock Options (Shares)	Long-Term Incentive Payouts ($)[2]	All Other Compensation ($)[3]
Travis J. Bowden							
President,	1998	329,280	35,121	3,839	13,583	218,175	18,068
Chief Executive	1997	306,584	33,933	2,842	16,694	207,322	17,888
Officer, Director	1996	297,685	29,950	1,560	14,975	207,322	14,950
Arlan E. Scarbrough	1998	196,661	18,071	3,253	6,721	96,594	10,218
Vice President	1997	180,642	18,212	1,440	8,142	84,048	10,235
	1996	173,719	17,512	1,514	7,234	84,047	9,420
John E. Hodges, Jr.	1998	192,765	17,680	915	6,575	96,594	10,014
Vice President	1997	178,428	17,989	2,418	8,042	91,977	10,185
	1996	171,688	17,297	1,415	7,145	91,977	9,405
Francis M.	1998	175,719	16,147	240	6,005	96,594	9,329
Fisher, Jr.	1997	160,783	16,274	479	7,275	84,048	9,182
Vice President	1996	151,236	15,352	459	5,674	84,047	8,177
Robert G. Moore[4]	1998	159,332	18,626	525	4,881	72,767	8,325
Vice President	1997	149,926	23,474	-	4,741	46,551	7,550
	1996	-	-	-	-	-	-

1 Tax reimbursement by GULF on certain personal benefits.

2 Payouts made in 1997, 1998 and 1999 for the four-year performance periods ending December 31, 1996, 1997 and 1998, respectively.

3 GULF contributions to the ESP, ESOP, and non-pension related accruals under the SBP (ERISA excess plan under which accruals are made to offset Internal Revenue Code imposed limitations under the ESP and ESOP) for the following:-

Name	ESP	ESOP	SBP
Travis J. Bowden	$6,450	$1,046	$10,572
Arlan E. Scarbrough	6,448	1,046	2,724
John E. Hodges, Jr.	6,698	1,046	2,270
Francis M. Fisher, Jr.	7,200	1,046	1,083
Robert G. Moore	6,927	1,046	352

4 Mr. Moore was named an executive officer effective July 25, 1997.

MISSISSIPPI
SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	ANNUAL COMPENSATION Salary($)	Bonus($)	Other Annual Compensation ($)[1]	LONG-TERM COMPENSATION Number of Securities Underlying Stock Options (Shares)	Long-Term Incentive Payouts ($)[2]	All Other Compensation ($)[3]
Dwight H. Evans							
President, Chief	1998	283,195	42,603	5,051	11,693	218,175	15,291
Executive	1997	262,678	39,643	3,830	14,303	126,075	15,025
Officer, Director	1996	253,006	35,923	3,519	12,830	126,075	13,824
H. E. Blakeslee	1998	207,416	36,202	47	7,068	96,594	10,979
Vice President	1997	192,029	38,863	697	8,687	91,977	10,991
	1996	190,429	25,664	224	7,572	91,977	9,885
Don E. Mason	1998	203,234	29,560	4,497	6,926	96,594	10,757
Vice President	1997	188,126	41,889	839	8,512	84,048	10,675
	1996	186,670	25,148	125	7,420	84,047	9,587
Michael W. Southern							
Vice President							
Chief Financial	1998	174,334	34,130	-	5,997	83,087	8,978
Officer, Secretary,	1997	155,151	31,406	1,590	6,281	65,768	8,757
Treasurer	1996	155,027	20,740	2,841	5,475	65,768	7,865
Andrew J.							
Dearman, III[4]	1998	159,713	41,031	600	4,893	83,087	8,343
Vice President	1997	141,393	21,008	2,083	5,871	42,903	21,354
	1996	-	-	-	-	-	-

1 Tax reimbursement by MISSISSIPPI on certain personal benefits.

2 Payouts made in 1997, 1998 and 1999 for the four-year performance periods ending December 31, 1996, 1997 and 1998, respectively.

3 MISSISSIPPI contributions to the ESP, ESOP, and non-pension related accruals under the SBP (ERISA excess plan under which accruals are made to offset Internal Revenue Code imposed limitations under the ESP and ESOP) for the following:-

Name	ESP	ESOP	SBP
Dwight H. Evans	$6,450	$1,046	$7,795
H. E. Blakeslee	6,093	1,046	3,840
Don E. Mason	5,992	1,046	3,719
Michael W. Southern	6,879	1,046	1,053
Andrew J. Dearman, III	6,936	1,046	361

In 1997, Mr. Dearman received a one-time lump-sum payment of $13,591, given in connection with his appointment to his current position.

4 Mr. Dearman was named an executive officer effective April 23, 1997.

SAVANNAH
SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Other Annual Compensation ($)[1]**	**Number of Securities Underlying Stock Options (Shares)**	**Long-Term Incentive Payouts ($)[2]**	**All Other Compensation ($)[3]**
G. Edison Holland, Jr.[4]							
President,	1998	233,330	26,019	17,309	7,951	128,608	8,246
Chief Executive	1997	202,413	26,231	3,046	8,640	91,977	49,892
Officer, Director	1996	184,359	18,584	2,969	7,677	91,977	9,940
W. Miles Greer	1998	160,207	16,054	13	4,901	69,000	13,179
Vice President	1997	138,643	16,294	805	4,924	60,636	10,740
	1996	131,203	16,225	322	4,261	60,636	9,631
Kirby R. Willis							
Vice President,	1998	155,236	15,554	13	4,748	69,000	10,581
Chief Financial	1997	134,794	15,915	182	4,809	60,636	9,322
Officer, Treasurer	1996	122,110	15,505	674	3,924	60,636	8,765

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1 Tax reimbursement by SAVANNAH on certain personal benefits, including membership fees of $11,669 for Mr. Holland, Jr. in 1998.

2 Payouts made in 1997, 1998 and 1999 for the four-year performance periods ending December 31, 1996, 1997 and 1998, respectively.

3 SAVANNAH contributions to the ESP, under Section 401(k) of the Internal Revenue Code, ESOP, and AME for the following:-

Name	ESP	ESOP	AME
G. Edison Holland, Jr.	$7,200	$1,046	$ -
W. Miles Greer	5,902	1,046	6,231
Kirby R. Willis	6,483	1,046	3,052

In 1997, Mr. Holland received a one-time lump-sum payment of $38,654, given in connection with his appointment to his current position.

4 Mr. Holland became president on July 1, 1997. He was previously an executive officer at GULF.

STOCK OPTION GRANTS IN 1998

Stock Option Grants. The following table sets forth all stock option grants to the named executive officers of each operating subsidiary during the year ending December 31, 1998.

	Individual Grants				Grant Date Value
Name	# of Securities Underlying Options Granted[1]	% of Total Options Granted to Employees in Fiscal Year[2]	Exercise or Base Price ($/Sh)[1]	Expiration Date[1]	Grant Date Present Value($)[3]
ALABAMA					
Elmer B. Harris	29,411	1.8	27.03125	05/01/2007	167,349
Banks H. Farris	11,473	0.7	27.03125	06/01/2003	65,281
William B. Hutchins, III	8,118	0.5	27.03125	07/20/2008	46,191
Michael D. Garrett	7,800	0.5	27.03125	07/20/2008	44,382
Earl B. Parsons, Jr.	7,282	0.4	27.03125	06/01/2006	41,435
GEORGIA					
H. Allen Franklin	30,521	1.8	27.03125	07/20/2008	173,664
David M. Ratcliffe	14,039	0.9	27.03125	07/20/2008	79,882
Gene R. Hodges	8,317	0.5	27.03125	04/01/2006	47,324
Warren Y. Jobe	10,275	0.6	27.03125	07/20/2008	58,465
Robert H. Haubein, Jr.	8,175	0.5	27.03125	02/01/2008	46,516
GULF					
Travis J. Bowden	13,583	0.8	27.03125	09/01/2006	77,287
Arlan E. Scarbrough	6,721	0.4	27.03125	11/01/2004	38,242
John E. Hodges, Jr.	6,575	0.4	27.03125	07/20/2008	37,412
Francis M. Fisher, Jr.	6,005	0.4	27.03125	07/20/2008	34,168
Robert G. Moore	4,881	0.3	27.03125	07/20/2008	27,773

See next page for footnotes.

STOCK OPTION GRANTS IN 1998

	Individual Grants				Grant Date Value
Name	# of Securities Underlying Options Granted[1]	% of Total Options Granted to Employees in Fiscal Year[2]	Exercise or Base Price ($/Sh)[1]	Expiration Date[1]	Grant Date Present Value($)[3]
MISSISSIPPI					
Dwight H. Evans	11,693	0.7	27.03125	07/20/2008	66,533
H. E. Blakeslee	7,068	0.4	27.03125	07/01/2008	40,217
Don E. Mason	6,926	0.4	27.03125	07/20/2008	39,409
Michael W. Southern	5,997	0.4	27.03125	07/20/2008	34,123
Andrew J. Dearman, III	4,893	0.3	27.03125	07/20/2008	27,841
SAVANNAH					
G. Edison Holland, Jr.	7,951	0.5	27.03125	07/20/2008	45,241
W. Miles Greer	4,901	0.3	27.03125	07/20/2008	27,887
Kirby R. Willis	4,748	0.3	27.03125	07/20/2008	27,016

1 Performance Stock Plan grants were made on July 20, 1998, and vest 25% per year on the anniversary date of the grant. Grants fully vest upon termination incident to death, disability, or retirement. The exercise price is the average of the high and low fair market value of SOUTHERN's common stock on the date granted. In accordance with the terms of the Performance Stock Plan, Mr. Blakeslee's unexercised options expire on July 1, 2008, three years after his normal retirement date; Mr. Bowden's unexercised options expire on September 1, 2006, three years after his normal retirement date; Mr. Farris' unexercised options expire on June 1, 2003, three years after his normal retirement date; Mr. Harris' unexercised options expire on May 1, 2007, three years after his normal retirement date; Mr. Haubein, Jr.'s unexercised options expire on February 1, 2008, three years after his normal retirement date; Mr. Gene R. Hodges' unexercised options expire on April 1, 2006, three years after his normal retirement date; Mr. Parsons Jr.'s unexercised options expire on June 1, 2006, three years after his normal retirement date; and Mr. Scarbrough's unexercised options expire on November 1, 2004, three years after his normal retirement date.

2 A total of 1,659,519 stock options were granted in 1998 to key executives participating in SOUTHERN's Performance Stock Plan.

3 Based on the Black-Scholes option valuation model. The actual value, if any, an executive officer may realize ultimately depends on the market value of SOUTHERN's common stock at a future date. This valuation is provided pursuant to SEC disclosure rules. There is no assurance that the value realized will be at or near the value estimated by the Black-Scholes model. Significant assumptions used to calculate this value: price volatility – 19.16%; risk-free rate of return – 5.46%; dividend opportunity – 50%; time to exercise - 10 years; reductions for probability of forfeiture before vesting – 9.61%; and reductions for probability of forfeiture before expiration – 15.51%. These assumptions reflect the effects of cash dividend equivalents paid to participants under the Performance Dividend Plan assuming targets are met.

AGGREGATED STOCK OPTION EXERCISES IN 1998 AND YEAR-END OPTION VALUES

Aggregated Stock Option Exercises. The following table sets forth information concerning options exercised during the year ending December 31, 1998, by the named executive officers and the value of unexercised options held by them as of December 31, 1998.

Name	Shares Acquired on Exercise (#)	Value Realized($)[2]	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End($)[1] Exercisable/ Unexercisable
ALABAMA				
Elmer B. Harris	-	-	183,510/79,994	1,929,365/424,248
Banks H. Farris	13,154	99,117	24,020/28,937	181,514/150,304
William B. Hutchins, III	-	-	32,521/22,034	279,966/116,806
Michael D. Garrett	13,165	77,775	2,019/19,246	15,773/98,358
Earl B. Parsons, Jr.	6,005	31,460	6,188/19,842	44,155/105,299
GEORGIA				
H. Allen Franklin	3,560	56,404	149,760/81,846	1,480,720/432,104
David M. Ratcliffe	-	-	69,668/38,325	708,769/203,513
Gene R. Hodges	8,329	79,692	26,842/23,007	215,427/122,705
Warren Y. Jobe	-	-	39,645/25,268	358,857/128,865
Robert H. Haubein, Jr.	6,684	79,581	26,696/22,236	215,611/117,962
GULF				
Travis J. Bowden	81,334	969,563	0/37,458	0/199,560
Arlan E. Scarbrough	11,200	82,590	0/18,295	0/97,050
John E. Hodges, Jr.	10,519	117,035	15,640/18,007	114,024/95,730
Francis M. Fisher, Jr.	8,857	78,155	0/15,700	0/82,450
Robert G. Moore	-	-	6,368/11,522	45,011/57,844

See next page for footnotes.

AGGREGATED STOCK OPTION EXERCISES IN 1998 AND YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized($)[2]	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End($)[1] Exercisable/ Unexercisable
MISSISSIPPI				
Dwight H. Evans	2,455	37,055	40,274/31,458	341,070/165,956
H. E. Blakeslee	5,284	60,270	21,932/19,270	175,814/102,347
Don E. Mason	-	-	11,421/18,882	80,640/100,284
Michael W. Southern	-	-	7,942/14,658	55,894/74,599
Andrew J. Dearman, III	-	-	6,737/12,448	47,781/64,906
SAVANNAH				
G. Edison Holland, Jr.	-	-	30,209/20,233	261,280/104,649
W. Miles Greer	-	-	6,655/11,824	47,029/59,900
Kirby R. Willis	-	-	6,192/11,327	43,806/57,231

1 This represents the excess of the fair market value of SOUTHERN's common stock of $29.0625 per share, as of December 31, 1998, above the exercise price of the options. One column reports the "value" of options that are vested and therefore could be exercised; the other the "value" of options that are not vested and therefore could not be exercised as of December 31, 1998.

2 The "Value Realized" is ordinary income, before taxes, and represents the amount equal to the excess of the fair market value of the shares at the time of exercise over the exercise price.

LONG-TERM INCENTIVE PLANS - AWARDS IN 1998

Long-Term Incentive Plans. The following table sets forth the long-term incentive plan awards made to the named executive officers for the performance period January 1, 1998 through December 31, 2001.

Name	Number of Units (#)[1]	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans		
			Threshold ($)[2]	Target ($)[2]	Maximum ($)[2]
ALABAMA					
Elmer B. Harris	291,502	4 years	145,751	291,502	583,004
Banks H. Farris	120,832	4 years	60,416	120,832	241,664
William B. Hutchins, III	89,508	4 years	44,754	89,508	179,017
Michael D. Garrett	89,508	4 years	44,754	89,508	179,017
Earl B. Parsons, Jr.	89,508	4 years	44,754	89,508	179,017
GEORGIA					
H. Allen Franklin	330,751	4 years	165,376	330,751	661,502
David M. Ratcliffe	147,416	4 years	73,708	147,416	294,832
Gene R. Hodges	89,508	4 years	44,754	89,508	179,017
Warren Y. Jobe	89,508	4 years	44,754	89,508	179,017
Robert H. Haubein, Jr.	89,508	4 years	44,754	89,508	179,017
GULF					
Travis J. Bowden	147,416	4 years	73,708	147,416	294,832
Arlan E. Scarbrough	65,265	4 years	32,632	65,265	130,530
John E. Hodges, Jr.	65,265	4 years	32,632	65,265	130,530
Francis M. Fisher, Jr.	65,265	4 years	32,632	65,265	130,530
Robert G. Moore	65,265	4 years	32,632	65,265	130,530

See next page for footnotes.

LONG-TERM INCENTIVE PLANS - AWARDS IN 1998

Name	Number of Units (#)[1]	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans: Threshold ($)[2]	Target ($)[2]	Maximum ($)[2]
MISSISSIPPI					
Dwight H. Evans	147,416	4 years	73,708	147,416	294,832
H. E. Blakeslee	65,265	4 years	32,632	65,265	130,530
Don E. Mason	65,265	4 years	32,632	65,265	130,530
Michael W. Southern	65,265	4 years	32,632	65,265	130,530
Andrew J. Dearman, III	65,265	4 years	32,632	65,265	130,530
SAVANNAH					
G. Edison Holland, Jr.	107,637	4 years	53,819	107,637	215,274
W. Miles Greer	46,620	4 years	23,310	46,620	93,240
Kirby R. Willis	46,620	4 years	23,310	46,620	93,240

1 A performance unit is a method of assigning a dollar value to a performance award opportunity. Under the Executive Productivity Improvement Plan, Messrs. Harris and Franklin's number of units are based on the beginning of the period base salary mid-points. All other executive officers listed in this table are participants in the Productivity Improvement Plan of SOUTHERN, the number of units granted to these named executive officers is based on the weighted average of the base salary mid-points as of December 31 for each calendar year in the four-year computation period. No awards are paid unless the participant remains employed by the company through the end of the performance period.

2 The threshold, target and maximum value of a unit is $0.50, $1.00, and $2.00, respectively, and can vary based on SOUTHERN's return on common equity and total shareholder return relative to selected groups of electric and gas utilities. If certain minimum performance relative to the selected groups is not achieved, there will be no payout; nor is there a payout if the current earnings of SOUTHERN are not sufficient to fund the dividend rate paid in the last calendar year. The Plan provides that in the discretion of the committee, extraordinary income may be excluded for purposes of calculating the amount available for the payment of awards. All awards are payable in cash at the end of the performance period.

DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

Pension Plan Table. The following table sets forth the estimated combined annual pension benefits under the Pension, Supplemental Defined Benefit, and Supplemental Executive Retirement Plans in effect during 1998 for the named executives at ALABAMA, GEORGIA, GULF and MISSISSIPPI and Mr. Holland at SAVANNAH. Employee compensation covered by the Pension, Supplemental Benefit, and Supplemental Executive Retirement Plans for pension purposes is limited to the average of the highest three of the final 10 years' compensation — base salary plus the excess of annual and long-term incentive compensation over 25 percent of base salary (reported under column titled "Salary", "Bonus", and "Long-Term Incentive Payouts" in the Summary Compensation Tables on pages III-13 through III-18).

The amounts shown in the table were calculated according to the final average pay formula and are based on a single life annuity without reduction for joint and survivor annuities (although married employees are required to have their pension benefits paid in one of various joint and survivor annuity forms, unless the employee elects otherwise with the spouse's consent) or computation of the Social Security offset which would apply in most cases. This offset amounts to one-half of the estimated Social Security benefit (primary insurance amount) in excess of $3,900 per year times the number of years of accredited service, divided by the total possible years of accredited service to normal retirement age.

	Years of Accredited Service					
Remuneration	**15**	**20**	**25**	**30**	**35**	**40**
$ 100,000	$ 25,500	$ 34,000	$ 42,500	$ 51,000	$ 59,500	$ 68,000
300,000	76,500	102,000	127,500	153,000	178,500	204,000
500,000	127,500	170,000	212,500	255,000	297,500	340,000
700,000	178,500	238,000	297,500	357,000	416,500	476,000
900,000	229,500	306,000	382,500	459,000	535,500	612,000
1,100,000	280,500	374,000	467,500	561,000	654,500	748,000
1,300,000	331,500	442,000	552,500	663,000	773,500	884,000

As of December 31, 1998, the applicable compensation levels and years of accredited service are presented in the following tables:

ALABAMA

Name	Compensation Level	Accredited Years of Service
Elmer B. Harris	$844,132	39
Banks H. Farris	391,968	39
William B. Hutchins, III	319,544	32
Michael D. Garrett	268,316	30
Earl B. Parsons, Jr.	269,744	37

GEORGIA

Name	Compensation Level	Accredited Years of Service
H. Allen Franklin	$920,468	27
David M. Ratcliffe	506,316	27
Gene R. Hodges	342,084	34
Warren Y. Jobe[1]	343,808	34
Robert H. Haubein, Jr.	326,044	31

GULF

Name	Compensation Level	Accredited Years of Service
Travis J. Bowden[2]	$481,924	32
Arlan E. Scarbrough	244,832	35
John E. Hodges, Jr.	248,136	32
Francis M. Fisher, Jr.	227,144	27
Robert G. Moore	183,044	25

MISSISSIPPI

Name	Compensation Level	Accredited Years of Service
Dwight H. Evans	$398,224	27
H. E. Blakeslee	274,248	33
Don E. Mason	264,564	32
Michael W. Southern	221,140	23
Andrew J. Dearman, III	185,060	23

SAVANNAH

Name	Compensation Level	Accredited Years of Service
G. Edison Holland, Jr.[3]	$280,560	15
W. Miles Greer	143,858	14
Kirby R. Willis	137,972	24

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[1] The number of accredited years of service includes 7 years and 8 months credited to Mr. Jobe pursuant to a supplemental pension agreement.

[2] The number of accredited years of service includes 10 years credited to Mr. Bowden pursuant to a supplemental pension agreement.

[3] The number of accredited years of service includes 9 years and 3 months credited to Mr. Holland pursuant to a supplemental pension agreement.

Effective January 1, 1998, SAVANNAH merged its pension plan into the SOUTHERN Pension Plan. SAVANNAH also has in effect a supplemental executive retirement plan for certain of its executive employees. The plan is designed to provide participants with a supplemental retirement benefit, which, in conjunction with social security and benefits under SOUTHERN's qualified pension plan, will equal 70 percent of the highest three of the final 10 years' average annual earnings (excluding incentive compensation).

The following table sets forth the estimated combined annual pension benefits under SOUTHERN's pension and SAVANNAH's supplemental executive retirement plans in effect during 1998 which are payable to SAVANNAH's named executives, except Mr. Holland who participates in the plans described on page III-25, upon retirement at the normal retirement age after designated periods of accredited service and at a specified compensation level.

	Years of Accredited Service		
Remuneration	**15**	**25**	**35**
$ 90,000	$ 63,000	$ 63,000	$ 63,000
120,000	84,000	84,000	84,000
150,000	105,000	105,000	105,000
180,000	126,000	126,000	126,000
210,000	147,000	147,000	147,000
260,000	182,000	182,000	182,000
280,000	196,000	196,000	196,000
300,000	210,000	210,000	210,000

Compensation of Directors.

Standard Arrangements. The following table presents compensation paid to the directors, during 1998 for service as a member of the board of directors and any board committee(s), except that employee directors received no fees or compensation for service as a member of the board of directors or any board committee. All or a portion of these fees payable in cash may be deferred under the Deferred Compensation Plan until membership on the board is terminated or may be payable in SOUTHERN common stock at the election of the director.

	ALABAMA	GEORGIA	GULF	MISSISSIPPI	SAVANNAH
Cash Retainer Fee	$17,000	$20,000	$10,000	$10,000	$10,000
Stock Retainer Fee	$3,000	$3,000	$2,000	$2,000	$2,000
Meeting Fee	900	900	750	750	750
Committees:					
Audit	900	900	750	750	750
Compensation	900	900	750	750	750
Executive	900	900	-	-	750
Finance	-	900	-	750	-
Nominating	900	-	-	-	-
Nuclear Safety	900	-	-	-	-
Nuclear Operations Overview	-	1,800	-	-	-

Effective January 1, 1997, the Outside Directors Pension Plan (the "Plan") was terminated and benefits payable under the Plan were frozen. Non-employee directors serving as of January 1, 1997, were given a one-time election to receive a Plan benefit buy-out equal to the actuarial present value of future Plan benefits or receive benefits under the terms of the Plan at the annual retainer rate in effect on December 31, 1996. Directors who elected to receive the benefit buy-out were required to defer receipt of that amount under the Deferred Compensation Plan until termination from board membership. Directors who elected to continue to participate under the terms of the Plan are entitled to benefits upon retirement from the board on the retirement date designated in the respective companies' by-laws. The annual benefit payable is based upon length of service and varies from 75 percent of the annual retainer in effect on December 31, 1996, if the participant has at least 60 months of service on the board of one or more system companies, to 100 percent if the participant has at least 120 months of such service. Payments will continue for the greater of the lifetime of the participant or 10 years.

Other Arrangements. No director received other compensation for services as a director during the year ending December 31, 1998 in addition to or in lieu of that specified by the standard arrangements specified above.

Employment Contracts and Termination of Employment and Change in Control Arrangements.

Each registrant has adopted SOUTHERN's Change in Control Plan which is applicable to certain of its officers, and has entered into individual change in control agreements with its most highly compensated executive officers. If an executive is involuntarily terminated, other than for cause, within two years following a change in control of SOUTHERN the agreements provide for:

- lump sum payment of two or three times annual compensation,
- up to five years' coverage under group health and life insurance plans,
- immediate vesting of all stock options and stock appreciation rights previously granted,
- payment of any accrued long-term and short-term bonuses and dividend equivalents, and
- payment of any excise tax liability incurred as a result of payments made under the agreement.

A change in control is defined under the agreements as:

- acquisition of at least 20 percent of the SOUTHERN's stock,
- a change in the majority of the members of the SOUTHERN's board of directors,
- a merger or other business combination that results in SOUTHERN's shareholders immediately before the merger owning less than 65 percent of the voting power after the merger, or
- a sale of substantially all the assets of SOUTHERN.

If a change in control affects only a subsidiary of SOUTHERN, these payments would only be made to executives of the affected subsidiary who are involuntarily terminated as a result of that change in control.

SOUTHERN also has amended its short- and long-term incentive plans to provide for pro-rata payments at not less than target-level performance if a change in control occurs and the plans are not continued or replaced with comparable plans.

On February 28, 1998, SOUTHERN and GEORGIA entered into a Deferred Compensation Agreement with Mr. Franklin. On the fifth anniversary of the Agreement, if Mr. Franklin is still employed by SOUTHERN or one of its subsidiaries, he will receive the cash value of the number of shares of common stock that could have been purchased for $500,000 on February 28, 1998, and on which dividends were reinvested throughout the five-year period. If certain performance goals are met, Mr. Franklin also will receive the estimated income tax expense on the compensation. Mr. Franklin may elect to defer receipt of the award until termination of employment.

SOUTHERN and GEORGIA entered into a Deferred Compensation Agreement with Mr. Jobe. Mr. Jobe becomes eligible for benefits under the terms of this Agreement if one of the following Eligibility Events occurs: (1) Mr. Jobe terminates employment with SOUTHERN or one of its subsidiaries on or after attaining age sixty-two and enters into a release as provided by the Agreement; or (2) Mr. Jobe, after entering into this Agreement but while employed by SOUTHERN or one of its subsidiaries, becomes totally and permanently disabled as determined by a medical doctor selected by SOUTHERN and enters into a release as provided by the Agreement. Upon the occurrence of an eligibility event as detailed in item (1) above, SOUTHERN agrees to pay Mr. Jobe a lump sum amount equal to two times base pay in effect at the time of the eligibility event; a lump sum amount equal to the present value of the monthly Early Retirement Reduction Percentage of Employee's Accrued Retirement Income under the pension plan, plus an amount equal to the reduction of Mr. Jobe's monthly Supplemental Employee Retirement Plan benefit; and consulting fees for services provided by Mr. Jobe as an independent contractor. Upon the occurrence of an eligibility event as detailed in item (2) above, SOUTHERN agrees to pay Mr. Jobe a lump sum amount

Employment Contracts and Termination of Employment and Change in Control Arrangements. (continued)

equal to two times base pay in effect at the time of the eligibility event; and a lump sum amount equal to the present value of the monthly Early Retirement Reduction Percentage of Employee's Accrued Retirement Income under the pension plan, plus an amount equal to the reduction of Mr. Jobe's monthly Supplemental Employee Retirement Plan benefit.

Report on Repricing of Options.

None.

Compensation Committee Interlocks and Insider Participation.

None.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners. SOUTHERN is the beneficial owner of 100% of the outstanding common stock of registrants: ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	The Southern Company 270 Peachtree Street, N.W. Atlanta, Georgia 30303		100%
	Registrants:		
	ALABAMA	5,608,955	
	GEORGIA	7,761,500	
	GULF	992,717	
	MISSISSIPPI	1,121,000	
	SAVANNAH	10,844,635	

Security Ownership of Management. The following table shows the number of shares of SOUTHERN common stock and operating subsidiary preferred stock owned by the directors, nominees and executive officers as of December 31, 1998. It is based on information furnished by the directors, nominees and executive officers. The shares owned by all directors, nominees and executive officers as a group constitute less than one percent of the total number of shares of the respective classes outstanding on December 31, 1998.

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
ALABAMA		
Whit Armstrong	SOUTHERN Common	16,949
David J. Cooper, Sr.	SOUTHERN Common	379
A. William Dahlberg	SOUTHERN Common	355,291
Peter V. Gregerson, Sr.	SOUTHERN Common	575
Elmer B. Harris	SOUTHERN Common	222,887
Carl E. Jones, Jr.	SOUTHERN Common	11,403
Patricia M. King	SOUTHERN Common	177
James K. Lowder	SOUTHERN Common	5,47

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
Thomas C. Meredith	SOUTHERN Common	18
William V. Muse	SOUTHERN Common	575
John T. Porter	SOUTHERN Common	1,008
Robert D. Powers	SOUTHERN Common	575
Andreas Renschler	SOUTHERN Common	410
C. Dowd Ritter	SOUTHERN Common	177
William J. Rushton, III	SOUTHERN Common	8,148
James H. Sanford	SOUTHERN Common	511
John C. Webb, IV	SOUTHERN Common	19,572
Banks H. Farris	SOUTHERN Common	28,112
Michael D. Garrett	SOUTHERN Common	8,087
William B. Hutchins, III	SOUTHERN Common	48,307
Earl B. Parsons Jr.	SOUTHERN Common	10,895
The directors, nominees, and executive officers as a group	SOUTHERN Common	728,635
GEORGIA		
Daniel P. Amos	SOUTHERN Common	168
Juanita P. Baranco	SOUTHERN Common	168
A. William Dahlberg	SOUTHERN Common	355,291
W. A. Fickling, Jr.	SOUTHERN Common	1,069

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
H. Allen Franklin	SOUTHERN Common	177,239
L. G. Hardman III	SOUTHERN Common	16,062
Warren Y. Jobe	SOUTHERN Common GEORGIA Preferred	70,034 200
James R. Lientz, Jr.	SOUTHERN Common	946
G. Joseph Prendergast	SOUTHERN Common	961
Herman J. Russell	SOUTHERN Common	10,710
Gloria M. Shatto	SOUTHERN Common GEORGIA Preferred	18,830 1,200
W. J. Vereen	SOUTHERN Common	496
Carl Ware	SOUTHERN Common	646
William C. Archer, III	SOUTHERN Common	17,500
Robert H. Haubein, Jr.	SOUTHERN Common	29,002
Gene R. Hodges	SOUTHERN Common	43,245
David M. Ratcliffe	SOUTHERN Common	79,206
The directors, nominees and executive officers as a group	SOUTHERN Common GEORGIA Preferred	917,255 1,650

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
GULF		
Travis J. Bowden	SOUTHERN Common	34,889
Paul J. DeNicola	SOUTHERN Common	139,642
Fred C. Donovan, Sr.	SOUTHERN Common	637
W. Deck Hull, Jr.	SOUTHERN Common	2,549
Joseph K. Tannehill	SOUTHERN Common	4,439
Barbara H. Thames	SOUTHERN Common	160
Francis M. Fisher, Jr.	SOUTHERN Common	6,604
John E. Hodges, Jr.	SOUTHERN Common	37,925
Robert G. Moore	SOUTHERN Common	20,729
Arlan E. Scarbrough	SOUTHERN Common	20,039
The directors, nominees and executive officers as a group	SOUTHERN Common	267,502
MISSISSIPPI		
Paul J. DeNicola	SOUTHERN Common	139,642
Edwin E. Downer	SOUTHERN Common	5,365
Dwight H. Evans	SOUTHERN Common GEORGIA Preferred MISSISSIPPI Preferred SOUTHERN Preferred	62,158 400 200 200
Robert S. Gaddis	SOUTHERN Common	3,183

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
Aubrey K. Lucas	SOUTHERN Common	1,940
George A. Schloegel	SOUTHERN Common	485
Philip J. Terrell	SOUTHERN Common	1,103
N. Eugene Warr	SOUTHERN Common	688
H. E. Blakeslee	SOUTHERN Common	26,201
Andrew J. Dearman, III	SOUTHERN Common	11,674
Don E. Mason	SOUTHERN Common	34,258
Michael W. Southern	SOUTHERN Common	7,430
The directors, nominees and executive officers as a group	SOUTHERN Common GEORGIA Preferred MISSISSIPPI Preferred SOUTHERN Preferred	294,125 400 233 200
SAVANNAH		
Archie H. Davis	SOUTHERN Common	190
Paul J. DeNicola	SOUTHERN Common	139,642
Walter D. Gnann	SOUTHERN Common	1,833
G. Edison Holland	SOUTHERN Common	32,589
Robert B. Miller, III	SOUTHERN Common	2,203
Arnold M. Tenenbaum	SOUTHERN Common	793

Name of Directors, Nominees and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1) (2)
W. Miles Greer	SOUTHERN Common	9,599
Kirby R. Willis	SOUTHERN Common	10,996
The directors, nominees and executive officers as a group	SOUTHERN Common	185,772

Changes in control. SOUTHERN and the operating affiliates know of no arrangements which may at a subsequent date result in any change in control.

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(1) As used in this table, "beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security and/or investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security).

(2) The shares shown include shares of SOUTHERN common stock of which certain directors and executive officers have the right to acquire beneficial ownership within 60 days pursuant to the Executive Stock Plan, as follows: Mr. Blakeslee, 21,932 shares; Mr. Dahlberg, 289,787 shares; Mr. DeNicola, 103,158 shares; Mr. Evans, 40,274 shares; Mr. Farris, 24,020 shares; Mr. Franklin, 149,760 shares; Mr. Greer, 6,655 shares; Mr. Harris, 183,510 shares; Mr. Haubein, 26,696 shares; Mr. G. R. Hodges, 26,842 shares; Mr. J. E. Hodges, 15,640 shares; Mr. Holland, 30,209 shares; Mr. Hutchins, 32,521 shares; Mr. Jobe, 39,645 shares; Mr. Mason, 11,421 shares; Mr. Southern, 7,942 shares, and Mr. Willis, 6,192 shares. Also included are shares of SOUTHERN common stock held by the spouses of the following directors: Mr. Bowden, 500 shares; Mr. DeNicola, 12,072 shares; Mr. Gaddis; 1,200 shares; Mr. Hardman, 100 shares; Mr. Harris, 310 shares, and Dr. Shatto, 14,113 shares. Also included are shares of common stock held in the Southern Company Deferred Stock Trust of which certain directors have the power to direct the voting, as follows: Mr. Hardman, 6,714 shares and Dr. Shatto, 799 shares. Also included are 1,200 shares of GEORGIA preferred stock held by Dr. Shatto's spouse.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ALABAMA

Transactions with management and others.

Mr. Whit Armstrong is President, Chairman and Chief Executive Officer of The Citizens Bank, Enterprise, Alabama; Mr. Carl E. Jones, Jr. is President and Chief Executive Officer of Regions Financial Corporation, Birmingham, Alabama; Mr. Wallace D. Malone is Chairman and Chief Executive Officer of SouthTrust Corporation, Birmingham, Alabama. Mr. C. Dowd Ritter is Chairman, President, Chief Executive Officer and Director of AmSouth Bancorporation and AmSouth Bank, Birmingham, Alabama. During 1998, these banks furnished a number of regular banking services in the ordinary course of business to ALABAMA. ALABAMA intends to maintain normal banking relations with all the aforesaid banks in the future.

Certain business relationships.
None.

Indebtedness of management.
None.

Transactions with promoters.
None.

GEORGIA

Transactions with management and others.

Mr. L. G. Hardman III is Chairman of the Board of The First National Bank of Commerce, Georgia; Mr. James R. Lientz, Jr. is President of NationsBank Mid-South Banking Group, Atlanta, Georgia; Mr. G. Joseph Prendergast is Senior Executive Vice President, Wachovia Corporation, Atlanta, Georgia; and Mr. Herman J. Russell is Chairman of the Board of Citizens Trust Bank, Atlanta, Georgia. During 1998, these banks furnished a number of regular banking services in the ordinary course of business to GEORGIA. GEORGIA intends to maintain normal banking relations with all the aforesaid banks in the future.

In 1998, GEORGIA leased a building from Riverside Manufacturing Co. for approximately $84,075. Also, Riverside Manufacturing sold to GEORGIA fire retardant uniforms for $88,646. Mr. William J. Vereen is Chief Executive Officer, President, Treasurer and Director of Riverside Manufacturing Co.

Certain business relationships.
None.

Indebtedness of management.
None.

Transactions with promoters.
None.

GULF

Transactions with management and others.
None

Certain business relationships.
None.

Indebtedness of management.
None.

Transactions with promoters.
None.

MISSISSIPPI

Transactions with management and others.

Mr. Robert S. Gaddis is Chairman of the Advisory Board of Trustmark National Bank, Laurel, Mississippi; Mr. George A. Schloegel is President of Hancock Bank, Gulfport, Mississippi. During 1998, these banks furnished a number of regular banking services in the ordinary course of business to MISSISSIPPI. MISSISSIPPI intends to maintain normal banking relations with the aforesaid banks in the future.

Certain business relationships.
None.

Indebtedness of management.
None.

Transactions with promoters.
None.

Transactions with management and others.
None

Certain business relationships.
None.

Indebtedness of management.
None.

Transactions with promoters.
None.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report on this Form 10-K:

(1) Financial Statements:

Reports of Independent Public Accountants on the financial statements for SOUTHERN and Subsidiary Companies, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH are listed under Item 8 herein.

The financial statements filed as a part of this report for SOUTHERN and Subsidiary Companies, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH are listed under Item 8 herein.

(2) Financial Statement Schedules:

Reports of Independent Public Accountants as to Schedules for SOUTHERN and Subsidiary Companies, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH are included herein on pages IV-12 through IV-17.

Financial Statement Schedules for SOUTHERN and Subsidiary Companies, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH are listed in the Index to the Financial Statement Schedules at page S-1.

(3) Exhibits:

Exhibits for SOUTHERN, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH are listed in the Exhibit Index at page E-1.

(b) Reports on Form 8-K during the fourth quarter of 1998 were as follows:

SOUTHERN filed Current Reports on Form 8-K:

Date of event: December 18, 1998
Items reported: Items 5 and 7

Date of event: December 21, 1998
Items reported: Item 5

ALABAMA filed Current Reports on Form 8-K:

Date of event: October 7, 1998
Items reported: Items 5 and 7

Date of event: October 28, 1998
Items reported: Items 5 and 7

Date of event: November 12, 1998
Items reported: Items 5 and 7

GEORGIA filed Current Reports on Form 8-K:

Date of event: November 19, 1998
Items reported: Items 5 and 7

Date of event: November 19, 1998
Items reported: Items 5 and 7

SAVANNAH filed a Current Report on Form 8-K:

Date of event: December 3, 1998
Items reported: Items 5 and 7

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

THE SOUTHERN COMPANY

By: A. W. Dahlberg, Chairman, President and Chief Executive Officer

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

A. W. Dahlberg
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

W. L. Westbrook
Financial Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Directors:

John C. Adams
A. D. Correll
Paul J. DeNicola
Jack Edwards
H. Allen Franklin
Bruce S. Gordon
L. G. Hardman III
Elmer B. Harris
Zack T. Pate
William J. Rushton, III
Gloria M. Shatto
Gerald J. St. Pe'
Herbert Stockham

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

ALABAMA POWER COMPANY

By: Elmer B. Harris, President and Chief Executive Officer

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Elmer B. Harris
President, Chief Executive Officer and Director
(Principal Executive Officer)

William B. Hutchins, III
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Art P. Beattie
Vice President, Secretary and Comptroller
(Principal Accounting Officer)

Directors:

Whit Armstrong
David J. Cooper
A. W. Dahlberg
Peter V. Gregerson, Sr.
Carl E. Jones, Jr.
Patricia M. King
James K. Lowder
Wallace D. Malone, Jr.
Thomas C. Meredith
John T. Porter
Robert D. Powers
Andreas Renschler
C. Dowd Ritter
James H. Sanford
John Cox Webb, IV

By: Wayne Boston
(Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GEORGIA POWER COMPANY

By: H. Allen Franklin, President and Chief Executive Officer

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

H. Allen Franklin
President, Chief Executive Officer and Director
(Principal Executive Officer)

David M. Ratcliffe
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Cliff S. Thrasher
Vice President, Comptroller and Chief Accounting Officer
(Principal Accounting Officer)

Directors:

Juanita P. Baranco	*Zell Miller*
A. W. Dahlberg	*G. Joseph Prendergast*
William A. Fickling, Jr.	*Herman J. Russell*
L. G. Hardman III	*William Jerry Vereen*
Warren Y. Jobe	*Carl Ware*
James R. Lientz, Jr.	

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GULF POWER COMPANY

By: Travis J. Bowden, President and Chief Executive Officer

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Travis J. Bowden
President, Chief Executive Officer and Director
(Principal Executive Officer)

Arlan E. Scarbrough
Vice President - Finance
(Principal Financial and Accounting Officer)

Directors:

Paul J. DeNicola	*Joseph K. Tannehill*
Fred C. Donovan, Sr.	*Barbara H. Thames*
W. Deck Hull, Jr.	

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER COMPANY

By: Dwight H. Evans, President and Chief Executive Officer

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

Dwight H. Evans
President, Chief Executive Officer and Director
(Principal Executive Officer)

Michael W. Southern
Vice President, Secretary, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Directors:

Paul J. DeNicola	*George A. Schloegel*
Edwin E. Downer	*Philip J. Terrell*
Robert S. Gaddis	*Gene Warr*
Linda T. Howard	

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

SAVANNAH ELECTRIC AND POWER COMPANY

By: G. Edison Holland, Jr., President and Chief Executive Officer

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. The signature of each of the undersigned shall be deemed to relate only to matters having reference to the above-named company and any subsidiaries thereof.

G. Edison Holland, Jr.
President, Chief Executive Officer and Director
(Principal Executive Officer)

Kirby R. Willis
Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Directors:

Archie H. Davis	*Robert B. Miller, III*
Paul J. DeNicola	*Arnold M. Tenenbaum*
Walter D. Gnann	

By: Wayne Boston (Wayne Boston, Attorney-in-fact)

Date: March 24, 1999

Exhibit 21. Subsidiaries of the Registrants.*

Name of Company	Jurisdiction of Organization
The Southern Company	Delaware
Southern Company Capital Trust I	Delaware
Southern Company Capital Trust II	Delaware
Southern Company Capital Trust III	Delaware
Southern Company Capital Trust IV	Delaware
Southern Company Capital Trust V	Delaware
Southern Company Capital Trust VI	Delaware
Southern Company Capital Trust VII	Delaware
Alabama Power Company	Alabama
Alabama Power Capital Trust I	Delaware
Alabama Power Capital Trust II	Delaware
Alabama Power Capital Trust III	Delaware
Alabama Power Capital Trust IV	Delaware
Alabama Power Capital Trust V	Delaware
Alabama Property Company	Alabama
Southern Electric Generating Company	Alabama
Georgia Power Company	Georgia
Georgia Power Capital Trust I	Delaware
Georgia Power Capital Trust II	Delaware
Georgia Power Capital Trust III	Delaware
Georgia Power Capital Trust IV	Delaware
Georgia Power Capital Trust V	Delaware
Georgia Power Capital Trust VI	Delaware
Georgia Power L.P. Holdings Corp.	Georgia
Georgia Power Capital, L.P.	Delaware
Piedmont-Forrest Corporation	Georgia
Southern Electric Generating Company	Alabama
Gulf Power Company	Maine
Gulf Power Capital Trust I	Delaware
Gulf Power Capital Trust II	Delaware
Gulf Power Capital Trust III	Delaware
Mississippi Power Company	Mississippi
Mississippi Power Capital Trust I	Delaware
Mississippi Power Capital Trust II	Delaware
Mississippi Power Capital Trust III	Delaware
Savannah Electric and Power Company	Georgia
Savannah Electric Capital Trust I	Delaware
Southern Energy, Inc.	Delaware

*This information is as of December 31, 1998. In addition, the list omits certain subsidiaries pursuant to paragraph (b)(21)(ii) of Regulation S-K Item 601.

ARTHUR ANDERSEN LLP

Exhibit 23(a)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of The Southern Company and its subsidiaries and the related financial statement schedule, included in this Form 10-K, into The Southern Company's previously filed Registration Statement File Nos. 2-78617, 33-3546, 33-30171, 33-51433, 33-54415, 33-57951, 33-58371, 33-60427, 333-09077, 333-44127, 333-44261 and 333-64871.

Arthur Andersen LLP

Atlanta, Georgia
March 22, 1999

ARTHUR ANDERSEN LLP

Exhibit 23(b)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of Alabama Power Company and the related financial statement schedule, included in this Form 10-K, into Alabama Power Company's previously filed Registration Statement File Nos. 33-61845 and 333-67453.

Arthur Andersen LLP

Birmingham, Alabama
March 22, 1999

ARTHUR ANDERSEN LLP

Exhibit 23(c)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of Georgia Power Company and the related financial statement schedule, included in this Form 10-K, into Georgia Power Company's previously filed Registration Statement File No. 333-43895.

Arthur Andersen LLP

Atlanta, Georgia
March 22, 1999

ARTHUR ANDERSEN LLP

Exhibit 23(d)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of Gulf Power Company and the related financial statement schedule, included in this Form 10-K, into Gulf Power Company's previously filed Registration Statement File Nos. 33-50165 and 333-42033.

Arthur Andersen LLP

Atlanta, Georgia
March 22, 1999

ARTHUR ANDERSEN LLP

Exhibit 23(e)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of Mississippi Power Company and the related financial statement schedule, included in this Form 10-K, into Mississippi Power Company's previously filed Registration Statement File No. 333-45069.

Arthur Andersen LLP

Atlanta, Georgia
March 22, 1999

ARTHUR ANDERSEN LLP

Exhibit 23(f)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 10, 1999 on the financial statements of Savannah Electric and Power Company and the related financial statement schedule, included in this Form 10-K, into Savannah Electric and Power Company's previously filed Registration Statement File No. 333-46171.

Arthur Andersen LLP

Atlanta, Georgia
March 22, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To The Southern Company:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of The Southern Company and its subsidiaries included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to The Southern Company and its subsidiaries (page S-2) is the responsibility of The Southern Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Alabama Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements of Alabama Power Company included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Alabama Power Company (page S-3) is the responsibility of Alabama Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Birmingham, Alabama
February 10, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Georgia Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements of Georgia Power Company included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Georgia Power Company (page S-4) is the responsibility of Georgia Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Gulf Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements of Gulf Power Company included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Gulf Power Company (page S-5) is the responsibility of Gulf Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Mississippi Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements of Mississippi Power Company included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Mississippi Power Company (page S-6) is the responsibility of Mississippi Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULE

To Savannah Electric and Power Company:

We have audited in accordance with generally accepted auditing standards, the financial statements of Savannah Electric and Power Company included in this Form 10-K, and have issued our report thereon dated February 10, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed under Item 14(a)(2) herein as it relates to Savannah Electric and Power Company (page S-7) is the responsibility of Savannah Electric and Power Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia
February 10, 1999

INDEX TO FINANCIAL STATEMENT SCHEDULES

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Schedules I through V not listed above are omitted as not applicable or not required. Columns omitted from schedules filed have been omitted because the information is not applicable or not required.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$77,056	$64,789	$6,325	$35,659 (1)	$112,511
1997	31,587	35,930	36,290 (2)	26,751 (1)	77,056
1996	37,119	24,768	48	30,348 (1)	31,587

Notes:

(1) Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.

(2) Includes the addition of a Purchased Reserve in the amount of $37,000 related to the acquisition of CEPA.

ALABAMA POWER COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$2,272	$7,702	$-	$8,119 (Note)	$1,855
1997	1,171	8,580	-	7,479 (Note)	2,272
1996	1,212	8,214	-	8,255 (Note)	1,171

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

GEORGIA POWER COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$3,000	$17,856	$-	$15,356 (Note)	$5,500
1997	4,000	7,888	-	8,888 (Note)	3,000
1996	5,000	11,815	-	12,815 (Note)	4,000

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

GULF POWER COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$796	$2,288	$-	$2,088 (Note)	$996
1997	789	1,350	-	1,343 (Note)	796
1996	768	1,850	7	1,836 (Note)	789

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

MISSISSIPPI POWER COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$698	$1,510	$31	$1,618 (Note)	$621
1997	839	1,128	56	1,325 (Note)	698
1996	802	1,726	41	1,730 (Note)	839

Note: *Represents write-off of accounts considered to be uncollectible, less recoveries of amounts previously written off.*

SAVANNAH ELECTRIC AND POWER COMPANY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

(Stated in Thousands of Dollars)

Description	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Provision for uncollectible accounts					
1998	$354	$417	$-	$487 (Note)	$284
1997	632	192	-	470 (Note)	354
1996	983	126	-	477 (Note)	632

Note: *Represents write-off of accounts receivable considered to be uncollectible, less recoveries of amounts previously written off.*

EXHIBIT INDEX

The following exhibits indicated by an asterisk preceding the exhibit number are filed herewith. The balance of the exhibits have heretofore been filed with the SEC, respectively, as the exhibits and in the file numbers indicated and are incorporated herein by reference. The exhibits marked with a pound sign are management contracts or compensatory plans or arrangements required to be filed herewith and required to be identified as such by Item 14 of Form 10-K. Reference is made to a duplicate list of exhibits being filed as a part of this Form 10-K, which list, prepared in accordance with Item 601 of Regulation S-K of the SEC, immediately precedes the exhibits being physically filed with this Form 10-K.

(1) Underwriting Agreements

GEORGIA

(c) - Distribution Agreement dated November 29, 1995 between GEORGIA and Lehman Brothers Inc.; Donaldson, Lufkin & Jenrette Securities Corporation; J. P. Morgan Securities Inc.; Salomon Brothers Inc and Smith Barney Inc. relating to $300,000,000 First Mortgage Bonds Secured Medium-Term Notes. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1995, as Exhibit 1(c).)

(3) Articles of Incorporation and By-Laws

SOUTHERN

(a) 1 - Composite Certificate of Incorporation of SOUTHERN, reflecting all amendments thereto through January 5, 1994. (Designated in Registration No. 33-3546 as Exhibit 4(a), in Certificate of Notification, File No. 70-7341, as Exhibit A and in Certificate of Notification, File No. 70-8181, as Exhibit A.)

(a) 2 - By-laws of SOUTHERN as amended effective October 21, 1991, and as presently in effect. (Designated in Form U-1, File No. 70-8181, as Exhibit A-2.)

ALABAMA

(b) 1 - Charter of ALABAMA and amendments thereto through August 10, 1998. (Designated in Registration Nos. 2-59634 as Exhibit 2(b), 2-60209 as Exhibit 2(c), 2-60484 as Exhibit 2(b), 2-70838 as Exhibit 4(a)-2, 2-85987 as Exhibit 4(a)-2, 33-25539 as Exhibit 4(a)-2, 33-43917 as Exhibit 4(a)-2, in Form 8-K dated February 5, 1992, File No. 1-3164, as Exhibit 4(b)-3, in Form 8-K dated July 8, 1992, File No. 1-3164, as Exhibit 4(b)-3, in Form 8-K dated October 27, 1993, File No. 1-3164, as Exhibits 4(a) and 4(b), in Form 8-K dated November 16, 1993, File No. 1-3164, as Exhibit 4(a), in Certificate of Notification, File No. 70-8191, as Exhibit A, in ALABAMA's Form 10-K for the year ended December 31, 1997, File No. 1-3164, as Exhibit 3(b)2 and Form 8-K dated August 10, 1998, File No. 1-3164, as Exhibit 4.4.)

(b) 2 - By-laws of ALABAMA as amended effective July 23, 1993, and as presently in effect. (Designated in Form U-1, File No. 70-8191, as Exhibit A-2.)

GEORGIA

(c) 1 - Charter of GEORGIA and amendments thereto through January 26, 1998. (Designated in Registration Nos. 2-63392 as Exhibit 2(a)-2, 2-78913 as Exhibits 4(a)-(2) and 4(a)-(3), 2-93039 as Exhibit 4(a)-(2), 2-96810 as Exhibit 4(a)-2, 33-141 as Exhibit 4(a)-(2), 33-1359 as Exhibit 4(a)(2), 33-5405 as Exhibit 4(b)(2), 33-14367 as Exhibits 4(b)-(2) and 4(b)-(3), 33-22504 as Exhibits 4(b)-(2), 4(b)-(3) and 4(b)-(4), in GEORGIA's Form 10-K for the year ended December 31, 1991, File No. 1-6468, as Exhibits 4(a)(2) and 4(a)(3), in Registration No. 33-48895 as Exhibits 4(b)-(2) and 4(b)-(3), in Form 8-K dated December 10, 1992, File No. 1-6468 as Exhibit 4(b), in Form 8-K dated June 17, 1993, File No. 1-6468, as Exhibit 4(b), in Form 8-K dated October 20, 1993, File No. 1-6468, as Exhibit 4(b) and in GEORGIA's Form 10-K for the year ended December 31, 1997, File No. 1-6468, as Exhibit 3(c)2.)

(c) 2 - By-laws of GEORGIA as amended effective July 18, 1990, and as presently in effect. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 3.)

GULF

(d) 1 - Restated Articles of Incorporation of GULF and amendments thereto through January 28, 1998. (Designated in Registration No. 33-43739 as Exhibit 4(b)-1, in Form 8-K dated January 15, 1992, File No. 0-2429, as Exhibit 1(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(b)-2, in Form 8-K dated September 22, 1993, File No. 0-2429, as Exhibit 4, in Form 8-K dated November 3, 1993, File No. 0-2429, as Exhibit 4 and in GULF's Form 10-K for the year ended December 31, 1997, File No. 0-2429, as Exhibit 3(d)2.)

(d) 2 - By-laws of GULF as amended effective July 26, 1996, and as presently in effect. (Designated in Form U-1, File No. 70-8949, as Exhibit A-2(c).)

MISSISSIPPI

(e) 1 - Articles of Incorporation of MISSISSIPPI, articles of merger of Mississippi Power Company (a Maine corporation) into MISSISSIPPI and articles of amendment to the articles of incorporation of MISSISSIPPI through December 31, 1997. (Designated in Registration No. 2-71540 as Exhibit 4(a)-1, in Form U5S for 1987, File No. 30-222-2, as Exhibit B-10, in Registration No. 33-49320 as Exhibit 4(b)-(1), in Form 8-K dated August 5, 1992, File No. 0-6849, as Exhibits 4(b)-2 and 4(b)-3, in Form 8-K dated August 4, 1993, File No. 0-6849, as Exhibit 4(b)-3, in Form 8-K dated August 18, 1993, File No. 0-6849, as Exhibit 4(b)-3 and in MISSISSIPPI's Form 10-K for the year ended December 31, 1997, File No. 0-6849, as Exhibit 3(e)2.)

(e) 2 - By-laws of MISSISSIPPI as amended effective April 2, 1996, and as presently in effect. (Designated in Form U5S for 1995, File No. 30-222-2, as Exhibit B-10.)

SAVANNAH

(f) 1 - Charter of SAVANNAH and amendments thereto through November 10, 1993. (Designated in Registration Nos. 33-25183 as Exhibit 4(b)-(1), 33-45757 as Exhibit 4(b)-(2) and in Form 8-K dated November 9, 1993, File No. 1-5072, as Exhibit 4(b).)

* (f) 2 - Amendment to charter of SAVANNAH dated December 2, 1998.

(f) 3 - By-laws of SAVANNAH as amended effective February 16, 1994, and as presently in effect. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1993, as Exhibit 3(f)2.)

(4) Instruments Describing Rights of Security Holders, Including Indentures

SOUTHERN

(a) 1 - Subordinated Note Indenture dated as of February 1, 1997, among SOUTHERN, Southern Company Capital Funding, Inc. and Bankers Trust Company, as Trustee, and indentures supplemental thereto dated as of February 4, 1997. (Designated in Registration Nos. 333-28349 as Exhibits 4.1 and 4.2 and 333-28355 as Exhibit 4.2.)

(a) 2 - Subordinated Note Indenture dated as of June 1, 1997, among SOUTHERN, Southern Company Capital Funding, Inc. and Bankers Trust Company, as Trustee, and indentures supplemental thereto through that dated as of December 23, 1998. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit (4)(a)2, in Form 8-K dated June 18, 1998, File No. 1-3526, as Exhibit 4.2 and in Form 8-K dated December 18, 1998, File No. 1-3526, as Exhibit 4.4.)

(a) 3 - Amended and Restated Trust Agreement of Southern Company Capital Trust I dated as of February 1, 1997. (Designated in Registration No. 333-28349 as Exhibit 4.6)

(a) 4 - Amended and Restated Trust Agreement of Southern Company Capital Trust II dated as of February 1, 1997. (Designated in Registration No. 333-28355 as Exhibit 4.6)

(a) 5 - Amended and Restated Trust Agreement of Southern Company Capital Trust III dated as of June 1, 1997. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit (4)(a)5.)

(a) 6 - Amended and Restated Trust Agreement of Southern Company Capital Trust IV dated as of June 1, 1998. (Designated in Form 8-K dated June 18, 1998, File No. 1-3526, as Exhibit 4.5.)

(a) 7 - Amended and Restated Trust Agreement of Southern Company Capital Trust V dated as of December 1, 1998. (Designated in Form 8-K dated December 18, 1998, File No. 1-3526, as Exhibit 4.7A.)

(a) 8 - Capital Securities Guarantee Agreement relating to Southern Company Capital Trust I dated as of February 1, 1997. (Designated in Registration No. 333-28349 as Exhibit 4.10)

(a) 9 - Capital Securities Guarantee Agreement relating to Southern Company Capital Trust II dated as of February 1, 1997. (Designated in Registration No. 333-28355 as Exhibit 4.10)

(a) 10 - Preferred Securities Guarantee Agreement relating to Southern Company Capital Trust III dated as of June 1, 1997. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit (4)(a)8.)

(a) 11 - Preferred Securities Guarantee Agreement relating to Southern Company Capital Trust IV dated as of June 1, 1998. (Designated in Form 8-K dated June 18, 1998, File No. 1-3626, as Exhibit 4.8.)

(a) 12 - Preferred Securities Guarantee Agreement relating to Southern Company Capital Trust V dated as of December 1, 1998. (Designated in Form 8-K dated December 18, 1998, File No. 1-3526, as Exhibit 4.11A.)

ALABAMA

(b) 1 - Indenture dated as of January 1, 1942, between ALABAMA and The Chase Manhattan Bank (formerly Chemical Bank), as Trustee, and indentures supplemental thereto through that dated as of December 1, 1994. (Designated in Registration Nos. 2-59843 as Exhibit 2(a)-2, 2-60484 as Exhibits 2(a)-3 and 2(a)-4, 2-60716 as Exhibit 2(c), 2-67574 as Exhibit 2(c), 2-68687 as Exhibit 2(c), 2-69599 as Exhibit 4(a)-2, 2-71364 as Exhibit 4(a)-2, 2-73727 as Exhibit 4(a)-2, 33-5079 as Exhibit 4(a)-2, 33-17083 as Exhibit 4(a)-2, 33-22090 as Exhibit 4(a)-2, in ALABAMA's Form 10-K for the year ended December 31, 1990, File No. 1-3164, as Exhibit 4(c), in Registration Nos. 33-43917 as Exhibit 4(a)-2, 33-45492 as Exhibit 4(a)-2, 33-48885 as Exhibit 4(a)-2, 33-48917 as Exhibit 4(a)-2, in Form 8-K dated January 20, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Form 8-K dated February 17, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Form 8-K dated March 10, 1993, File No. 1-3164, as Exhibit 4(a)-3, in Certificate of Notification, File No. 70-8069, as Exhibits A and B, in Form 8-K dated June 24, 1993, File No. 1-3164, as Exhibit 4, in Certificate of Notification, File No. 70-8069, as Exhibit A, in Form 8-K dated November 16, 1993, File No. 1-3164, as Exhibit 4(b), in Certificate of Notification, File No. 70-8069, as Exhibits A and B, in Certificate of Notification, File No. 70-8069, as Exhibit A, in Certificate of Notification, File No. 70-8069, as Exhibit A and in Form 8-K dated November 30, 1994, File No. 1-3164, as Exhibit 4.)

(b) 2 - Subordinated Note Indenture dated as of January 1, 1996, between ALABAMA and The Chase Manhattan Bank (formerly Chemical Bank), as Trustee, and indenture supplemental thereto dated as of January 1, 1996. (Designated in Certificate of Notification, File No. 70-8461, as Exhibits E and F.)

(b) 3 - Subordinated Note Indenture dated as of January 1, 1997, between ALABAMA and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through that dated as of February 25, 1999. (Designated in Form 8-K dated January 9, 1997, File No. 1-3164, as Exhibits 4.1 and 4.2 and in Form 8-K dated February 18, 1999, File No. 3164, as Exhibit 4.2.)

(b) 4 - Senior Note Indenture dated as of December 1, 1997, between ALABAMA and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through that dated November 17, 1998. (Designated in Form 8-K dated December 4, 1997, File No. 1-3164, as Exhibits 4.1 and 4.2, in Form 8-K dated February 20, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated April 17, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated August 11, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 8, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated September 16, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated October 7, 1998, File No. 1-3164, as Exhibit 4.2, in Form 8-K dated October 28, 1998, File No. 1-3164, as Exhibit 4.2 and in Form 8-K dated November 12, 1998, File No. 1-3164, as Exhibit 4.2 .)

(b) 5 - Amended and Restated Trust Agreement of Alabama Power Capital Trust I dated as of January 1, 1996. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit D.)

(b) 6 - Amended and Restated Trust Agreement of Alabama Power Capital Trust II dated as of January 1, 1997. (Designated in Form 8-K dated January 9, 1997, File No. 1-3164, as Exhibit 4.5.)

(b) 7 - Amended and Restated Trust Agreement of Alabama Power Capital Trust III dated as of February 1, 1999. (Designated in Form 8-K dated February 18, 1999, File No. 1-3164, as Exhibit 4.5.)

(b) 8 - Guarantee Agreement relating to Alabama Power Capital Trust I dated as of January 1, 1996. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit G.)

(b) 9 - Guarantee Agreement relating to Alabama Power Capital Trust II dated as of January 1, 1997. (Designated in Form 8-K dated January 9, 1997, File No. 1-3164, as Exhibit 4.8.)

(b) 10 - Guarantee Agreement relating to Alabama Power Capital Trust III dated as of February 1, 1999. (Designated in Form 8-K dated February 18, 1999, File No. 1-3164, as Exhibit 4.8.)

GEORGIA

(c) 1 - Indenture dated as of March 1, 1941, between GEORGIA and The Chase Manhattan Bank (formerly Chemical Bank), as Trustee, and indentures supplemental thereto dated as of March 1, 1941, March 3, 1941 (3 indentures), March 6, 1941 (139 indentures), March 1, 1946 (88 indentures) and December 1, 1947, through October 15, 1995. (Designated in Registration Nos. 2-4663 as Exhibits B-3 and B-3(a), 2-7299 as Exhibit 7(a)-2, 2-61116 as Exhibit 2(a)-3 and 2(a)-4, 2-62488 as Exhibit 2(a)-3, 2-63393 as Exhibit 2(a)-4, 2-63705 as Exhibit 2(a)-3, 2-68973 as Exhibit 2(a)-3, 2-70679 as Exhibit 4(a)-(2), 2-72324 as Exhibit 4(a)-2, 2-73987 as Exhibit 4(a)-(2), 2-77941 as Exhibits 4(a)-(2) and 4(a)-(3), 2-79336 as Exhibit 4(a)-(2), 2-81303 as Exhibit 4(a)-(2), 2-90105 as Exhibit 4(a)-(2), 33-5405 as Exhibit 4(a)-(2), 33-14367 as Exhibits 4(a)-(2) and 4(a)-(3), 33-22504 as Exhibits 4(a)-(2), 4(a)-(3) and 4(a)-(4), 33-32420 as Exhibit 4(a)-(2), 33-35683 as Exhibit 4(a)-(2), in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 4(a)(3), in Form 10-K for the year ended December 31, 1991, File No. 1-6468, as Exhibit 4(a)(5), in Registration No. 33-48895 as Exhibit 4(a)-(2), in Form 8-K dated August 26, 1992, File No. 1-6468, as Exhibit 4(a)-(3), in Form 8-K dated September 9, 1992, File No. 1-6468, as Exhibits 4(a)-(3) and 4(a)-(4), in Form 8-K dated September 23, 1992, File No. 1-6468, as Exhibit 4(a)-(3), in Form 8-A dated October 12, 1992, as Exhibit 2(b), in Form 8-K dated January 27, 1993, File No. 1-6468, as Exhibit 4(a)-(3), in Registration No. 33-49661 as Exhibit 4(a)-(2), in Form 8-K dated July 26, 1993, File No. 1-6468, as Exhibit 4, in Certificate of Notification, File No. 70-7832, as Exhibit M, in Certificate of Notification, File No. 70-7832, as Exhibit C, in Certificate of Notification, File No. 70-7832, as Exhibits K and L, in Certificate of Notification, File No. 70-8443, as Exhibit C, in Certificate of Notification, File No. 70-8443, as Exhibit C, in Certificate of Notification, File No. 70-8443, as Exhibit E, in Certificate of Notification, File No. 70-8443, as Exhibit E, in Certificate of Notification, File No. 70-8443, as Exhibit E, in GEORGIA's Form 10-K for the year ended December 31, 1994, File No. 1-6468, as Exhibits 4(c)2 and 4(c)3, in Certificate of Notification, File No. 70-8443, as Exhibit C, in Certificate of Notification, File No. 70-8443, as Exhibit C, in Form 8-K dated May 17, 1995, File No. 1-6468, as Exhibit 4 and in GEORGIA's Form 10-K for the year ended December 31, 1995, File No. 1-6468, as Exhibits 4(c)2, 4(c)3, 4(c)4, 4(c)5 and 4(c)6.)

(c) 2 - Indenture dated as of December 1, 1994, between GEORGIA and Trust Company Bank, as Trustee and indentures supplemental thereto through that dated as of December 15, 1994. (Designated in Certificate of Notification, File No. 70-8461, as Exhibits E and F.)

(c) 3 - Subordinated Note Indenture dated as of August 1, 1996, between GEORGIA and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through January 1, 1997. (Designated in Form 8-K dated August 21, 1996, File No. 1-6468, as Exhibits 4.1 and 4.2 and in Form 8-K dated January 9, 1997, File No. 1-6468, as Exhibit 4.2.)

(c) 4 - Subordinated Note Indenture dated as of June 1, 1997, between GEORGIA and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through

that dated as of February 25, 1999. (Designated in Certificate of Notification, File No. 70-8461, as Exhibits D and E and Form 8-K dated February 17, 1999, File No. 1-6468, as Exhibit 4.4.)

(c) 5 - Senior Note Indenture dated as of January 1, 1998, between GEORGIA and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through that dated as of March 9, 1999. (Designated in Form 8-K dated January 21, 1998, File No. 1-6468, as Exhibits 4.1 and 4.2, in Forms 8-K each dated November 19, 1998, File No. 1-6468, as Exhibit 4.2 and in Form 8-K dated March 3, 1999, File No. 1-6469 as Exhibit 4.2.)

(c) 6 - Amended and Restated Trust Agreement of Georgia Power Capital Trust I dated as of August 1, 1996. (Designated in Form 8-K dated August 21, 1996, File No. 1-6468, as Exhibit 4.5.)

(c) 7 - Amended and Restated Trust Agreement of Georgia Power Capital Trust II dated as of January 1, 1997. (Designated in Form 8-K dated January 9, 1997, File No. 1-6468, as Exhibit 4.5.)

(c) 8 - Amended and Restated Trust Agreement of Georgia Power Capital Trust III dated as of June 1, 1997. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit C.)

(c) 9 - Amended and Restated Trust Agreement of Georgia Power Capital Trust IV dated as of February 1, 1999. (Designated in Form 8-K dated February 17, 1999, as Exhibit 4.7-A)

(c) 10 - Guarantee Agreement relating to Georgia Power Capital Trust I dated as of August 1, 1996. (Designated in Form 8-K dated August 21, 1996, File No. 1-6468, as Exhibit 4.8.)

(c) 11 - Guarantee Agreement relating to Georgia Power Capital Trust II dated as of January 1, 1997. (Designated in Form 8-K dated January 9, 1997, File No. 1-6468, as Exhibit 4.8.)

(c) 12 - Guarantee Agreement relating to Georgia Power Capital Trust III dated as of June 1, 1997. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit F.)

(c) 13 - Guarantee Agreement relating to Georgia Power Capital Trust IV dated as of February 1, 1999. (Designated in Form 8-K dated February 17, 1999, as Exhibit 4.11-A.)

GULF

(d) 1 - Indenture dated as of September 1, 1941, between GULF and The Chase Manhattan Bank (formerly The Chase Manhattan Bank (National Association)), as Trustee, and indentures supplemental thereto through November 1, 1996. (Designated in Registration Nos. 2-4833 as Exhibit B-3, 2-62319 as Exhibit 2(a)-3, 2-63765 as Exhibit 2(a)-3, 2-66260 as Exhibit 2(a)-3, 33-2809 as Exhibit 4(a)-2, 33-43739 as Exhibit 4(a)-2, in GULF's Form 10-K for the year ended December 31, 1991, File

No. 0-2429, as Exhibit 4(b), in Form 8-K dated August 18, 1992, File No. 0-2429, as Exhibit 4(a)-3, in Registration No. 33-50165 as Exhibit 4(a)-2, in Form 8-K dated July 12, 1993, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibits E and F, in Form 8-K dated January 17, 1996, File No. 0-2429, as Exhibit 4, in Certificate of Notification, File No. 70-8229, as Exhibit A, in Certificate of Notification, File No. 70-8229, as Exhibit A and in Form 8-K dated November 6, 1996, File No. 0-2429, as Exhibit 4.)

(d) 2 - Subordinated Note Indenture dated as of January 1, 1997, between GULF and The Chase Manhattan Bank, as Trustee, and indentures supplemental thereto through that dated as of January 1, 1998. (Designated in Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibits 4.1 and 4.2, in Form 8-K dated July 28, 1997, File No. 0-2429, as Exhibit 4.2 and in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.2.)

(d) 3 - Senior Note Indenture dated as of January 1, 1998, between GULF and The Chase Manhattan Bank, as Trustee, and indenture supplemental thereto dated as of June 24, 1998. (Designated in Form 8-K dated June 17, 1998, File No. 0-2429, as Exhibits 4.1 and 4.2.)

(d) 4 - Amended and Restated Trust Agreement of Gulf Power Capital Trust I dated as of January 1, 1997. (Designated in Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibit 4.5.)

(d) 5 - Amended and Restated Trust Agreement of Gulf Power Capital Trust II dated as of January 1, 1998. (Designated in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.5.)

(d) 6 - Guarantee Agreement relating to Gulf Power Capital Trust I dated as of January 1, 1997. (Designated in Form 8-K dated January 27, 1997, File No. 0-2429, as Exhibit 4.8.)

(d) 7 - Guarantee Agreement relating to Gulf Power Capital Trust II dated as of January 1, 1998. (Designated in Form 8-K dated January 13, 1998, File No. 0-2429, as Exhibit 4.8.)

MISSISSIPPI

(e) 1 - Indenture dated as of September 1, 1941, between MISSISSIPPI and Bankers Trust Company, as Successor Trustee, and indentures supplemental thereto through December 1, 1995. (Designated in Registration Nos. 2-4834 as Exhibit B-3, 2-62965 as Exhibit 2(b)-2, 2-66845 as Exhibit 2(b)-2, 2-71537 as Exhibit 4(a)-(2), 33-5414 as Exhibit 4(a)-(2), 33-39833 as Exhibit 4(a)-2, in MISSISSIPPI's Form 10-K for the year ended December 31, 1991, File No. 0-6849, as Exhibit 4(b), in Form 8-K dated August 5, 1992, File No. 0-6849, as Exhibit 4(a)-2, in Second Certificate of Notification, File No. 70-7941, as Exhibit I, in MISSISSIPPI's Form 8-K dated February 26, 1993, File No. 0-6849, as Exhibit 4(a)-2, in Certificate of Notification, File No. 70-8127, as Exhibit A, in Form 8-K dated June 22, 1993, File

No. 0-6849, as Exhibit 1, in Certificate of Notification, File No. 70-8127, as Exhibit A, in Form 8-K dated March 8, 1994, File No. 0-6849, as Exhibit 4, in Certificate of Notification, File No. 70-8127, as Exhibit C and in Form 8-K dated December 5, 1995, File No. 0-6849, as Exhibit 4.)

(e) 2 - Senior Note Indenture dated as of May 1, 1998 between MISSISSIPPI and Bankers Trust Company, as Trustee and indentures supplemental thereto through May 20, 1998. (Designated in Form 8-K dated May 14, 1998, File No. 0-6849, as Exhibits 4.1, 4.2(a) and 4.2(b).)

(e) 3 - Subordinated Note Indenture dated as of February 1, 1997, between MISSISSIPPI and Bankers Trust Company, as Trustee, and indenture supplemental thereto dated as of February 1, 1997. (Designated in Form 8-K dated February 20, 1997, File No. 0-6849, as Exhibits 4.1 and 4.2.)

(e) 4 - Amended and Restated Trust Agreement of Mississippi Power Capital Trust I dated as of February 1, 1997. (Designated in Form 8-K dated February 20, 1997, File No. 0-6849, as Exhibit 4.5.)

(e) 5 - Guarantee Agreement relating to Mississippi Power Capital Trust I dated as of February 1, 1997. (Designated in Form 8-K dated February 20, 1997, File No. 0-6849, as Exhibit 4.8.)

SAVANNAH

(f) 1 - Indenture dated as of March 1, 1945, between SAVANNAH and The Bank of New York, New York, as Trustee, and indentures supplemental thereto through May 1, 1996. (Designated in Registration Nos. 33-25183 as Exhibit 4(a)-(1), 33-41496 as Exhibit 4(a)-(2), 33-45757 as Exhibit 4(a)-(2), in SAVANNAH's Form 10-K for the year ended December 31, 1991, File No. 1-5072, as Exhibit 4(b), in Form 8-K dated July 8, 1992, File No. 1-5072, as Exhibit 4(a)-3, in Registration No. 33-50587 as Exhibit 4(a)-(2), in Form 8-K dated July 22, 1993, File No. 1-5072, as Exhibit 4, in Form 8-K dated May 18, 1995, File No. 1-5072, as Exhibit 4 and in Form 8-K dated May 23, 1996, File No. 1-5072, as Exhibit 4.)

(f) 2 - Senior Note Indenture dated as of March 1, 1998 between SAVANNAH and The Bank of New York, as Trustee and indenture supplemental thereto dated as of March 1, 1998. (Designated in Form 8-K dated March 9, 1998, File No. 1-5072, as Exhibits 4.1 and 4.2.)

(f) 3 - Subordinated Note Indenture dated as of December 1, 1998, between SAVANNAH and The Bank of New York, as Trustee, and indenture supplemental thereto dated as of December 9, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.3 and 4.4.)

(f) 4 - Amended and Restated Trust Agreement of Savannah Electric Capital Trust I dated as of December 1, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.7.)

(f) 5 - Guarantee Agreement relating to Savannah Electric Capital Trust I dated as of December 1, 1998. (Designated in Form 8-K dated December 3, 1998, File No. 1-5072, as Exhibit 4.11.)

(10) Material Contracts

SOUTHERN

(a) 1 - Service contracts dated as of January 1, 1984, between SCS and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGCO and SOUTHERN and Amendment No. 1 dated as of September 6, 1985 between SCS and SOUTHERN. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1984, File No. 1-3526, as Exhibit 10(a) and in SOUTHERN's Form 10-K for the year ended December 31, 1985, File No. 1-3526, as Exhibit 10(a)(3).)

(a) 2 - Service contract dated as of July 17, 1981, between SCS and SEI. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1985, File No. 1-3526, as Exhibit 10(a)(2).)

(a) 3 - Service contract dated as of March 3, 1988, between SCS and SAVANNAH. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1987, File No. 1-5072, as Exhibit 10-p.)

(a) 4 - Service contract dated as of January 15, 1991, between SCS and Southern Nuclear. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1991, File No. 1-3526, as Exhibit 10(a)(4).)

(a) 5 - Service contract dated as of December 12, 1994, between SCS and Mobile Energy Services Company, Inc. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)58.)

(a) 6 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(b).)

(a) 7 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, ALABAMA and GEORGIA. (Designated in Registration No. 2-59634 as Exhibit 5(c), in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(d)(2) and in ALABAMA's Form 10-K for the year ended December 31, 1994, File No. 1-3164, as Exhibit 10(b)18.)

(a) 8 - Joint Committee Agreement dated as of August 27, 1976, among GEORGIA, OPC, MEAG and Dalton. (Designated in Registration No. 2-61116 as Exhibit 5(d).)

(a) 9 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of January 6, 1975, between GEORGIA and OPC. (Designated in Form 8-K for January, 1975, File No. 1-6468, as Exhibit (b)(1).)

(a) 10 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of January 6, 1975, between GEORGIA and OPC. (Designated in Form 8-K for January, 1975, File No. 1-6468, as Exhibit (b)(3).)

(a) 11 - Revised and Restated Integrated Transmission System Agreement dated as of November 12, 1990, between GEORGIA and OPC. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(g).)

(a) 12 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of March 26, 1976, between GEORGIA and OPC. (Designated in Certificate of Notification, File No. 70-5592, as Exhibit A.)

(a) 13 - Plant Hal Wansley Operating Agreement dated as of March 26, 1976, between GEORGIA and OPC. (Designated in Certificate of Notification, File No. 70-5592, as Exhibit B.)

(a) 14 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of August 27, 1976, between GEORGIA, MEAG and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(1).)

(a) 15 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of August 27, 1976, between GEORGIA, MEAG and Dalton. (Designated in Form 8-K for February 1977, File No. 1-6468, as Exhibit (b)(2).)

(a) 16 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase and Ownership Participation Agreement dated as of August 27, 1976 and Amendment No. 1 dated as of January 18, 1977, among GEORGIA, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-5792, as Exhibit B-1 and in Form 8-K for January 1977, File No. 1-6468, as Exhibit (B)(3).)

(a) 17 - Alvin W. Vogtle Nuclear Units Number One and Two Operating Agreement dated as of August 27, 1976, among GEORGIA, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-5792, as Exhibit B-2.)

(a) 18 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase, Amendment, Assignment and Assumption Agreement dated as of November 16, 1983, between GEORGIA and MEAG. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1983, File No. 1-6468, as Exhibit 10(k)(4).)

(a) 19 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of August 27, 1976, between GEORGIA and MEAG. (Designated in Form 8-K dated as of July 5, 1977, File No. 1-6468, as Exhibit (b)(2).)

(a) 20 - Plant Hal Wansley Operating Agreement dated as of August 27, 1976, between GEORGIA and MEAG. (Designated in Form 8-K dated as of July 5, 1977, File No. 1-6468, as Exhibit (b)(4).)

(a) 21 - Nuclear Operating Agreement between Southern Nuclear and GEORGIA dated as of July 1, 1993. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)21.)

(a) 22 - Pseudo Scheduling and Services Agreement between GEORGIA and MEAG dated as of April 8, 1997. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)22.)

(a) 23 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of April 19, 1977, between GEORGIA and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(3).)

(a) 24 - Plant Hal Wansley Operating Agreement dated as of April 19, 1977, between GEORGIA and Dalton. (Designated in Form 8-K dated as of June 13, 1977, File No. 1-6468, as Exhibit (b)(7).)

(a) 25 - Plant Robert W. Scherer Units Number One and Two Purchase and Ownership Participation Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 30, 1985, Amendment No. 2 dated as of July 1, 1986, Amendment No. 3 dated as of August 1, 1988 and Amendment No. 4 dated as of December 31, 1990, among GEORGIA, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-3, in SOUTHERN's Form 10-K for the year ended December 31, 1987, File No. 1-3526, as Exhibit 10(o)(2), in SOUTHERN's Form 10-K for the year ended December 31, 1989, File No. 1-3526, as Exhibit 10(n)(2) and in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)54.)

(a) 26 - Plant Robert W. Scherer Units Number One and Two Operating Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 3, 1985 and Amendment No. 2 dated as of December 31, 1990, among GEORGIA, OPC, MEAG and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-4, in SOUTHERN's Form 10-K for the year ended December 31, 1987, File No. 1-3526, as Exhibit 10(o)(4) and in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)55.)

(a) 27 - Plant Robert W. Scherer Purchase, Sale and Option Agreement dated as of May 15, 1980, between GEORGIA and MEAG. (Designated in Form U-1, File No. 70-6481, as Exhibit B-1.)

(a) 28 - Plant Robert W. Scherer Purchase and Sale Agreement dated as of May 16, 1980, between GEORGIA and Dalton. (Designated in Form U-1, File No. 70-6481, as Exhibit B-2.)

(a) 29 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between GEORGIA and GULF. (Designated in Form U-1, File No. 70-6573, as Exhibit B-4, in SOUTHERN's Form 10-K for the year ended December 31, 1987, as Exhibit 10(o)(2) and in SOUTHERN's Form 10-K for the year ended December 31, 1989, as Exhibit 10(n)(2).)

(a) 30 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between GEORGIA and GULF. (Designated in Form U-1, File No. 70-6573, as Exhibit B-5.)

(a) 31 - Plant Robert W. Scherer Unit No. Four Amended and Restated Purchase and Ownership Participation Agreement by and among GEORGIA, FP&L and JEA, dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. (Designated in Form U-1, File No. 70-7843, as Exhibit B-1 and in SOUTHERN's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)60.)

(a) 32 - Plant Robert W. Scherer Unit No. Four Operating Agreement by and among GEORGIA, FP&L and JEA, dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. (Designated in Form U-1, File No. 70-7843, as Exhibit B-2 and in SOUTHERN's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)61.)

(a) 33 - Amended and Restated Unit Power Sales Agreement dated February 18, 1982 and Amendment No. 1 dated May 18, 1982, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. (Designated in MISSISSIPPI's Form 10-K for the year ended December 31, 1981, File No. 0-6849, as Exhibit 10(c)(2) and in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(r)(3).)

(a) 34 - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, Amendment No. 1 dated August 30, 1984 and Amendment No. 2 dated October 30, 1987, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1982, File No. 1-6468, as Exhibit 10(s)(2), in SOUTHERN's Form 10-K for the year ended December 31, 1984, File No. 1-3526, as Exhibit 10(r)(2) and in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(s)(2).)

(a) 35 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(d).)

(a) 36 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(e).)

(a) 37 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1988, File No. 1-5072, as Exhibit 10(f).)

(a) 38 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(x).)

(a) 39 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in GULF's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 10(l).)

(a) 40 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. (Designated in GULF's Form 10-K for the year ended December 31, 1991, File No. 0-2429, as Exhibit 10(m).)

(a) 41 - Rocky Mountain Pumped Storage Hydroelectric Project Ownership Participation Agreement dated November 18, 1988, between OPC and GEORGIA. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1988, File No. 1-6468, as Exhibit 10(x).)

(a) 42 - Rocky Mountain Pumped Storage Hydroelectric Project Operating Agreement dated November 18, 1988, between OPC and GEORGIA. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1988, File No. 1-6468, as Exhibit 10(y).)

(a) 43 - Purchase and Ownership Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between ALABAMA and AEC. (Designated in Form U-1, File No. 70-7609, as Exhibit B-1.)

(a) 44 - Operating Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between ALABAMA and AEC. (Designated in Form U-1, File No. 70-7609, as Exhibit B-2.)

(a) 45 - Transmission Facilities Agreement dated February 25, 1982, Amendment No. 1 dated May 12, 1982 and Amendment No. 2 dated December 6, 1983, between Gulf States and MISSISSIPPI. (Designated in MISSISSIPPI's Form 10-K for the year ended December 31, 1981, File No. 0-6849, as Exhibit 10(f), in MISSISSIPPI's Form 10-K for the year ended December 31, 1982, File No. 0-6849, as Exhibit 10(f)(2) and in MISSISSIPPI's Form 10-K for the year ended December 31, 1983, File No. 0-6849, as Exhibit 10(f)(3).)

(a) 46 - Form of commitment agreement, Amendment No. 1 and Amendment No. 2 with respect to SOUTHERN, ALABAMA, GEORGIA and MISSISSIPPI revolving credits. (Designated in Form U-1, File No. 70-7738, as Exhibit A-5 and in Form U-1, File No. 70-7937, as A-5(b).)

(a) 47 - Block Power Sale Agreement between GEORGIA and OPC dated as of November 12, 1990. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(cc).)

(a) 48 - Revised and Restated Coordination Services Agreement between and among GEORGIA, OPC and Georgia Systems Operations Corporation dated as of September 10, 1997. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)48.)

(a) 49 - Amended and Restated Nuclear Managing Board Agreement for Plant Hatch and Plant Vogtle among GEORGIA, OPC, MEAG and Dalton dated as of July 1, 1993. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)49.)

(a) 50 - Integrated Transmission System Agreement, Power Sale and Coordination Umbrella Agreement between GEORGIA and OPC dated as of November 12, 1990. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(ff).)

(a) 51 - Revised and Restated Integrated Transmission System Agreement between GEORGIA and Dalton dated as of December 7, 1990. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(gg).)

(a) 52 - Revised and Restated Integrated Transmission System Agreement between GEORGIA and MEAG dated as of December 7, 1990. (Designated in GEORGIA's Form 10-K for the year ended December 31, 1990, File No. 1-6468, as Exhibit 10(hh).)

(a) 53 - Long Term Transmission Service Agreement between Entergy Power, Inc. and ALABAMA, MISSISSIPPI and SCS. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1992, File No. 1-3526, as Exhibit 10(a)53.)

(a) 54 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among GEORGIA, OPC, MEAG, Dalton, GULF, FP&L and JEA. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)56.)

(a) 55 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between GEORGIA and SAVANNAH dated as of December 15, 1992. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)57.)

(a) 56 - Plant McIntosh Combustion Turbine Operating Agreement between GEORGIA and SAVANNAH dated as of December 15, 1992. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)58.)

(a) 57 - Power Purchase Agreement dated as of December 3, 1993 between GEORGIA and FPC. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1993, File No. 1-3526, as Exhibit 10(a)59.)

(a) 58 - Operating Agreement for the Joseph M. Farley Nuclear Plant between ALABAMA and Southern Nuclear dated as of December 23, 1991. (Designated in Form U-1, File No. 70-7530, as Exhibit B-7.)

* (a) 59 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998.

* (a) 60 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998.

* (a) 61 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three.

* (a) 62 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two.

* (a) 63 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998.

(a) 64 - The Deferred Compensation Plan for the Directors of The Southern Company and First Amendment and Second Amendment thereto. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)76 and in SOUTHERN's Form 10-K for the year ended December 31, 1995, File No. 1-3526, as Exhibit 10(a)75.)

(a) 65 - The Southern Company Outside Directors Pension Plan. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1994, File No. 1-3526, as Exhibit 10(a)77.)

* (a) 66 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998.

(a) 67 - The Southern Company Outside Directors Stock Plan and First Amendment thereto. (Designated in Registration No. 33-54415 as Exhibit 4(c) and in SOUTHERN's Form 10-K for the year ended December 31, 1995, File No. 1-3526, as Exhibit 10(a)79.)

(a) 68 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1995, File No. 1-3526, as Exhibit 10(a)80.)

* (a) 69 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998.

(a) 70 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1996, File No. 1-3526, as Exhibit 10(a)83 and in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)79.)

* (a) 71 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan.

* (a) 72 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998.

(a) 73 - The Southern Company Supplemental Executive Retirement Plan. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)81.)

* (a) 74 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan.

(a) 75 - The Southern Company Performance Sharing Plan effective January 1, 1997. (Designated in SOUTHERN's Form 10-K for the year ended December 31, 1997, File No. 1-3526, as Exhibit 10(a)82.)

* (a) 76 - Amendments One through Six to The Southern Company Performance Sharing Plan.

* (a) 77 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998.

* (a) 78 - Southern Company Change in Control Severance Plan, effective December 7, 1998.

* (a) 79 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998.

* (a) 80 - Deferred Compensation Agreement between SOUTHERN, GEORGIA and Henry Allen Franklin.

* (a) 81 - Deferred Compensation Agreement between SOUTHERN, Southern Nuclear and William G. Hairston III.

* (a) 82 - Deferred Compensation Agreement between SOUTHERN, GEORGIA and Warren Y. Jobe.

* (a) 83 - Change in Control Agreement between SOUTHERN, Southern Energy Resources, Inc. and Thomas G. Boren.

* (a) 84 - Change in Control Agreement between SOUTHERN, GULF and Travis J. Bowden.

* (a) 85 - Change in Control Agreement between SOUTHERN, SCS and A. W. Dahlberg.

* (a) 86 - Change in Control Agreement between SOUTHERN, SCS and Paul J. DeNicola.

* (a) 87 - Change in Control Agreement between SOUTHERN, MISSISSIPPI and Dwight H. Evans.

* (a) 88 - Change in Control Agreement between SOUTHERN, ALABAMA and Banks Harry Farris.

* (a) 89 - Change in Control Agreement between SOUTHERN, GEORGIA and Henry Allen Franklin.

* (a) 90 - Change in Control Agreement between SOUTHERN, Southern Nuclear and William G. Hairston, III.

* (a) 91 - Change in Control Agreement between SOUTHERN, ALABAMA and Elmer B. Harris.

* (a) 92 - Change in Control Agreement between SOUTHERN, SAVANNAH and G. Edison Holland, Jr.

* (a) 93 - Change in Control Agreement between SOUTHERN, SCS and C. Alan Martin.

* (a) 94 - Change in Control Agreement between SOUTHERN, SCS and Charles Douglas McCrary.

* (a) 95 - Change in Control Agreement between SOUTHERN, GEORGIA and David M. Ratcliffe.

* (a) 96 - Change in Control Agreement between SOUTHERN, SCS and Stephen A. Wakefield.

* (a) 97 - Change in Control Agreement between SOUTHERN, SCS and W. Lawrence Westbrook.

ALABAMA

(b) 1 - Service contracts dated as of January 1, 1984, between SCS and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGCO and SOUTHERN and Amendment No. 1 dated as of September 6, 1985 between SCS and SOUTHERN. See Exhibit 10(a)1 herein.

(b) 2 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)6 herein.

(b) 3 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, ALABAMA and GEORGIA. See Exhibit 10(a)7 herein.

(b) 4 - Amended and Restated Unit Power Sales Agreement dated February 18, 1982 and Amendment No. 1 dated May 18, 1982, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)33 herein.

(b) 5 - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, Amendment No. 1, dated August 30, 1984 and Amendment No. 2, dated October 30, 1987, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)34 herein.

(b) 6 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)35 herein.

(b) 7 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)36 herein.

(b) 8 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)37 herein.

(b) 9 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)38 herein.

(b) 10 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)39 herein.

(b) 11 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)40 herein.

(b) 12 - Firm Power Purchase Contract between ALABAMA and AMEA. (Designated in Certificate of Notification, File No. 70-7212, as Exhibit B.)

(b) 13 - 1991 Firm Power Purchase Contract between ALABAMA and AMEA. (Designated in Form U-1, File No. 70-7873, as Exhibit B-1.)

(b) 14 - Purchase and Ownership Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between ALABAMA and AEC. See Exhibit 10(a)43 herein.

(b) 15 - Operating Agreement for Joint Ownership Interest in the James H. Miller, Jr. Steam Electric Generating Plant Units One and Two dated November 18, 1988, between ALABAMA and AEC. See Exhibit 10(a)44 herein.

(b) 16 - Form of commitment agreement, Amendment No. 1 and Amendment No. 2 with respect to SOUTHERN, ALABAMA, GEORGIA and MISSISSIPPI revolving credits. See Exhibit 10(a)46 herein.

(b) 17 - Long Term Transmission Service Agreement between Entergy Power, Inc. and ALABAMA, MISSISSIPPI and SCS. See Exhibit 10(a)53 herein.

(b) 18 - Operating Agreement for the Joseph M. Farley Nuclear Plant between ALABAMA and Southern Nuclear dated as of December 23, 1991. See Exhibit 10(a)58 herein.

* (b) 19 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)59 herein.

* (b) 20 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)60 herein.

* (b) 21 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three. See Exhibit 10(a)61 herein.

* (b) 22 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two. See Exhibit 10(a)62 herein.

* (b) 23 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)63 herein.

* (b) 24 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)66 herein.

(b) 25 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)65 herein.

(b) 26 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. See Exhibit 10(a)68 herein.

(b) 27 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. See Exhibit 10(a)70 herein.

* (b) 28 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan. See Exhibit 10(a)71 herein.

* (b) 29 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)72 herein.

(b) 30 - The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)73 herein.

* (b) 31 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)74 herein.

* (b) 32 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)69 herein.

(b) 33 - The Southern Company Performance Sharing Plan effective January 1, 1997. See Exhibit 10(a)75 herein.

* (b) 34 - Amendments One through Six to The Southern Company Performance Sharing Plan. See Exhibit 10(a)76 herein.

* (b) 35 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)77 herein.

* (b) 36 - Southern Company Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)78 herein.

* (b) 37 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)79 herein.

* (b) 38 - Change in Control Agreement between SOUTHERN, ALABAMA and Banks Harry Farris. See Exhibit 10(a)88 herein.

* (b) 39 - Change in Control Agreement between SOUTHERN, ALABAMA and Elmer B. Harris. See Exhibit 10(a)91 herein.

* (b) 40 - Supplemental Pension Agreement between ALABAMA, GULF and Travis J. Bowden.

GEORGIA

(c) 1 - Service contracts dated as of January 1, 1984, between SCS and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGCO and SOUTHERN and Amendment No. 1 dated as of September 6, 1985, between SCS and SOUTHERN. See Exhibit 10(a)1 herein.

(c) 2 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)6 herein.

(c) 3 - Agreement dated as of January 27, 1959, Amendment No. 1 dated as of October 27, 1982 and Amendment No. 2 dated November 4, 1993 and effective June 1, 1994, among SEGCO, ALABAMA and GEORGIA. See Exhibit 10(a)7 herein.

(c) 4 - Joint Committee Agreement dated as of August 27, 1976, among GEORGIA, OPC, MEAG and Dalton. See Exhibit 10(a)8 herein.

(c) 5 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of January 6, 1975, between GEORGIA and OPC. See Exhibit 10(a)9 herein.

(c) 6 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of January 6, 1975, between GEORGIA and OPC. See Exhibit 10(a)10 herein.

(c) 7 - Revised and Restated Integrated Transmission System Agreement dated as of November 12, 1990, between GEORGIA and OPC. See Exhibit 10(a)11 herein.

(c) 8 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of March 26, 1976, between GEORGIA and OPC. See Exhibit 10(a)12 herein.

(c) 9 - Plant Hal Wansley Operating Agreement dated as of March 26, 1976, between GEORGIA and OPC. See Exhibit 10(a)13 herein.

(c) 10 - Edwin I. Hatch Nuclear Plant Purchase and Ownership Participation Agreement dated as of August 27, 1976, between GEORGIA, MEAG and Dalton. See Exhibit 10(a)14 herein.

(c) 11 - Edwin I. Hatch Nuclear Plant Operating Agreement dated as of August 27, 1976, between GEORGIA, MEAG and Dalton. See Exhibit 10(a)15 herein.

(c) 12 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase and Ownership Participation Agreement dated as of August 27, 1976 and Amendment No. 1 dated as of January 18, 1977, among GEORGIA, OPC, MEAG and Dalton. See Exhibit 10(a)16 herein.

(c) 13 - Alvin W. Vogtle Nuclear Units Number One and Two Operating Agreement dated as of August 27, 1976, among GEORGIA, OPC, MEAG and Dalton. See Exhibit 10(a)17 herein.

(c) 14 - Alvin W. Vogtle Nuclear Units Number One and Two Purchase, Amendment, Assignment and Assumption Agreement dated as of November 16, 1983, between GEORGIA and MEAG. See Exhibit 10(a)18 herein.

(c) 15 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of August 27, 1976, between GEORGIA and MEAG. See Exhibit 10(a)19 herein.

(c) 16 - Plant Hal Wansley Operating Agreement dated as of August 27, 1976, between GEORGIA and MEAG. See Exhibit 10(a)20 herein.

(c) 17 - Nuclear Operating Agreement between Southern Nuclear and GEORGIA dated as of July 1, 1993. See Exhibit 10(a)21 herein.

(c) 18 - Pseudo Scheduling and Services Agreement between GEORGIA and MEAG dated as of April 8, 1997. See Exhibit 10(a)22 herein.

(c) 19 - Plant Hal Wansley Purchase and Ownership Participation Agreement dated as of April 19, 1977, between GEORGIA and Dalton. See Exhibit 10(a)23 herein.

(c) 20 - Plant Hal Wansley Operating Agreement dated as of April 19, 1977, between GEORGIA and Dalton. See Exhibit 10(a)24 herein.

(c) 21 - Plant Robert W. Scherer Units Number One and Two Purchase and Ownership Participation Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 30, 1985, Amendment No. 2 dated as of July 1, 1986, Amendment No. 3 dated as of August 1, 1988 and Amendment No. 4 dated as of December 31, 1990, among GEORGIA, OPC, MEAG and Dalton. See Exhibit 10(a)25 herein.

(c) 22 - Plant Robert W. Scherer Units Number One and Two Operating Agreement dated as of May 15, 1980, Amendment No. 1 dated as of December 3, 1985 and Amendment No. 2 dated as of December 31, 1990, among GEORGIA, OPC, MEAG and Dalton. See Exhibit 10(a)26 herein.

(c) 23 - Plant Robert W. Scherer Purchase, Sale and Option Agreement dated as of May 15, 1980, between GEORGIA and MEAG. See Exhibit 10(a)27 herein.

(c) 24 - Plant Robert W. Scherer Purchase and Sale Agreement dated as of May 16, 1980, between GEORGIA and Dalton. See Exhibit 10(a)28 herein.

(c) 25 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between GEORGIA and GULF. See Exhibit 10(a)29 herein.

(c) 26 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between GEORGIA and GULF. See Exhibit 10(a)30 herein.

(c) 27 - Plant Robert W. Scherer Unit No. Four Amended and Restated Purchase and Ownership Participation Agreement by and among GEORGIA, FP&L and JEA dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. See Exhibit 10(a)31 herein.

(c) 28 - Plant Robert W. Scherer Unit No. Four Operating Agreement by and among GEORGIA, FP&L and JEA dated as of December 31, 1990 and Amendment No. 1 dated as of June 15, 1994. See Exhibit 10(a)32 herein.

(c) 29 - Amended and Restated Unit Power Sales Agreement dated February 18, 1982 and Amendment No. 1 dated May 18, 1982, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)33 herein.

(c) 30 - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, Amendment No. 1, dated August 30, 1984 and Amendment No. 2 dated October 30, 1987, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)34 herein.

(c) 31 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)35 herein.

(c) 32 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)36 herein.

(c) 33 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)37 herein.

(c) 34 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)38 herein.

(c) 35 - Power Purchase Agreement dated as of December 3, 1993 between GEORGIA and FPC. See Exhibit 10(a)57 herein.

(c) 36 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)39 herein.

(c) 37 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)40 herein.

(c) 38 - Rocky Mountain Pumped Storage Hydroelectric Project Ownership Participation Agreement dated November 18, 1988, between OPC and GEORGIA. See Exhibit 10(a)41 herein.

(c) 39 - Rocky Mountain Pumped Storage Hydroelectric Project Operating Agreement dated November 18, 1988, between OPC and GEORGIA. See Exhibit 10(a)42 herein.

(c) 40 - Form of commitment agreement, Amendment No. 1 and Amendment No. 2 with respect to SOUTHERN, ALABAMA, GEORGIA and MISSISSIPPI revolving credits. See Exhibit 10(a)46 herein.

(c) 41 - Block Power Sale Agreement between GEORGIA and OPC dated as of November 12, 1990. See Exhibit 10(a)47 herein.

(c) 42 - Revised and Restated Coordination Services Agreement between and among GEORGIA, OPC and Georgia Systems Operations Corporation dated as of September 10, 1997. See Exhibit 10(a)48 herein.

(c) 43 - Amended and Restated Nuclear Managing Board Agreement for Plant Hatch and Plant Vogtle among GEORGIA, OPC, MEAG and Dalton dated as of July 1, 1993. See Exhibit 10(a)49 herein.

(c) 44 - Integrated Transmission System Agreement, Power Sale and Coordination Umbrella Agreement between GEORGIA and OPC dated as of November 12, 1990. See Exhibit 10(a)50 herein.

(c) 45 - Revised and Restated Integrated Transmission System Agreement between GEORGIA and Dalton dated as of December 7, 1990. See Exhibit 10(a)51 herein.

(c) 46 - Revised and Restated Integrated Transmission System Agreement between GEORGIA and MEAG dated as of December 7, 1990. See Exhibit 10(a)52 herein.

(c) 47 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among GEORGIA, OPC, MEAG, Dalton, GULF, FP&L and JEA. See Exhibit 10(a)54 herein.

(c) 48 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between GEORGIA and SAVANNAH dated as of December 15, 1992. See Exhibit 10(a)55 herein.

(c) 49 - Plant McIntosh Combustion Turbine Operating Agreement between GEORGIA and SAVANNAH dated as of December 15, 1992. See Exhibit 10(a)56 herein.

(c) 50 - Certificate of Limited Partnership of Georgia Power Capital. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit B.)

(c) 51 - Amended and Restated Agreement of Limited Partnership of Georgia Power Capital, dated as of December 1, 1994. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit C.)

(c) 52 - Action of General Partner of Georgia Power Capital creating the Series A Preferred Securities. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit D.)

(c) 53 - Guarantee Agreement of GEORGIA dated as of December 1, 1994, for the benefit of the holders from time to time of the Series A Preferred Securities. (Designated in Certificate of Notification, File No. 70-8461, as Exhibit G.)

* (c) 54 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)59 herein.

* (c) 55 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)60 herein.

* (c) 56 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three. See Exhibit 10(a)61 herein.

* (c) 57 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two. See Exhibit 10(a)62 herein.

* (c) 58 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)63 herein.

* (c) 59 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)66 herein.

(c) 60 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)65 herein.

(c) 61 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. See Exhibit 10(a)68 herein.

(c) 62 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. See Exhibit 10(a)70 herein.

* (c) 63 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan. See Exhibit 10(a)71 herein.

* (c) 64 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)72 herein.

(c) 65 - The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)73 herein.

* (c) 66 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)74 herein.

* (c) 67 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)69 herein.

(c) 68 - The Southern Company Performance Sharing Plan effective January 1, 1997. See Exhibit 10(a)75 herein.

* (c) 69 - Amendments One through Six to The Southern Company Performance Sharing Plan. See Exhibit 10(a)76 herein.

* (c) 70 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)77 herein.

* (c) 71 - Southern Company Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)78 herein.

* (c) 72 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)79 herein.

* (c) 73 - Deferred Compensation Agreement between SOUTHERN, GEORGIA and Henry Allen Franklin. See Exhibit 10(a)80 herein.

* (c) 74 - Deferred Compensation Agreement between SOUTHERN, GEORGIA and Warren Y. Jobe. See Exhibit 10(a)82 herein.

* (c) 75 - Change in Control Agreement between SOUTHERN, GEORGIA and Henry Allen Franklin. See Exhibit 10(a)89 herein.

* (c) 76 - Change in Control Agreement between SOUTHERN, GEORGIA and David M. Ratcliffe. See Exhibit 10(a)95 herein.

* (c) 77 - Supplemental Pension Agreement between GEORGIA and Warren Y. Jobe.

GULF

(d) 1 - Service contracts dated as of January 1, 1984, between SCS and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGCO and SOUTHERN and Amendment No. 1 dated as of September 6, 1985, between SCS and SOUTHERN. See Exhibit 10(a)1 herein.

(d) 2 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)6 herein.

(d) 3 - Plant Robert W. Scherer Unit Number Three Purchase and Ownership Participation Agreement dated as of March 1, 1984, Amendment No. 1 dated as of July 1, 1986 and Amendment No. 2 dated as of August 1, 1988, between GEORGIA and GULF. See Exhibit 10(a)29 herein.

(d) 4 - Plant Robert W. Scherer Unit Number Three Operating Agreement dated as of March 1, 1984, between GEORGIA and GULF. See Exhibit 10(a)30 herein.

(d) 5 - Plant Scherer Managing Board Agreement dated as of December 31, 1990 among GEORGIA, OPC, MEAG, Dalton, GULF, FP&L and JEA. See Exhibit 10(a)54 herein.

(d) 6 - Amended and Restated Unit Power Sales Agreement dated February 18, 1982 and Amendment No. 1 dated May 18, 1982, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)33 herein.

(d) 7 - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, Amendment No. 1 dated August 30, 1984 and Amendment No. 2 dated October 30, 1987, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)34 herein.

(d) 8 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)35 herein.

(d) 9 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)36 herein.

(d) 10 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)37 herein.

(d) 11 - Agreement between GULF and AEC, effective August 1, 1985. (Designated in GULF's Form 10-K for the year ended December 31, 1985, File No. 0-2429, as Exhibit 10(g).)

(d) 12 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)38 herein.

(d) 13 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)39 herein.

(d) 14 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)40 herein.

• (d) 15 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)59 herein.

* (d) 16 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)60 herein.

* (d) 17 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three. See Exhibit 10(a)61 herein.

• (d) 18 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two. See Exhibit 10(a)62 herein.

* (d) 19 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)63 herein.

* (d) 20 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)66 herein.

(d) 21 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)65 herein.

(d) 22 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. See Exhibit 10(a)68 herein.

(d) 23 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. See Exhibit 10(a)70 herein.

* (d) 24 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan. See Exhibit 10(a)71 herein.

* (d) 25 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)77 herein.

* (d) 26 - Southern Company Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)78 herein.

* (d) 27 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)79 herein.

* (d) 28 - Change in Control Agreement between SOUTHERN, GULF and Travis J. Bowden. See Exhibit 10(a)84 herein.

* (d) 29 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)72 herein.

(d) 30 - The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)73 herein.

* (d) 31 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)74 herein.

* (d) 32 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)69 herein.

(d) 33 - The Southern Company Performance Sharing Plan effective January 1, 1997. See Exhibit 10(a)75 herein.

* (d) 34 - Amendments One through Six to The Southern Company Performance Sharing Plan. See Exhibit 10(a)76 herein.

* (d) 35 - Supplemental Pension Agreement between SAVANNAH, GULF and G. Edison Holland, Jr.

* (d) 36 - Supplemental Pension Agreement between ALABAMA, GULF and Travis J. Bowden. See Exhibit 10(b)40 herein.

MISSISSIPPI

(e) 1 - Service contracts dated as of January 1, 1984, between SCS and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SEGCO and SOUTHERN and Amendment No. 1 dated as of September 6, 1985, between SCS and SOUTHERN. See Exhibit 10(a)1 herein.

(e) 2 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)6 herein.

(e) 3 - Amended and Restated Unit Power Sales Agreement dated February 18, 1982 and Amendment No. 1 dated May 18, 1982, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)33 herein.

(e) 4 - Amended and Restated Unit Power Sales Agreement dated May 19, 1982, Amendment No. 1 dated August 30, 1984, and Amendment No. 2 dated October 30, 1987, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI and SCS. See Exhibit 10(a)34 herein.

(e) 5 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)35 herein.

(e) 6 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)36 herein.

(e) 7 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)37 herein.

(e) 8 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)38 herein.

(e) 9 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)39 herein.

(e) 10 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)40 herein.

(e) 11 - Transmission Facilities Agreement dated February 25, 1982, Amendment No. 1 dated May 12, 1982 and Amendment No. 2 dated December 6, 1983, between Gulf States and MISSISSIPPI. See Exhibit 10(a)45 herein.

(e) 12 - Form of commitment agreement, Amendment No. 1 and Amendment No. 2 with respect to SOUTHERN, ALABAMA, GEORGIA and MISSISSIPPI revolving credits. See Exhibit 10(a)46 herein.

(e) 13 - Long Term Transmission Service Agreement between Entergy Power, Inc. and ALABAMA, MISSISSIPPI and SCS. See Exhibit 10(a)53 herein.

* (e) 14 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)59 herein.

* (e) 15 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)60 herein.

* (e) 16 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three. See Exhibit 10(a)61 herein.

* (e) 17 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two. See Exhibit 10(a)62 herein.

• (e) 18 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)63 herein.

* (e) 19 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)66 herein.

(e) 20 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)65 herein.

(e) 21 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. See Exhibit 10(a)68 herein.

(e) 22 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. See Exhibit 10(a)70 herein.

* (e) 23 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan. See Exhibit 10(a)71 herein.

• (e) 24 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)77 herein.

* (e) 25 - Southern Company Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)78 herein.

* (e) 26 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)79 herein.

* (e) 27 - Change in Control Agreement between SOUTHERN, MISSISSIPPI and Dwight H. Evans. See Exhibit 10(a)87 herein.

• (e) 28 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)72 herein.

(e) 29 - The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)73 herein.

* (e) 30 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)74 herein.

* (e) 31 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)69 herein.

(e) 32 - The Southern Company Performance Sharing Plan effective January 1, 1997. See Exhibit 10(a)75 herein.

* (e) 33 - Amendments One through Six to The Southern Company Performance Sharing Plan. See Exhibit 10(a)76 herein.

SAVANNAH

(f) 1 - Service contract dated as of March 3, 1988, between SCS and SAVANNAH. See Exhibit 10(a)3 herein.

(f) 2 - Interchange contract dated October 28, 1988, effective January 1, 1989, between ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)6 herein.

(f) 3 - Unit Power Sales Agreement dated July 19, 1988, between FPC and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)35 herein.

(f) 4 - Amended Unit Power Sales Agreement dated July 20, 1988, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)36 herein.

(f) 5 - Amended Unit Power Sales Agreement dated August 17, 1988, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)37 herein.

(f) 6 - Unit Power Sales Agreement dated December 8, 1990, between Tallahassee and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)38 herein.

(f) 7 - Transition Energy Agreement dated December 31, 1990, between JEA and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)39 herein.

(f) 8 - Transition Energy Agreement dated December 31, 1990, between FP&L and ALABAMA, GEORGIA, GULF, MISSISSIPPI, SAVANNAH and SCS. See Exhibit 10(a)40 herein.

(f) 9 - Plant McIntosh Combustion Turbine Purchase and Ownership Participation Agreement between GEORGIA and SAVANNAH dated as of December 15, 1992. See Exhibit 10(a)55 herein.

(f) 10 - Plant McIntosh Combustion Turbine Operating Agreement between GEORGIA and SAVANNAH dated December 15, 1992. See Exhibit 10(a)56 herein.

* (f) 11 - The Southern Company Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)59 herein.

* (f) 12 - The Southern Company Executive Productivity Improvement Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)60 herein.

• (f) 13 - The Southern Company Employee Savings Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Three. See Exhibit 10(a)61 herein.

* (f) 14 - The Southern Company Employee Stock Ownership Plan, Amended and Restated effective January 1, 1997 and all amendments thereto through Amendment Number Two. See Exhibit 10(a)62 herein.

(f) 15 - Supplemental Executive Retirement Plan of SAVANNAH, Amended and Restated effective January 1, 1996 and all amendments thereto through Amendment Number Two. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1995, File No. 1-5072, as Exhibit 10(f)17, in SAVANNAH's Form 10-K for the year ended December 31, 1996, File No. 1-5072, as Exhibit 10(f)20 and in SAVANNAH's Form 10-K for the year ended December 31, 1997, File No. 1-5072, as Exhibit 10(f)18.)

(f) 16 - Deferred Compensation Plan for Key Employees of SAVANNAH and all amendments thereto through Amendment Number Two. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1994, File No. 1-5072, as Exhibit 10(f)17, in SAVANNAH's Form 10-K for the year ended December 31, 1995, File No. 1-5072, as Exhibit 10(f)19 and in SAVANNAH's Form 10-K for the year ended December 31, 1996, File No. 1-5072, as Exhibit 10(f)22.)

* (f) 17 - Amendment Number Three to the Deferred Compensation Plan for Key Employees of SAVANNAH.

• (f) 18 - The Southern Company Performance Pay Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)63 herein.

(f) 19 - The Southern Company Outside Directors Pension Plan. See Exhibit 10(a)65 herein.

(f) 20 - Deferred Compensation Plan for Directors of SAVANNAH. (Designated in SAVANNAH's Form 10-K for the year ended December 31, 1997, File No. 1-5072, as Exhibit 10(f)23.)

(f) 21 - Outside Directors Stock Plan for Subsidiaries of The Southern Company and First Amendment thereto. See Exhibit 10(a)68 herein.

(f) 22 - The Southern Company Pension Plan, effective as of January 1, 1997 and Amendment Number One thereto. See Exhibit 10(a)70 herein.

* (f) 23 - Amendment Number Two and Amendment Number Three to The Southern Company Pension Plan. See Exhibit 10(a)71 herein.

• (f) 24 - The Southern Company Supplemental Benefit Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)77 herein.

* (f) 25 - Southern Company Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)78 herein.

* (f) 26 - Southern Company Executive Change in Control Severance Plan, effective December 7, 1998. See Exhibit 10(a)79 herein.

* (f) 27 - Change in Control Agreement between SOUTHERN, SAVANNAH and G. Edison Holland, Jr. See Exhibit 10(a)92 herein.

* (f) 28 - The Southern Company Deferred Compensation Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)66 herein.

* (f) 29 - The Southern Company Performance Stock Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)72 herein.

(f) 30 - The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)73 herein.

* (f) 31 - Amendment Number One and Amendment Number Two to The Southern Company Supplemental Executive Retirement Plan. See Exhibit 10(a)74 herein.

* (f) 32 - The Southern Company Performance Dividend Plan, Amended and Restated effective January 1, 1998. See Exhibit 10(a)69 herein.

(f) 33 - The Southern Company Performance Sharing Plan effective January 1, 1997. See Exhibit 10(a)75 herein.

* (f) 34 - Amendments One through Six to The Southern Company Performance Sharing Plan. See Exhibit 10(a)76 herein.

* (f) 35 - Supplemental Pension Agreement between SAVANNAH, GULF and G. Edison Holland, Jr. See Exhibit 10(d)35 herein.

(21) ***Subsidiaries of Registrants** - Contained herein at page IV-5.

(23) **Consents of Experts and Counsel**

SOUTHERN

* (a) - The consent of Arthur Andersen LLP is contained herein at page IV-6.

ALABAMA

* (b) - The consent of Arthur Andersen LLP is contained herein at page IV-7.

GEORGIA

* (c) - The consent of Arthur Andersen LLP is contained herein at page IV-8.

GULF

* (d) - The consent of Arthur Andersen LLP is contained herein at page IV-9.

MISSISSIPPI

* (e) - The consent of Arthur Andersen LLP is contained herein at page IV-10.

SAVANNAH

* (f) - The consent of Arthur Andersen LLP is contained herein at page IV-11.

(24) Powers of Attorney and Resolutions

SOUTHERN

* (a) - Power of Attorney and resolution.

ALABAMA

* (b) - Power of Attorney and resolution.

GEORGIA

* (c) - Power of Attorney and resolution.

GULF

* (d) - Power of Attorney and resolution.

MISSISSIPPI

* (e) - Power of Attorney and resolution.

SAVANNAH

* (f) - Power of Attorney and resolution.

(27) Financial Data Schedule

SOUTHERN

(a) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 1-3526, as Exhibit 27.)

ALABAMA

(b) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 1-3164, as Exhibit 27.)

GEORGIA

(c) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 1-6468, as Exhibit 27.)

GULF

(d) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 0-2429, as Exhibit 27.)

MISSISSIPPI

(e) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 0-6849, as Exhibit 27.)

SAVANNAH

(f) - Financial Data Schedule. (Designated in Form 8-K dated February 10, 1999, File No. 1-5072, as Exhibit 27.)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended September 30, 1999
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____to_____

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-3526	**The Southern Company** (a Delaware Corporation) 270 Peachtree Street, N.W. Atlanta, Georgia 30303 (404) 506-5000	58-0690070
1-3164	**Alabama Power Company** (An Alabama Corporation) 600 North 18th Street Birmingham, Alabama 35291 (205) 257-1000	63-0004250
1-6468	**Georgia Power Company** (A Georgia Corporation) 241 Ralph McGill Boulevard, N.E. Atlanta, Georgia 30308 (404) 506-6526	58-0257110
0-2429	**Gulf Power Company** (A Maine Corporation) One Energy Place Pensacola, Florida 32520 (850) 444-6111	59-0276810
0-6849	**Mississippi Power Company** (A Mississippi Corporation) 2992 West Beach Gulfport, Mississippi 39501 (228) 864-1211	64-0205820
1-5072	**Savannah Electric and Power Company** (A Georgia Corporation) 600 East Bay Street Savannah, Georgia 31401 (912) 644-7171	58-0418070

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No____

Registrant	Description of Common Stock	Shares Outstanding at October 31, 1999
The Southern Company	**Par Value $5 Per Share**	**673,093,100**
Alabama Power Company	**Par Value $40 Per Share**	**5,608,955**
Georgia Power Company	**No Par Value**	**7,761,500**
Gulf Power Company	**No Par Value**	**992,717**
Mississippi Power Company	**Without Par Value**	**1,121,000**
Savannah Electric and Power Company	**Par Value $5 Per Share**	**10,844,635**

This combined Form 10-Q is separately filed by The Southern Company, Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company and Savannah Electric and Power Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

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September 30, 1999

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DEFINITIONS

TERM	MEANING
affiliates	ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH
ALABAMA	Alabama Power Company
BEWAG	*Berliner Kraft und Licht* AG
CEPA	Consolidated Electric Power Asia Limited
Clean Air Act	Clean Air Act Amendments of 1990
ECO Plan	Environmental Compliance Overview Plan
Energy Act	Energy Policy Act of 1992
EPA	U. S. Environmental Protection Agency
EWG	Exempt wholesale generator
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	Combined Annual Report on Form 10-K of SOUTHERN, ALABAMA, GEORGIA, GULF, MISSISSIPPI and SAVANNAH for the year ended December 31, 1998
FUCO	Foreign utility company
GEORGIA	Georgia Power Company
GULF	Gulf Power Company
MISSISSIPPI	Mississippi Power Company
Mobile Energy	Mobile Energy Services Company, L.L.C. and Mobile Energy Services Holdings, Inc.
OPC	Oglethorpe Power Corporation
operating affiliates	*see* affiliates
operating companies	*see* affiliates
PEP	Performance Evaluation Plan
PSC	Public Service Commission
SAVANNAH	Savannah Electric and Power Company
SCS	Southern Company Services, Inc.
SEC	Securities and Exchange Commission
SOUTHERN	The Southern Company
Southern Energy	Southern Energy, Inc. including SOUTHERN subsidiaries managed or controlled by Southern Energy
SOUTHERN system	SOUTHERN, affiliates, Southern Energy, and other subsidiaries
SWEB	South Western Electricity plc (United Kingdom)
TVA	Tennessee Valley Authority

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements in addition to historical information. The registrants caution 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 legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry; the extent and timing of the entry of additional competition in the markets of SOUTHERN's subsidiaries; challenges related to Year 2000 readiness; potential business strategies, including acquisitions or dispositions of assets or internal restructuring, that may be pursued by the registrants; state and federal rate regulation in the United States; changes in or application of environmental and other laws and regulations to which SOUTHERN and its subsidiaries are subject; political, legal and economic conditions and developments in the United States and in foreign countries in which the subsidiaries operate; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather and other natural phenomena; the performance of projects undertaken by the non-traditional business and the success of efforts to invest in and develop new opportunities; and other factors discussed elsewhere herein and in other reports (including Form 10-K) filed from time to time by the registrants with the SEC.

THE SOUTHERN COMPANY
AND SUBSIDIARY COMPANIES

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES	$3,736,649	$3,456,785	$8,969,294	$8,865,043
OPERATING EXPENSES:				
Operation--				
Fuel	893,394	738,223	2,062,750	1,829,055
Purchased power	350,731	329,493	869,309	940,470
Other	623,259	539,234	1,628,892	1,532,917
Maintenance	195,224	207,988	650,455	642,657
Depreciation and amortization	335,731	426,489	975,975	1,192,775
Taxes other than income taxes	159,199	148,614	450,521	439,105
Income taxes	331,802	315,510	600,305	609,502
Write down of investment in Mobile Energy	68,999	-	68,999	-
Total operating charges	2,958,339	2,705,551	7,307,206	7,186,481
OPERATING INCOME	778,310	751,234	1,662,088	1,678,562
OTHER INCOME (EXPENSE):				
Equity in earnings of unconsolidated subsidiaries	7,926	32,012	150,849	77,148
Interest income	45,910	44,420	115,538	195,833
Gains on asset sales	283,507	185	292,891	49,623
Other, net	(7,679)	(26,175)	20,603	(73,831)
Income taxes applicable to other income	(71,637)	25,192	(80,491)	26,114
INCOME BEFORE INTEREST CHARGES	1,036,337	826,868	2,161,478	1,953,449
INTEREST CHARGES AND OTHER:				
Interest on long-term debt	164,769	179,428	495,477	532,177
Interest on notes payable	53,648	24,391	125,163	85,827
Amortization of debt discount, premium and expense, net	10,159	16,356	29,170	56,828
Other interest charges	22,350	18,459	51,603	64,467
Minority interests in subsidiaries' income	118,518	27,280	154,702	56,990
Distributions on capital and preferred securities of subsidiary companies	46,248	38,953	136,196	109,619
Preferred dividends of subsidiary companies	5,462	5,972	15,683	19,037
Interest charges and other, net	421,154	310,839	1,007,994	924,945
CONSOLIDATED NET INCOME	$ 615,183	$ 516,029	$1,153,484	$1,028,504
AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING (Thousands)	678,472	697,797	690,155	696,836
BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK	$0.90	$0.74	$1.67	$1.48
CASH DIVIDENDS PAID PER SHARE OF COMMON STOCK	$0.335	$0.335	$1.005	$1.005

The accompanying notes as they relate to SOUTHERN are an integral part of these condensed statements.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Consolidated net income	$1,153,484	$1,028,504
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	1,048,897	1,350,767
Deferred income taxes and investment tax credits	155,668	(41,190)
Write down of investment in Mobile Energy	68,999	-
Gain on asset sales	(292,298)	(32,597)
Equity in earnings of unconsolidated subsidiaries	(150,849)	(77,148)
Other, net	148,143	108,328
Changes in certain current assets and liabilities excluding effects from acquisitions --		
Receivables, net	(441,995)	(336,406)
Special deposits-other	(11,078)	4,248
Fossil fuel stock	21,311	3,879
Materials and supplies	(8,085)	19,470
Prepayments	(17,805)	(27,507)
Accounts payable	(296,786)	(210,481)
Taxes accrued	329,333	272,111
Other	232,630	(34,734)
Net cash provided from operating activities	1,939,569	2,027,244
INVESTING ACTIVITIES:		
Gross property additions	(1,695,779)	(1,374,245)
Southern Energy business acquisitions, net of cash acquired	(1,472,217)	(235,157)
Sales of property	286,554	189,142
Other	(71,979)	14,910
Net cash used for investing activities	(2,953,421)	(1,405,350)
FINANCING ACTIVITIES:		
Proceeds--		
Common stock	23,793	168,491
Capital and preferred securities	250,000	245,000
Pollution control obligations	339,650	210,300
Other long-term debt	1,742,128	1,773,488
Notes receivable	228,000	240,792
Retirements/repurchases--		
Common stock repurchased	(648,764)	(60,307)
Preferred stock	(85,980)	(49,432)
First mortgage bonds	(889,800)	(774,845)
Pollution control obligations	(337,650)	(209,780)
Other long-term debt	(416,809)	(215,699)
Notes receivable	(82,354)	(89,679)
Special deposits-redemption funds	(129)	(5)
Notes payable, net	1,569,554	(801,777)
Payment of common stock dividends	(696,014)	(699,835)
Miscellaneous	(85,505)	(101,133)
Net cash provided from (used for) financing activities	910,120	(364,421)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(103,732)	257,473
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	871,353	600,820
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$767,621	$858,293
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$764,750	$814,573
Income taxes	$311,336	$534,502
Southern Energy business acquisitions--		
Fair value of assets acquired	$1,505,042	$199,526
Less cash paid for common stock	1,472,217	199,526
Liabilities assumed	$32,825	-

The accompanying notes as they relate to SOUTHERN are an integral part of these condensed statements.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service	$36,520,022	$35,185,013
Less accumulated provision for depreciation	13,857,102	13,239,140
	22,662,920	21,945,873
Nuclear fuel, at amortized cost	214,452	216,744
Construction work in progress	2,384,733	1,782,482
Total	25,262,105	23,945,099
OTHER PROPERTY AND INVESTMENTS:		
Equity investments in unconsolidated subsidiaries	1,497,706	1,548,951
Property rights, net of accumulated amortization of $200,916 at September 30, 1999 and $169,339 at December 31, 1998	1,191,503	1,184,734
Goodwill, net of accumulated amortization of $144,192 at September 30, 1999 and $105,755 at December 31, 1998	1,944,700	1,949,213
Other Intangibles, net of accumulated amortization of $12,740 at September 30, 1999 and $791 at December 31, 1998	596,752	308,009
Nuclear decommissioning trusts	585,764	516,719
Miscellaneous	702,413	643,280
Total	6,518,838	6,150,906
CURRENT ASSETS:		
Cash and cash equivalents	767,621	871,353
Special deposits	71,638	86,592
Receivables, less accumulated provisions for uncollectible accounts of $88,619 at September 30, 1999 and $112,511 at December 31, 1998	2,065,379	1,797,913
Fossil fuel stock, at average cost	296,398	251,974
Materials and supplies, at average cost	552,971	515,715
Prepayments	134,091	101,843
Vacation pay deferred	79,949	80,752
Total	3,968,047	3,706,142
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred charges related to income taxes	1,009,662	1,035,724
Prepaid pension costs	566,935	489,572
Debt expense, being amortized	132,194	129,257
Premium on reacquired debt, being amortized	305,023	294,055
Miscellaneous	461,795	440,754
Total	2,475,609	2,389,362
TOTAL ASSETS	$38,224,599	$36,191,509

The accompanying notes as they relate to SOUTHERN are an integral part of these condensed statements.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock, par value $5 per share --		
Authorized -- 1 billion shares		
Issued -- September 30, 1999: 700,618,730 shares;		
-- December 31, 1998: 699,772,723 shares	$ 3,503,094	$ 3,498,864
Paid-in capital	2,480,060	2,462,116
Treasury, at cost -- September 30, 1999: 25,959,448 shares;		
-- December 31, 1998: 2,025,536 shares	(705,554)	(57,863)
Retained earnings	4,335,584	3,878,332
Accumulated other comprehensive income	(87,459)	15,400
	9,525,725	9,796,849
Preferred stock of subsidiaries	368,760	369,084
Company or subsidiary obligated mandatorily redeemable capital and preferred securities	2,428,595	2,179,440
Long-term debt	11,509,697	10,471,692
Total	23,832,777	22,817,065
CURRENT LIABILITIES:		
Amount of securities due within one year	495,079	1,525,596
Notes payable	3,366,513	1,827,808
Accounts payable	706,915	1,026,869
Customer deposits	130,774	125,078
Taxes accrued--		
Income taxes	348,517	49,923
Other	335,829	299,051
Interest accrued	224,926	233,355
Vacation pay accrued	78,398	111,611
Miscellaneous	765,352	542,836
Total	6,452,303	5,742,127
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	4,531,001	4,480,970
Deferred credits related to income taxes	678,615	714,665
Accumulated deferred investment tax credits	700,913	723,393
Employee benefits provisions	523,973	473,734
Minority interests in subsidiaries	709,106	535,145
Prepaid capacity revenues	84,259	96,080
Department of Energy assessments	64,191	64,191
Disallowed Plant Vogtle capacity buyback costs	53,315	54,458
Storm damage reserves	26,752	23,980
Miscellaneous	567,394	465,701
Total	7,939,519	7,632,317
TOTAL CAPITALIZATION AND LIABILITIES	$38,224,599	$36,191,509

The accompanying notes as they relate to SOUTHERN are an integral part of these condensed statements.

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
Consolidated net income	$615,183	$516,029	$1,153,484	$1,028,504
Other comprehensive income:				
Foreign currency translation adjustments	19,746	21,069	(158,245)	24,067
Less applicable income taxes	6,911	7,374	(55,386)	8,423
CONSOLIDATED COMPREHENSIVE INCOME	$628,018	$529,724	$1,050,625	$1,044,148

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(Stated in Thousands of Dollars)

	At September 30, 1999	At December 31, 1998
	(Unaudited)	
Balance at beginning of period	$ 15,400	$ 7,176
Change in current period	(102,859)	8,224
BALANCE AT END OF PERIOD	$ (87,459)	$15,400

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

SOUTHERN's traditional business is primarily represented by its five domestic electric utility operating companies, which provide electric service in four Southeastern states. Another significant portion of SOUTHERN's business is its non-traditional business primarily represented by Southern Energy, which owns and manages international and domestic businesses for SOUTHERN. Businesses acquired by Southern Energy have been included in the consolidated statements of income since the date of acquisition. Certain changes in operating revenues and expenses from the prior period result from such acquisitions.

Earnings

SOUTHERN's consolidated net income for the third quarter and year-to-date 1999 was $615 million ($0.90 per share) and $1.153 billion ($1.67 per share), respectively, compared to $516 million ($0.74 per share) and $1.029 billion ($1.48 per share) for the corresponding periods of 1998. Earnings for the traditional business during the quarter were up $69.6 million or 14% primarily due to increased revenues and lower operating expenses. Year-to-date earnings for the traditional business were up $46.5 million or 4.9% due mainly to lower operating expenses, primarily lower depreciation charges. For the non-traditional business, during the quarter and year-to-date, earnings were up $35.8 million and $102.4 million, respectively, due mainly to growing profitability from its Asian business units and its investments in power-generation businesses in New England, California and New York. In the third quarter 1999, Southern Energy recorded several one-time items: a $78 million after-tax gain on the sale of its share of SWEB's supply business (the distribution business is now named Western Power Distribution), a $16 million after-tax charge at Bewag for costs related to early retirement and severance packages and a $69 million after-tax write down of SOUTHERN's investment in Mobile Energy. These items are recorded in Gain on asset sales, Equity in earnings of unconsolidated subsidiaries, and Write down of investment in Mobile Energy, respectively, on SOUTHERN's Condensed Consolidated Statements of Income.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Operating revenues	$279,864	8.1	$104,251	1.2
Fuel expense	155,171	21.0	233,695	12.8
Purchased power expense	21,238	6.4	(71,161)	(7.6)
Other operation expense	84,025	15.6	95,975	6.3
Depreciation and amortization expense	(90,758)	(21.3)	(216,800)	(18.2)
Write down of investment in Mobile Energy	68,999	-	68,999	-
Equity in earnings of unconsolidated subsidiaries	(24,086)	(75.2)	73,701	95.5
Interest income	1,490	3.4	(80,295)	(41.0)

	Increase (Decrease) (Continued)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Gain on asset sales	283,322	N/M	243,268	490.2
Income taxes applicable to other income	(96,829)	(384.4)	(106,605)	(408.2)
Interest on notes payable	29,257	119.9	39,336	45.8
Amortization of debt discount, premium and expense, net	(6,197)	(37.9)	(27,658)	(48.7)
Other interest charges	3,891	21.1	(12,864)	(20.0)
Minority interests in subsidiaries' income	91,238	334.5	97,712	171.5

N/M – Not meaningful

Operating revenues. For the traditional business, operating revenues increased by $14.5 million or 0.5% for the quarter and decreased by $245.8 million or 3.3% year-to-date. Quarterly revenues for the traditional business were positively impacted by a 4.5% increase in retail energy sales and growth in the number of customers. However, revenues for the current quarter and year-to-date continue to be significantly affected by the retail rate reductions ordered by the Georgia PSC. Operating revenues for Southern Energy were up for the third quarter and year-to-date by $252.3 million or 58.1% and $324.6 million or 23.4%, respectively. Southern Energy's revenues were up due mainly to results from its recent investments in power-generation businesses in New England, California and New York and were partially offset by decreased revenues from SWEB and the deconsolidation of Mobile Energy. Effective with the bankruptcy filing in January 1999, Mobile Energy is accounted for under the equity method, rather than being consolidated as before. See Note (N) in the "Notes to the Condensed Financial Statements" herein for further information regarding Mobile Energy. Reference is also made to Item 1 - BUSINESS - "Non-Traditional Business" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SOUTHERN in the Form 10-K.

Fuel expense. This expense increased for the third quarter and year-to-date 1999 due primarily to Southern Energy's acquisitions of power-generating businesses in New England, California and New York.

Purchased power expense. The third quarter increase is attributed primarily to the traditional business where the demand for energy increased due to hot weather and growth in the number of customers. The year-to-date decrease is primarily attributed to Southern Energy, which recorded a decrease of $65.6 million or 11.0% mainly due to a decrease in purchased power at SWEB due to volume reductions.

Other operation expense. Third quarter and year-to-date increases are mainly due to increased administrative and general expenses resulting from Southern Energy's acquisitions since the corresponding periods of 1998 and an increase in the bad debt expense reserve at CEPA.

Depreciation and amortization expense. Third quarter and year-to-date 1999 decreases when compared to the corresponding periods in 1998 are principally attributed to higher depreciation charges recognized in 1998 under the prior accounting order and the completion in 1998 of the amortization of deferred Plant Vogtle costs.

Write down of investment in Mobile Energy. During this third quarter of 1999, SOUTHERN wrote down its investment in Mobile Energy due primarily to recent settlement discussions with Kimberly-Clark Corporation and the bondholders. For additional information, see Note (N) in the "Notes to the Condensed Financial Statements" herein.

Equity in earnings of unconsolidated subsidiaries. The decrease for the third quarter is due, in large part, to Bewag's provision for costs associated with early retirement and severance packages. The year-to-date increase in this item reflects the $54 million settlement of Southern Energy's claims against a contractor relating to the Shajiao C construction project and the improvement in profitability of the Shajiao C operations. The amount of the settlement of contractor claims was partially offset by other related expenses included in other income accounts and other operation expenses.

Interest income. The year-to-date decrease is directly related to the 1998 settlement of tax issues between SOUTHERN and the Internal Revenue Service.

Gain on asset sales. The third quarter and year-to-date increases are primarily due to SWEB's sale of its supply business. Southern Energy's portion of the total gain was $78 million, after taxes. For additional information, see "Future Earnings Potential" herein.

Income taxes applicable to other income. The third quarter and year-to-date increases are mainly attributed to Southern Energy as a result of income taxes related to the sale of SWEB's supply business.

Interest on notes payable. The third quarter and year-to-date 1999 increases are attributed to increased borrowings related to Southern Energy's acquisitions in California, New England and New York, repurchases of SOUTHERN's common stock and other working capital needs. For additional information on the stock repurchase programs, see Note (O) in the "Notes to the Condensed Financial Statements" herein.

Amortization of debt discount, premium and expense, net. These decreases are related to accelerated amortization charges recognized in 1998 for premiums incurred to refinance high-cost debt.

Other interest charges. These charges decreased year-to-date 1999 when compared to the same period in 1998 due to the recognition in 1998 of increased interest related to tax issues between SOUTHERN and the Internal Revenue Service which were settled during 1998.

Minority interests in subsidiaries' income. The third quarter and year-to-date increases in this item primarily represent PP&L Resources' minority interest in the gain on the sale of SWEB's supply business.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from weather to energy sales growth to a less regulated, more competitive environment, with non-traditional business becoming more significant. For additional

information relating to non-traditional business activities, see Item 1 - BUSINESS - "Non-Traditional Business" in the Form 10-K.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, SOUTHERN is positioning the business to meet the challenge of increasing competition. For additional information, see Item 1 - BUSINESS - "Competition" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SOUTHERN in the Form 10-K.

Compliance costs related to the Clean Air Act could affect earnings if such costs cannot be offset. For additional information about the Clean Air Act and other environmental issues, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Matters" of SOUTHERN in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

In April 1999, SOUTHERN, through its subsidiary Southern Energy, completed the purchase of 3,065 megawatts of generating assets in California from Pacific Gas & Electric for approximately $801 million.

In June 1999, SOUTHERN, through its subsidiary Southern Energy, completed its $484 million acquisition of 1,776 megawatts of generating capacity from Orange and Rockland Utilities, Inc. and Consolidated Edison Company of New York. Also, in June 1999, Southern Energy announced that SWEB had signed an agreement to sell its supply business to London Electricity plc for $256 million or £160 million and the assumption of certain liabilities. Further, Southern Energy acquired a 9.99% interest in Shandong International Power Development Company Limited for $104 million. On September 30, 1999, the sale of SWEB's supply business to London Electricity plc was completed and the distribution business was renamed Western Power Distribution as the SWEB name was transferred to London Electricity plc.

For information relating to Year 2000 readiness, see "YEAR 2000 READINESS" below.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was originally to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). SOUTHERN has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings and other comprehensive income.

Reference is made to Notes (B) through (D), (F), (H) through (L), (N) and (O) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential. Reference is also made to Part II - Item 1 - "Legal Proceedings" herein.

YEAR 2000 READINESS

Year 2000 Challenge

In recent decades, computer programmers shortened the year portion of date entries to two digits to save processing time and storage space. Computers assumed, in effect, that all years began with "19." This practice was widely adopted and hard-coded into computer chips and processors found in some equipment. This approach was used until the mid-1990s. Unless corrected before the Year 2000, affected systems and devices containing a chip or microprocessor with date and time functions could incorrectly process dates or the systems may cease to function.

SOUTHERN depends on complex computer systems for many aspects of its operations, which include generation, transmission, and distribution of electricity, as well as other business support activities. SOUTHERN met its Year 2000 readiness goal, when in June 1999 it announced that systems critical to generating and delivering electricity to its customers in the Southeast are ready for 2000. Year 2000 ready means that a system or application is determined suitable for continued use through the Year 2000 and beyond. Critical systems include, but are not limited to, reactor control systems, safe shutdown systems, turbine generator systems, control center computer systems, customer service systems, energy management systems, and telephone switches and equipment.

Year 2000 Program and Status

SOUTHERN's executive management recognizes the seriousness of the Year 2000 challenge and has dedicated what it believes to be adequate resources to address the issue. The Millennium Project is a team of employees, IBM consultants, and other contractors whose progress is reviewed regularly by a steering committee of SOUTHERN executives.

SOUTHERN's traditional business refers to the integrated utility services within Alabama, Florida, Georgia, and Mississippi. For this traditional business, the work was divided into two phases. Phase 1 began in 1996 and consisted of identifying and assessing corporate assets related to software systems and devices that contain a computer chip or clock. The first phase was completed in June 1997. Phase 2 consisted of testing and remediating high priority systems and devices. Also, contingency planning is included in this phase. The second phase was completed on schedule in June 1999. The Millennium Project will continue to monitor the affected computer systems, devices, and applications into the Year 2000.

For the traditional business, SOUTHERN completed the activities contained in its work planby function as follows:

	Work Plan			
	Inventory	Assessment	Remediation and Testing	Completion Date
Generation	100%	100%	100%	6/99
Energy Management	100	100	100	6/99
Transmission and Distribution	100	100	100	1/99
Telecommunications	100	100	100	6/99
Corporate Applications	100	100	100	3/99

For the non-traditional business, Southern Energy has adopted a three-phase plan to address the Year 2000 challenge at its North American and international business units in which they have management control. The first phase consisted of awareness and planning, inventory and assessment, and it included the identification of potentially impacted systems and an assessment of their individual Year 2000 readiness. The second phase, which includes testing, remediation, and validation, consists of modification or replacement of impacted equipment, and verification that those modifications have addressed the issue. Contingency planning is the third phase, and it includes backup plans for unexpected events with critical systems, staffing plans for critical date rollovers, and plans to address external dependencies. Business units are using Year 2000 readiness information received from suppliers, including fuel suppliers, to determine if inventory adjustments are needed for the transition period.

The following three tables summarize the status of progress of Southern Energy's North American and international business units as of September 30, 1999.

North American Business Units:

Phase	Status	Completion Date
Awareness and planning, inventory and assessment	Complete	November 30, 1998
Testing, remediation, and validation	Complete	June 30, 1999
Contingency planning	Complete	June 30, 1999

International Business Units where Southern Energy has management control:

Phase	Status	Completion Date
Awareness and planning, inventory and assessment	Complete	February 22, 1999
Testing, remediation, and validation	Complete	September 30, 1999
Contingency planning	Complete	August 31, 1999

Other International Business Units:

Phase	Status	Projected Completion
Awareness and planning, inventory and assessment	Complete	May 31, 1999
Testing, remediation, and validation	In progress	November 30, 1999
Contingency planning	In progress	November 15, 1999

In a number of the international business units, Southern Energy is neither the majority owner nor the managing concern. In these circumstances, Southern Energy is providing technical assistance but does not control the schedule or progress.

Year 2000 Costs

For the traditional business, current budgeted costs for Year 2000 readiness are approximately $91 million, which includes $6 million of cost billed to non-affiliated companies. These costs include labor necessary to identify, test, and renovate affected devices and systems. From its inception through September 30, 1999, the Year 2000 program costs, recognized primarily as expense, amounted to $82 million based on SOUTHERN's ownership interest. In addition to the traditional business costs, current projections for Year 2000 program costs are approximately $20 million for the non-traditional business – based on SOUTHERN's ownership interest – of which $16 million has been spent through September 30, 1999.

Year 2000 Risks

SOUTHERN has implemented a detailed process to minimize the possibility of service interruptions related to the Year 2000. Based on tests we have conducted, we believe service interruptions related to Year 2000 challenges are unlikely. These tests increase confidence, but do not guarantee error-free operations. The company has taken what it believes to be prudent steps to prepare for the Year 2000, and it expects any interruptions in service that may occur within the traditional business service territory to be isolated and short in duration, similar to service loss during a storm.

SOUTHERN expects the risks associated with Year 2000 transition to be no more severe than the scenarios that its electric system is routinely prepared to handle. The most likely worst case scenario consists of the service loss of one of the largest generating units and/or the service loss of any single bulk transmission element in its traditional business service territory. There is a smaller risk of sporadic and temporary fluctuations of power levels that would be aggravated in the event of rapid and unscheduled changes to load patterns that resulted from the activity of third parties. SOUTHERN has followed a proven methodology for identifying and assessing software and devices containing potential Year 2000 challenges. Remediation and testing of those devices is complete.

SOUTHERN continues to review the Year 2000 readiness of material third parties that provide goods and services crucial to SOUTHERN's operations. Among such critical third parties are fuel, transportation, telecommunications, water, chemical, and other suppliers. There is some risk associated with representations by third parties regarding their readiness and completion of their own Year 2000 related work. Contingency plans based on the assessment of each third party's ability to continue supplying critical goods and services to SOUTHERN have been developed and are being reviewed.

There is a potential for some earnings erosion caused by reduced electrical demand by customers because of their own Year 2000 challenges. The risk associated with the progress of some operations outside the United States is a function of the local regulatory environment and the priorities of the entities with management control. Year 2000 challenges are included in the list of due diligence activities associated with acquisitions; there is some risk associated with the subsequent validation of any given seller's representations.

Contingency Plans

Because of experience with hurricanes and other storms, the traditional business is skilled at developing and using contingency plans in unusual circumstances. As part of Year 2000 business continuity and contingency planning, SOUTHERN has drawn on that experience to make risk assessments and develop additional plans to deal specifically with Year 2000 challenges. SOUTHERN is identifying critical operational locations,and scheduling key employees to be on duty at those locations during the Year 2000 transition. SOUTHERN has already participated in two successful North American Electric Reliability Council-coordinatednational drills during 1999, and plans to conduct additional drills. These drills focus on SOUTHERN's ability to maintain critical voice and data exchange during partial loss of primary voice and data communications systems. Because of thelevel of detail of the contingency planning process, management feels that the contingency plans will keep any service interruptions that may occur within the traditional business service territory isolated and short in duration, similar to service loss during a storm.

Contingency planning efforts for the non-traditional business are complete for North American assets and are near completion for international assets. These contingency plans are being developed by utilizing consistent formats and guidelines.

FINANCIAL CONDITION

Overview

Major changes in SOUTHERN's financial condition during the first nine months of 1999 included $1.7 billion used for gross property additions to utility plant, $1.5 billion used for Southern Energy acquisitions and $649 million used for common stock repurchases. The funds for these additions and other capital requirements were from operations, sales of senior securities and short-term borrowings. See SOUTHERN's Condensed Consolidated Statements of Cash Flows for further details.

Reference is made to the SOUTHERN's Condensed Consolidated Statements of Comprehensive Income herein for information relating to other comprehensive income. During the first nine months, Southern Energy recognized $103 million of after-tax foreign exchange translation losses in other comprehensive income which were principally related to shifts in exchange rates between the U.S. dollar and the pound sterling and the Deutschemark, and to the 50% devaluation of the Brazilian Real.

Financing Activities

During the first nine months of 1999, retirements and redemptions of the operating companies' first mortgage bonds and preferred stock totaled $1.2 billion and $86 million, respectively. In February 1999, Alabama Power Capital Trust III, a statutory business trust established for the purpose of holding ALABAMA's junior subordinated notes and issuing trust preferred securities and common securities, sold $50 million of its capital auction preferred securities which are guaranteed by ALABAMA. Also, in February 1999, Georgia Power

Capital Trust IV, a statutory business trust established for the purpose of holding GEORGIA's junior subordinated notes and issuing trust preferred securities and common securities, sold $200 million of its 6.85% trust preferred securities, which are guaranteed by GEORGIA. Additionally, in March 1999, GEORGIA issued $100 million of 6 5/8% senior notes due March 31, 2039. The proceeds from this issuance were used to repay a portion of GEORGIA's outstanding short-term indebtedness.

In May 1999, ALABAMA issued $200 million of 6.75% senior notes due June 30, 2039. The proceeds were used to repay a portion of its outstanding short-term indebtedness and for other general corporate purposes. Also, in May 1999, GEORGIA sold, through public authorities, $53 million of 5.45% pollution control revenue bonds due May 1, 2034; $85 million of 5.40% pollution control revenue bonds due May 1, 2034; and $100 million of 5.25% pollution control revenue bonds due May 1, 2034. The proceeds of these sales were used to redeem $50 million aggregate principal amount of 6.35% pollution control revenue bonds in June 1999; $125 million aggregate principal amount of 6.60% pollution control revenue bonds in July 1999; and $60 million aggregate principal amount of 6 3/8% pollution control revenue bonds in August 1999. In June 1999, ALABAMA sold, through public authorities, $101.6 million aggregate principal amount of variable rate pollution control revenue refunding bonds due June 1, 2022. The proceeds from the sale were applied to the full redemption of the Series 1994 6 1/2% pollution control revenue refunding bonds in September 1999.

In July 1999, Southern Energy issued $700 million aggregate principal amount of senior notes which consisted of $200 million of 7.40% senior notes due 2004 and $500 million of 7.90% senior notes due 2009. Proceeds received from the sales of these notes are being used for general corporate purposes, including repayment of short-term debt.

In August and September 1999, ALABAMA issued $250 million of 7.125% senior notes due August 15, 2004 and issued $200 million of 7 1/8% senior notes due October 1, 2007. The proceeds of both issuances were used to repay a portion of its outstanding short-term indebtedness and for other general corporate purposes. Also in August 1999, GULF issued $50 million of 7.05% senior notes due August 15, 2004. The proceeds were used to repay a portion of its outstanding short-term indebtedness.

Reference is made to Note (O) in the "Notes to the Condensed Financial Statements" herein for discussion of programs to repurchase SOUTHERN's common stock. As reflected in SOUTHERN's Condensed Consolidated Statements of Cash Flows herein, for the first nine months of 1999, SOUTHERN has spent approximately $649 million in connection with such repurchases.

During the first nine months of 1999, SOUTHERN raised approximately $24 million from the issuance of 887 thousand shares of common stock under SOUTHERN's various stock plans. The market price of SOUTHERN's common stock at September 30, 1999 was $25.75 per share and the book value was $14.12 per share, representing a market-to-book ratio of 182%, compared to $29.0625, $14.04 and 207%, respectively, at the end of 1998. The dividend for the third quarter of 1999 was $0.335 per share.

Capital Requirements

Reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Capital Requirements for Construction", "Other Capital Requirements" and "Environmental Matters" of SOUTHERN in the Form 10-K for a description of the Southern electric system's capital requirements for its construction program, sinking fund requirements and maturing debt, and environmental compliance efforts. Approximately $495 million will be required by September 30, 2000, for redemptions and maturities of long-term debt. Also, the operating companies plan to continue, to the extent possible, a program to retire higher-cost debt and preferred stock and replace these securities with lower-cost capital.

Sources of Capital

In addition to the financing activities previously described, SOUTHERN may require additional equity capital during the remainder of the year. The amounts and timing of additional equity capital to be raised in 1999, as well as in subsequent years, will be contingent on SOUTHERN's investment opportunities. The operating companies plan to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, the SOUTHERN system had at September 30, 1999, approximately $768 million of cash and cash equivalents and approximately $5.8 billion of unused credit arrangements with banks. These unused credit arrangements also provide liquidity support to variable rate pollution control bonds and commercial paper programs. At September 30, 1999, the system companies had outstanding approximately $1.0 billion of short-term notes payable and $2.4 billion of commercial paper. Management believes that the need for working capital can be adequately met by utilizing lines of credit without maintaining large cash balances.

See Note (D) in the "Notes to the Condensed Financial Statements" herein for discussion of financial derivative contracts entered into by SOUTHERN.

ALABAMA POWER COMPANY

ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES:				
Revenues	$ 1,101,783	$ 1,044,460	$2,569,439	$2,569,085
Revenues from affiliates	14,192	13,528	83,476	69,123
Total operating revenues	1,115,975	1,057,988	2,652,915	2,638,208
OPERATING EXPENSES:				
Operation--				
Fuel	256,249	262,473	656,083	671,118
Purchased power from non-affiliates	53,476	39,191	79,051	81,876
Purchased power from affiliates	82,404	66,021	145,922	128,270
Other	139,956	138,141	392,454	378,396
Maintenance	59,922	80,053	205,735	230,389
Depreciation and amortization	86,286	84,256	261,102	256,636
Taxes other than income taxes	50,153	45,544	153,815	141,104
Federal and state income taxes	121,771	100,246	216,351	198,899
Total operating expenses	850,217	815,925	2,110,513	2,086,688
OPERATING INCOME	265,758	242,063	542,402	551,520
OTHER INCOME (EXPENSE):				
Allowance for equity funds used during construction	2,989	1,414	7,422	2,309
Equity in earnings of subsidiaries	589	967	2,066	4,372
Interest income	21,215	17,209	44,983	55,707
Other, net	(10,928)	(10,145)	(23,660)	(27,152)
Income taxes applicable to other income	1,499	5,600	2,735	3,284
INCOME BEFORE INTEREST CHARGES AND OTHER	281,122	257,108	575,948	590,040
INTEREST CHARGES AND OTHER:				
Interest on long-term debt	48,260	48,524	139,286	140,955
Allowance for debt funds used during construction	(3,591)	(1,298)	(8,924)	(2,850)
Interest on interim obligations	3,348	3,177	8,908	10,524
Amortization of debt discount, premium and expense, net	2,816	10,143	8,306	40,024
Other interest charges	18,487	13,736	40,698	39,971
Distributions on preferred securities of subsidiary companies	6,253	5,588	18,286	16,765
Interest charges and other, net	75,573	79,870	206,560	245,389
NET INCOME	205,549	177,238	369,388	344,651
DIVIDENDS ON PREFERRED STOCK	4,728	3,280	12,455	9,902
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 200,821	$ 173,958	$ 356,933	$ 334,749

The accompanying notes as they relate to ALABAMA are an integral part of these condensed statements.

ALABAMA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 369,388	$ 344,651
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	306,408	332,663
Deferred income taxes and investment tax credits, net	57,901	21,431
Allowance for equity funds used during construction	(7,422)	(2,309)
Other, net	32,075	(2,592)
Changes in certain current assets and liabilities--		
Receivables, net	(51,759)	(38,485)
Inventories	(11,334)	1,972
Prepayments	(11,731)	(5,973)
Payables	(69,441)	(59,857)
Taxes accrued	59,374	70,046
Energy cost recovery, retail	(83,174)	(75,508)
Other	(13,876)	(39,553)
Net cash provided from operating activities	576,409	546,486
INVESTING ACTIVITIES:		
Gross property additions	(563,946)	(420,660)
Other	(44,503)	(19,822)
Net cash used for investing activities	(608,449)	(440,482)
FINANCING ACTIVITIES:		
Proceeds--		
Capital contributions	-	30,000
Company obligated mandatorily redeemable preferred securities	50,000	-
Preferred stock	-	200,000
Pollution control bonds	101,650	106,790
Other long-term debt	650,000	815,000
Retirements--		
Preferred stock	(50,000)	-
Pollution control bonds	(102,650)	(106,790)
First mortgage bonds	(470,000)	(396,500)
Other long-term debt	(1,807)	(753)
Interim obligations, net	88,421	(214,873)
Payment of preferred stock dividends	(11,921)	(10,053)
Payment of common stock dividends	(296,100)	(271,700)
Miscellaneous	(15,425)	(49,919)
Net cash provided from (used for) financing activities	(57,832)	101,202
NET CHANGE IN CASH AND CASH EQUIVALENTS	(89,872)	207,206
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	134,248	23,957
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 44,376	$ 231,163
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$167,163	$188,933
Income taxes	94,202	155,010

The accompanying notes as they relate to ALABAMA are an integral part of these condensed statements.

ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service, at original cost	$11,595,364	$11,352,838
Less accumulated provision for depreciation	4,859,121	4,666,513
	6,736,243	6,686,325
Nuclear fuel, at amortized cost	95,483	95,575
Construction work in progress	714,510	525,359
Total	7,546,236	7,307,259
OTHER PROPERTY AND INVESTMENTS:		
Equity investments in subsidiaries	34,208	34,298
Nuclear decommissioning trusts, at market	264,109	232,183
Miscellaneous	12,119	12,915
Total	310,436	279,396
CURRENT ASSETS:		
Cash and cash equivalents	44,376	134,248
Receivables --		
Customer accounts receivable	512,395	343,630
Other accounts and notes receivable	43,600	32,394
Affiliated companies	50,664	39,981
Accumulated provision for uncollectible accounts	(5,459)	(1,855)
Refundable income taxes	-	52,117
Fossil fuel stock, at average cost	79,257	83,238
Materials and supplies, at average cost	164,984	149,669
Prepayments	28,891	17,160
Vacation pay deferred	28,390	28,390
Total	947,098	878,972
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred charges related to income taxes	350,071	362,953
Debt expense, being amortized	9,303	8,602
Premium on reacquired debt, being amortized	85,919	83,440
Prepaid pension costs	202,827	169,393
Department of Energy assessments	31,088	31,088
Miscellaneous	102,516	104,595
Total	781,724	760,071
TOTAL ASSETS	$ 9,585,494	$ 9,225,698

The accompanying notes as they relate to ALABAMA are an integral part of these condensed statements.

ALABAMA POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock equity --		
Common stock (par value $40 per share) --		
authorized 6,000,000 shares; outstanding 5,608,955 shares	$ 224,358	$ 224,358
Paid-in capital	1,334,645	1,334,645
Premium on preferred stock	99	99
Retained earnings	1,285,865	1,224,965
	2,844,967	2,784,067
Preferred stock	317,512	317,512
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding Company Junior Subordinated Notes	347,000	297,000
Long-term debt	3,190,069	2,646,566
Total	6,699,548	6,045,145
CURRENT LIABILITIES:		
Preferred stock due within one year	-	50,000
Long-term debt due within one year	100,976	471,209
Commercial paper	88,421	-
Accounts payable --		
Affiliated companies	99,011	79,844
Other	97,056	188,074
Customer deposits	30,844	29,235
Taxes accrued--		
Federal and state income	101,996	82,219
Other	67,536	17,559
Interest and distributions accrued	30,561	38,166
Vacation pay accrued	28,390	28,390
Miscellaneous	71,680	79,095
Total	716,471	1,063,791
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	1,253,364	1,202,971
Accumulated deferred investment tax credits	263,177	271,611
Prepaid capacity revenues, net	84,259	96,080
Department of Energy assessments	27,202	27,202
Deferred credits related to income taxes	299,979	315,735
Natural disaster reserve	18,177	19,385
Miscellaneous	223,317	183,778
Total	2,169,475	2,116,762
TOTAL CAPITALIZATION AND LIABILITIES	$ 9,585,494	$ 9,225,698

The accompanying notes as they relate to ALABAMA are an integral part of these condensed statements.

ALABAMA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

Earnings

ALABAMA's net income after dividends on preferred stock for the third quarter and year-to-date 1999 was $200.8 million and $356.9 million, respectively, compared to $174.0 million and $334.7 million for the same periods of 1998. Earnings for the third quarter increased $26.9 million or 15.4% due principally to an increase in territorial sales combined with a decrease in non-fuel operation and maintenance expenses. Year-to-date 1999 earnings increased $22.2 million or 6.6% due to an increase in territorial sales combined with decreased non-fuel operation and maintenance expenses and decreased amortization of debt discount, premium and expense, net.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Revenues	$57,323	5.5	$ 354	-
Revenues from affiliates	664	4.9	14,353	20.8
Purchased power from non-affiliates	14,285	36.4	(2,825)	(3.5)
Purchased power from affiliates	16,383	24.8	17,652	13.8
Maintenance expense	(20,131)	(25.1)	(24,654)	(10.7)
Taxes other than income taxes	4,609	10.1	12,711	9.0
Interest income	4,006	23.3	(10,724)	(19.3)
Amortization of debt discount, premium and expense, net	(7,327)	(72.2)	(31,718)	(79.2)
Other interest charges	4,751	34.6	727	1.8

Revenues. Including fuel revenues, revenues were up for the third quarter 1999 but were relatively unchanged year-to-date 1999 when compared to the same periods in 1998. The primary reason for the third quarter increase in revenues was an increase in territorial energy sales. Territorial energy sales also increased year-to-date; however, the increase was substantially offset by a decrease in revenues from unit power sales attributable to lower energy revenues and a lowering of the equity return under formula rate contracts. See Note (F) in the " Notes to the Condensed Financial Statements" herein for further details. Territorial revenues, excluding those revenues which represent the recovery of fuel expense and certain other expenses and do not affect income, increased $33.8 million for the current quarter and $25.5 million year-to-date.

Revenues from affiliates and Purchased power from affiliates. Revenues from sales to affiliated companies within the Southern electric system, as well as purchases of energy, will vary from period to period depending on demand and the availability and cost of generating resources at each company. These transactions did not have a significant impact on earnings.

Purchased power from non-affiliates. The third quarter increase in this expense is mainly due to the increased demand for energy. These expenses were lower year-to-date 1999 when compared to the same period in 1998 due primarily to increased purchases in 1998 related to power marketing activities, a majority of which were resold to non-affiliated third parties. These transactions had no significant effect on net income.

Maintenance expense. These expenses were lower for the third quarter and year-to-date 1999 primarily due to decreased expenses during the third quarter of 1999 for maintenance of distribution lines and nuclear plant.

Taxes other than income taxes. The increases in this item for the quarter and year-to-date are due primarily to increases in real and personal property taxes.

Interest income. For the third quarter 1999, this item increased primarily as a result of recognized gains on investments held by the nuclear decommissioning trust. The increases in interest income related to the nuclear decommissioning trust were offset by a concurrent recognition of other interest charges in accordance with FERC requirements. The decrease for year-to-date 1999 mainly results from the recording by ALABAMA during the second quarter of 1998 of its portion of the tax settlement between SOUTHERN and the Internal Revenue Service. For additional information, see Note 3 to the financial statements of ALABAMA under the caption "Tax Litigation" in Item 8 of the Form 10-K.

Amortization of debt discount, premium and expense, net. Third quarter and year-to-date decreases are directly related to accelerated amortization in 1998 of premiums incurred to refinance high-cost debt. For additional information, see Note 3 to the financial statements of ALABAMA under the caption "Retail Rate Adjustment Procedures" in Item 8 of the Form 10-K.

Other interest charges. The increase in other interest charges for the third quarter is related to the nuclear decommissioning trust. These charges were offset by a concurrent recognition of interest income in accordance with FERC requirements.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from weather to energy sales growth to a less regulated, more competitive environment.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, ALABAMA is positioning the business to meet the challenge of increasing competition. For additional information, see Item 1 - BUSINESS - "Competition" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of ALABAMA in the Form 10-K.

Compliance costs related to the Clean Air Act could affect earnings if such costs cannot be offset. For additional information about the Clean Air Act and other environmental issues, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Matters" of ALABAMA in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

ALABAMA's plans to achieve Year 2000 readiness have been implemented and are included in the SOUTHERN system's Year 2000 Program. The costs related to ALABAMA's Year 2000 program, including ALABAMA's share of costs of Southern Nuclear Operating Company, are expected to be $37.0 million. From its inception through September 30, 1999, the Year 2000 program costs, recognized primarily as expense, amounted to $28.3 million. For additional information, see SOUTHERN's MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION – "Future Earnings Potential" herein.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was originally to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). ALABAMA has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in reported earnings.

Reference is made to Notes (B), (C), and (F) through (J) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential.

FINANCIAL CONDITION

Overview

Major changes in ALABAMA's financial condition during the first nine months of 1999 included the addition of approximately $563.9 million to utility plant. The funds for these additions and other capital requirements were derived primarily from operating activities. See ALABAMA's Condensed Statements of Cash Flows for further details.

Financing Activities

During the first nine months of 1999, redemptions of first mortgage bonds and preferred stock by ALABAMA totaled $470 million and $50 million, respectively. In February 1999, Alabama Power Capital Trust III (the "Trust"), a statutory business trust established for the purpose of holding ALABAMA's junior subordinated notes and issuing trust preferred securities and common securities, sold $50 million of its capital auction preferred securities which are guaranteed by ALABAMA. The Trust invested the proceeds in Series C junior subordinated notes. The net proceeds received by ALABAMA were used to repay a portion of ALABAMA's outstanding short-term indebtedness. See Note (G) in the " Notes to the Condensed Financial Statements" herein for additional information. In May 1999, ALABAMA issued $200 million of 6.75% senior notes due June 30, 2039. The proceeds were used to repay a portion of its outstanding short-term indebtedness and

for other general corporate purposes. In June 1999, ALABAMA sold, through public authorities, $101.6 million aggregate principal amount of variable rate pollution control revenue refunding bonds due June 1, 2022. The proceeds from the sale were applied to the full redemption of the Series 1994 6 1/2% pollution control revenue refunding bonds in September 1999. In August and September 1999, ALABAMA issued $250 million of 7.125% senior notes due August 15, 2004 and $200 million of 7 1/8% senior notes due October 1, 2007, respectively. The proceeds of both issuances were used to repay a portion of its outstanding short-term indebtedness and for other general corporate purposes.

ALABAMA will continue to retire higher-cost debt and preferred stock and replace these securities with lower-cost capital as market conditions permit.

Capital Requirements

Reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS of ALABAMA under "Capital Requirements," "Other Capital Requirements" and "Environmental Matters" in the Form 10-K for a description of ALABAMA's capital requirements for its construction program, maturing debt and environmental compliance efforts.

Sources of Capital

In addition to the financing activities previously described herein, ALABAMA plans to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, ALABAMA had at September 30, 1999, approximately $44.4 million of cash and cash equivalents and had unused committed lines of credit of approximately $906.7 million (including $417.6 million of such lines under which borrowings may be made only to fund purchase obligations relating to variable rate pollution control bonds). Additionally, in July 1999, ALABAMA entered into a $96 million extendible commercial note agreement. ALABAMA has regulatory authority for up to $750 million of short-term borrowings. At September 30, 1999, ALABAMA had outstanding $88.4 million of commercial paper.

Exhibit 1

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO ALABAMA POWER COMPANY:

We have reviewed the accompanying condensed balance sheet of ALABAMA POWER COMPANY as of September 30, 1999, and the related condensed statements of income for the three-month and nine-month periods ended September 30, 1999 and 1998 and cash flows for the nine-month periods ended September 30, 1999 and 1998. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of ALABAMA POWER COMPANY as of December 31, 1998 (not presented herein) and, in our report dated February 10, 1999, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1998 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Arthur Andersen LLP

Birmingham, Alabama
November 9, 1999

GEORGIA POWER COMPANY

GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES:				
Revenues	$ 1,423,790	$1,482,495	$3,423,880	$3,667,980
Revenues from affiliates	42,217	47,832	64,605	72,804
Total operating revenues	1,466,007	1,530,327	3,488,485	3,740,784
OPERATING EXPENSES:				
Operation--				
Fuel	299,684	298,338	715,470	722,999
Purchased power from non-affiliates	90,284	90,912	170,194	195,140
Purchased power from affiliates	39,051	35,119	137,822	115,481
Other	200,575	212,741	553,178	576,433
Maintenance	81,445	79,006	263,918	251,044
Depreciation and amortization	140,538	241,528	412,262	655,962
Taxes other than income taxes	56,974	58,645	155,127	166,079
Federal and state income taxes	192,348	189,490	346,493	368,133
Total operating expenses	1,100,899	1,205,779	2,754,464	3,051,271
OPERATING INCOME	365,108	324,548	734,021	689,513
OTHER INCOME (EXPENSE):				
Allowance for equity funds used during construction	317	1,172	317	1,350
Equity in earnings of unconsolidated subsidiary	651	913	2,115	2,753
Interest income	1,151	3,033	3,516	67,944
Other, net	(8,051)	(11,339)	(18,077)	(39,838)
Income taxes applicable to other income	2,644	3,586	5,600	(9,626)
INCOME BEFORE INTEREST CHARGES	361,820	321,913	727,492	712,096
INTEREST CHARGES AND OTHER:				
Interest on long-term debt	40,050	44,489	124,033	134,797
Allowance for debt funds used during construction	(2,881)	(2,061)	(8,191)	(6,063)
Interest on interim obligations	4,399	2,561	14,233	11,074
Amortization of debt discount, premium and expense, net	3,835	3,323	11,435	9,974
Other interest charges	2,838	3,089	8,875	18,223
Distributions on preferred securities of subsidiary companies	17,026	13,601	49,023	40,726
Interest charges and other, net	65,267	65,002	199,408	208,731
NET INCOME	296,553	256,911	528,084	503,365
DIVIDENDS ON PREFERRED STOCK	177	1,447	1,556	5,311
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 296,376	$ 255,464	$ 526,528	$ 498,054

The accompanying notes as they relate to GEORGIA are an integral part of these condensed statements.

GEORGIA POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 528,084	$ 503,365
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	405,738	708,055
Deferred income taxes and investment tax credits, net	(45,534)	(73,091)
Other, net	167,383	27,132
Changes in certain current assets and liabilities--		
Receivables, net	(102,460)	(348,649)
Inventories	(31,517)	24,199
Payables	(34,894)	12,431
Taxes accrued	194,975	186,591
Energy cost recovery, retail	(6,116)	(7,827)
Other	97,111	16,923
Net cash provided from operating activities	1,172,770	1,049,129
INVESTING ACTIVITIES:		
Gross property additions	(516,767)	(334,113)
Other	(30,043)	16,396
Net cash used for investing activities	(546,810)	(317,717)
FINANCING ACTIVITIES:		
Proceeds--		
Preferred securities	200,000	-
Pollution control bonds	238,000	89,990
Senior notes	100,000	145,000
Retirements--		
Preferred stock	(35,980)	(40,679)
First mortgage bonds	(404,000)	(220,460)
Pollution control bonds	(235,000)	(89,990)
Capital leases	(322)	-
Interim obligations, net	(23,413)	(265,407)
Payment of preferred stock dividends	(707)	(7,342)
Payment of common stock dividends	(402,300)	(397,100)
Miscellaneous	(29,178)	(6,876)
Net cash used for financing activities	(592,900)	(792,864)
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,060	(61,452)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,272	83,333
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 49,332	$ 21,881
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$191,792	$210,226
Income taxes (net of refunds)	210,944	308,271

The accompanying notes as they relate to GEORGIA are an integral part of these condensed statements.

GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service	$15,672,526	$15,441,146
Less accumulated provision for depreciation	6,407,881	6,109,331
	9,264,645	9,331,815
Nuclear fuel, at amortized cost	118,969	121,169
Construction work in progress	347,699	189,849
Total	9,731,313	9,642,833
OTHER PROPERTY AND INVESTMENTS:		
Southern Electric Generating Company, at equity	24,319	24,360
Nuclear decommissioning trusts, at market	321,655	284,536
Miscellaneous	32,185	34,781
Total	378,159	343,677
CURRENT ASSETS:		
Cash and cash equivalents	49,332	16,272
Receivables --		
Customer accounts receivable	540,946	439,420
Other accounts and notes receivable	78,794	99,574
Affiliated companies	30,264	16,817
Accumulated provision for uncollectible accounts	(6,000)	(5,500)
Fossil fuel stock, at average cost	124,437	104,133
Materials and supplies, at average cost	254,690	243,477
Prepayments	43,649	29,670
Vacation pay deferred	42,807	43,610
Total	1,158,919	987,473
DEFERRED CHARGES:		
Deferred charges related to income taxes	593,332	604,488
Premium on reacquired debt, being amortized	184,336	173,858
Prepaid pension costs	135,359	103,606
Debt expense, being amortized	59,311	51,261
Miscellaneous	131,877	126,422
Total	1,104,215	1,059,635
TOTAL ASSETS	$12,372,606	$12,033,618

The accompanying notes as they relate to GEORGIA are an integral part of these condensed statements.

GEORGIA POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock equity --		
Common stock (without par value) --		
authorized 15,000,000 shares; outstanding 7,761,500 shares	$ 344,250	$ 344,250
Paid-in capital	1,790,254	1,660,206
Premium on preferred stock	40	158
Retained earnings	1,903,783	1,779,558
	4,038,327	3,784,172
Preferred stock	15,203	15,527
Company obligated mandatorily redeemable preferred securities of subsidiaries substantially all of whose assets are junior subordinated debentures or notes	889,250	689,250
Long-term debt	2,743,542	2,744,362
Total	7,686,322	7,233,311
CURRENT LIABILITIES:		
Preferred stock due within one year	-	35,656
Long-term debt due within one year	100,611	399,429
Notes payable to banks	119,516	117,634
Commercial paper	197,923	223,218
Accounts payable --		
Affiliated companies	54,036	75,774
Other	284,682	326,317
Customer deposits	73,379	69,584
Taxes accrued--		
Federal and state income	191,284	15,801
Other	141,851	122,359
Interest accrued	56,368	60,187
Miscellaneous	194,419	100,793
Total	1,414,069	1,546,752
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	2,219,600	2,249,613
Accumulated deferred investment tax credits	370,814	381,914
Deferred credits related to income taxes	269,048	284,017
Employee benefits provisions	187,892	177,148
Miscellaneous	224,861	160,863
Total	3,272,215	3,253,555
TOTAL CAPITALIZATION AND LIABILITIES	$12,372,606	$12,033,618

The accompanying notes as they relate to GEORGIA are an integral part of these condensed statements.

GEORGIA POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

Earnings

GEORGIA's net income after dividends on preferred stock for the third quarter and year-to-date 1999 was $296.4 million and $526.5 million, respectively, compared to $255.5 million and $498.1 million for the same periods in 1998. Third quarter 1999 earnings increased by $40.9 million or 16.0% and year-to-date 1999 earnings increased by $28.5 million or 5.7% due primarily to decreased operating expenses and the effects of the 1998 Georgia PSC rate order. See Note (K) in the "Notes to the Condensed Financial Statements" herein for further details regarding the retail rate order.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Revenues	$(58,705)	(4.0)	$(244,100)	(6.7)
Revenues from affiliates	(5,615)	(11.7)	(8,199)	(11.3)
Purchased power from non-affiliates	(628)	(0.7)	(24,946)	(12.8)
Purchased power from affiliates	3,932	11.2	22,341	19.3
Other operation expense	(12,166)	(5.7)	(23,255)	(4.0)
Depreciation and amortization	(100,990)	(41.8)	(243,700)	(37.2)
Interest income	(1,882)	(62.1)	(64,428)	(94.8)
Other, net	3,288	29.0	21,761	54.6
Interest on long-term debt	(4,439)	(10.0)	(10,764)	(8.0)
Other interest charges	(251)	(8.1)	(9,348)	(51.3)
Distributions on preferred securities of subsidiary companies	3,425	25.2	8,297	20.4

Revenues. Retail revenues, excluding fuel revenues which generally do not affect income, decreased $75.0 million and $251.8 million, respectively, for the third quarter and year-to-date 1999 when compared to the corresponding periods in 1998 primarily due to retail rate reductions under the 1998 Georgia PSC order. Total retail energy sales were up 3.9% for the third quarter and 1.5% year-to-date 1999, but the associated revenues were down 4.7% and 6.9%, respectively.

Wholesale revenues decreased $2.2 million and $28.2 million, respectively, during the third quarter and year-to-date 1999. The third quarter and year-to-date decreases are primarily the result of reductions in capacity revenues under a power supply agreement with OPC of $2.0 million and $13.5 million, respectively, for the third quarter and year-to-date 1999, and a decrease in energy sales. The decreases in wholesale energy sales were primarily offset by the decreases in purchased power from non-affiliates and, as a result, had no significant effect on net income.

Revenues from affiliates and Purchased power from affiliates. Revenues from sales to affiliated companies within the Southern electric system, as well as purchases of energy, will vary from period to period depending on demand and the availability and cost of generating resources at each company. These transactions did not have a significant impact on earnings.

Purchased power from non-affiliates. The year-to-date 1999 decrease resulted from higher demand in 1998 for energy and higher energy purchases in 1998 related to power marketing activities, a majority of which were resold to non-affiliated third parties. As stated above, these transactions had no significant effect on net income.

Other operation expense. The decreases for the current quarter and year-to-date 1999 are primarily due to a reduction in the charges related to a customer service system, decreased year 2000 readiness costs, and decreased employee benefit provisions.

Depreciation and amortization expense. These decreases in the third quarter and year-to-date 1999 when compared to the same periods in 1998 are attributed to higher depreciation charges recognized in 1998 under the prior accounting order and the completion in 1998 of the amortization of deferred Plant Vogtle costs.

Interest income. The year-to-date 1999 decrease is related to the recognition, in the same period of 1998, of increased interest income resulting from the resolution of tax issues between SOUTHERN and the Internal Revenue Service.

Other, net. The third quarter and year-to-date 1999 changes are attributed to reduced donations and contributions in these periods when compared to the corresponding periods in 1998.

Interest on long-term debt. The third quarter and year-to-date 1999 decreases are due to redemptions of first mortgage bonds and the refinancing of higher cost long-term debt.

Other interest charges. The year-to-date 1999 decrease when compared to the same period in 1998 is attributed to the recognition in 1998 of interest related to tax issues.

Distributions on preferred securities of subsidiary companies. The increases for the third quarter and year-to-date 1999 result from the issuance of additional mandatorily redeemable preferred securities in February 1999.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors including weather, regulatory matters and energy sales.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, GEORGIA is positioning the business to meet the challenge of increasing competition. For additional information, see Item 1 - BUSINESS - "Competition" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of GEORGIA in the Form 10-K.

Effective January 1, 1999, GEORGIA began operating under a new three-year retail rate order. Under the order, GEORGIA's earnings are evaluated against a retail return on common equity range of 10% to 12.5%. In compliance with the order, retail rates were decreased by $262 million on an annual basis effective January 1, 1999. Reference is made to Note (K) in the "Notes to the Condensed Financial Statements" herein and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of GEORGIA in the Form 10-K for additional information.

Compliance costs related to the Clean Air Act and other environmental issues could affect earnings. The State of Georgia submitted a plan for nitrogen oxide emission reductions in Atlanta's ozone non-attainment area on October 29, 1999. Based on the plan submitted by the State to the EPA, GEORGIA estimates its capital costs to comply with the plan to be approximately $664 million. At the direction of the EPA, the State of Georgia is required to pursue additional control on all sources of nitrogen oxide emissions and volatile organic compounds. The plan for those additional controls must be submitted to the EPA by the fall of 2000. It is uncertain at this time what additional controls may be required at GEORGIA's plants beyond the recently submitted plan. For additional information, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Issues" of GEORGIA in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

GEORGIA's plans to achieve Year 2000 readiness have been implemented and are included in the SOUTHERN system's Year 2000 Program. The costs related to GEORGIA's Year 2000 program, including GEORGIA's share of costs of Southern Nuclear Operating Company, are expected to be approximately $42.8 million. From its inception through September 30, 1999, the Year 2000 program costs, recognized as expense, amounted to $40 million. For additional information, see SOUTHERN's MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION – "Future Earnings Potential" herein.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was originally to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). GEORGIA has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

Reference is made to Notes (B), (C), (F), (G), (K) and (L) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential.

FINANCIAL CONDITION

Overview

The major change in GEORGIA's financial condition during the first nine months of 1999 was the addition of approximately $516.8 million to gross plant. The funds for these additions and other capital requirements were derived primarily from operations. See GEORGIA's Condensed Statements of Cash Flows for further details.

Financing Activities

During the first nine months of 1999, redemptions of first mortgage bonds and preferred stock by GEORGIA totaled $404 million and $36 million, respectively. In February 1999, Georgia Power Capital Trust IV, a statutory business trust established for the purpose of holding GEORGIA's junior subordinated notes and issuing trust preferred securities and common securities, sold $200 million of its 6.85% trust preferred securities, which are guaranteed by GEORGIA. (See Note (G) in the " Notes to the Condensed Financial Statements" herein and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Financing Activities" of GEORGIA in the Form 10-K for further details.) In March 1999, GEORGIA issued $100 million of 6 5/8% senior notes due March 31, 2039. The proceeds from this issuance were used to repay a portion of GEORGIA's outstanding short-term indebtedness. In May 1999, GEORGIA sold, through public authorities, $53 million of 5.45% pollution control revenue bonds due May 1, 2034; $85 million of 5.40% pollution control revenue bonds due May 1, 2034; and $100 million of 5.25% pollution control revenue bonds due May 1, 2034. The proceeds of these sales were used to redeem $50 million aggregate principal amount of 6.35% pollution control revenue bonds in June 1999; $125 million aggregate principal amount of 6.60% pollution control revenue bonds in July 1999; and $60 million aggregate principal amount of 6 3/8% pollution control revenue bonds in August 1999.

GEORGIA plans to continue, to the extent possible, a program to retire higher-cost debt and preferred stock and replace these securities with lower-cost capital.

Capital Requirements

Reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS of GEORGIA under "Liquidity and Capital Requirements" and "Environmental Issues" in the Form 10-K for a description of GEORGIA's capital requirements for its construction program and environmental compliance efforts.

Sources of Capital

In addition to the financing activities previously described herein, GEORGIA plans to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, GEORGIA had at September 30, 1999, approximately $49.3 million of cash and cash equivalents and approximately $1.3 billion of unused credit arrangements with banks. The credit arrangements provide liquidity support to GEORGIA's variable rate pollution control bonds and its commercial paper program. At September 30, 1999, GEORGIA had $119.5 million and $197.9 million outstanding in short-term notes payable to banks and commercial paper, respectively. Management believes that the need for working capital can be adequately met by utilizing lines of credit without maintaining large cash balances.

Exhibit 1

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO GEORGIA POWER COMPANY:

We have reviewed the accompanying condensed balance sheet of GEORGIA POWER COMPANY (a Georgia corporation) as of September 30, 1999, and the related condensed statements of income for the three-month and nine-month periods ended September 30, 1999 and 1998 and cash flows for the nine-month periods ended September 30, 1999 and 1998. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of GEORGIA POWER COMPANY as of December 31, 1998 (not presented herein), and, in our report dated February 10, 1999, we expressed an unqualified opinion on that statement. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1998, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Arthur Andersen LLP

Atlanta, Georgia
November 9, 1999

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GULF POWER COMPANY

GULF POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES:				
Revenues	$192,779	$186,983	$473,419	$481,597
Revenues from affiliates	25,485	12,394	46,166	35,860
Total operating revenues	218,264	199,377	519,585	517,457
OPERATING EXPENSES:				
Operation--				
Fuel	64,223	61,694	156,184	158,580
Purchased power from non-affiliates	26,009	12,823	39,303	25,812
Purchased power from affiliates	3,309	5,925	9,984	12,358
Other	29,055	27,942	83,977	93,392
Maintenance	10,203	11,858	42,699	39,345
Depreciation and amortization	16,198	14,819	48,310	45,931
Taxes other than income taxes	14,838	14,479	39,781	39,583
Federal and state income taxes	17,376	15,767	27,712	29,407
Total operating expenses	181,211	165,307	447,950	444,408
OPERATING INCOME	37,053	34,070	71,635	73,049
OTHER INCOME (EXPENSE):				
Interest income	427	213	928	530
Other, net	3	(307)	(900)	(1,713)
Income taxes applicable to other income	(328)	921	(337)	1,221
INCOME BEFORE INTEREST CHARGES	37,155	34,897	71,326	73,087
INTEREST CHARGES AND OTHER:				
Interest on long-term debt	5,598	5,098	15,580	14,700
Other interest charges	223	327	834	3,427
Interest on notes payable	649	274	2,005	1,093
Amortization of debt discount, premium and expense, net	499	498	1,488	1,598
Distributions on preferred securities of subsidiary companies	1,550	1,550	4,650	4,484
Interest charges and other, net	8,519	7,747	24,557	25,302
NET INCOME	28,636	27,150	46,769	47,785
DIVIDENDS ON PREFERRED STOCK	54	161	162	579
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 28,582	$ 26,989	$ 46,607	$ 47,206

The accompanying notes as they relate to GULF are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 46,769	$ 47,785
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	51,368	51,498
Deferred income taxes	(3,133)	(5,437)
Other, net	4,803	13,005
Changes in certain current assets and liabilities--		
Receivables, net	(14,063)	1,493
Inventories	(8,519)	(4,870)
Payables	(8,403)	(8,366)
Taxes accrued	33,359	18,465
Current costs of 1995 coal contract renegotiation	-	812
Other	(9,352)	(7,842)
Net cash provided from operating activities	92,829	106,543
INVESTING ACTIVITIES:		
Gross property additions	(48,442)	(39,940)
Other	(12,753)	(3,215)
Net cash used for investing activities	(61,195)	(43,155)
FINANCING ACTIVITIES:		
Proceeds--		
Preferred securities	-	45,000
Other long-term debt	49,950	50,000
Retirements--		
Preferred stock	-	(8,666)
First mortgage bonds	-	(45,000)
Other long-term debt	-	(8,327)
Notes payable, net	(31,500)	(36,500)
Payment of preferred stock dividends	(162)	(726)
Payment of common stock dividends	(45,400)	(52,300)
Miscellaneous	(233)	(4,158)
Net cash used for financing activities	(27,345)	(60,677)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,289	2,711
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	969	4,707
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,258	$ 7,418
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$20,197	$19,261
Income taxes	12,754	22,065

The accompanying notes as they relate to GULF are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service	$1,845,433	$1,809,901
Less accumulated provision for depreciation	813,720	784,111
	1,031,713	1,025,790
Construction work in progress	29,029	34,863
Total	1,060,742	1,060,653
OTHER PROPERTY AND INVESTMENTS:	1,481	588
CURRENT ASSETS:		
Cash and cash equivalents	5,258	969
Receivables --		
Customer accounts receivable	63,860	49,067
Other accounts and notes receivable	2,442	3,514
Affiliated companies	3,813	3,442
Accumulated provision for uncollectible accounts	(1,025)	(996)
Fossil fuel stock, at average cost	30,798	24,213
Materials and supplies, at average cost	29,959	28,025
Regulatory clauses under recovery	17,458	9,737
Prepayments	1,311	5,690
Vacation pay deferred	4,035	4,035
Total	157,909	127,696
DEFERRED CHARGES:		
Deferred charges related to income taxes	25,275	25,308
Debt expense, being amortized	20,290	21,448
Prepaid pension costs	16,743	13,770
Miscellaneous	20,388	18,438
Total	82,696	78,964
TOTAL ASSETS	$1,302,828	$1,267,901

The accompanying notes as they relate to GULF are an integral part of these condensed statements.

GULF POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock equity --		
Common stock (without par value) --		
authorized and outstanding -- 992,717 shares	$ 38,060	$ 38,060
Paid-in capital	218,961	218,960
Premium on preferred stock	12	12
Retained earnings	171,827	170,620
	428,860	427,652
Preferred stock	4,236	4,236
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding Company Junior Subordinated Notes	85,000	85,000
Long-term debt	367,386	317,341
Total	885,482	834,229
CURRENT LIABILITIES:		
Long-term debt due within one year	27,000	27,000
Notes payable	-	31,500
Accounts payable --		
Affiliated companies	7,018	19,756
Other	19,089	23,697
Customer deposits	12,727	12,560
Taxes accrued	36,571	7,432
Interest accrued	7,110	5,184
Regulatory clauses over recovery	3,632	6,037
Vacation pay accrued	4,035	4,035
Dividends declared	54	54
Miscellaneous	2,810	3,960
Total	120,046	141,215
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	164,703	166,118
Deferred credits related to income taxes	50,386	52,465
Accumulated provision for property damage	5,881	1,605
Accumulated deferred investment tax credits	28,192	29,632
Accumulated provision for postretirement benefits	26,067	23,534
Miscellaneous	22,071	19,103
Total	297,300	292,457
TOTAL CAPITALIZATION AND LIABILITIES	$1,302,828	$1,267,901

The accompanying notes as they relate to GULF are an integral part of these condensed statements.

GULF POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

Earnings

GULF's net income after dividends on preferred stock for the third quarter and year-to-date 1999 was $28.6 million and $46.6 million, respectively, compared to $27.0 million and $47.2 million for the same periods in 1998. The third quarter improvement in earnings of $1.6 million or 5.9% was primarily due to the increase in operating revenues.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Revenues	$5,796	3.1	$(8,178)	(1.7)
Revenues from affiliates	13,091	105.6	10,306	28.7
Purchased power from non-affiliates	13,186	102.8	13,491	52.3
Purchased power from affiliates	(2,616)	(44.2)	(2,374)	(19.2)
Other operation expense	1,113	4.0	(9,415)	(10.1)
Maintenance expense	(1,655)	(14.0)	3,354	8.5
Depreciation and amortization	1,379	9.3	2,379	5.2

Revenues. Revenues were higher for the third quarter due to a 6.9% increase in total energy sales. The increase in total energy sales is primarily attributed to growth in the number of customers served by GULF, as well as warmer weather during the third quarter of 1999. The year-to-date 1999 decrease reflects the recovery of lower fuel costs. Excluding recovery of fuel expense and certain other expenses that do not affect income, retail revenues increased $3.6 million for the quarter due to a 4.0% increase in retail energy sales, which can primarily be attributed to an increase in the demand for energy resulting from an increase in the number of residential customers and warmer weather during the third quarter of 1999. Retail revenues decreased $1.9 million year-to-date due, for the most part, to a decrease in revenues from industrial customers during the first nine months of 1999 when compared to the same period in 1998. Revenues from non-territorial wholesale energy sales decreased $1.2 million and $5.1 million for the third quarter and year-to-date 1999, respectively, when compared to the same periods of 1998. The decreases in non-territorial wholesale energy sales are attributed to decreased power marketing activities.

Revenues from affiliates and purchased power from affiliates. Revenues from sales to affiliated companies within the Southern electric system, as well as purchases, will vary from period to period depending on demand and the availability and cost of generating resources at each company. These transactions do not have a significant impact on earnings.

Purchased power from non-affiliates. Increases for this item in the third quarter and year-to-date 1999 result from an increased demand for energy due to warmer weather during the third quarter and an increase in the number of customers when compared to the corresponding periods in 1998.

Other operation expense. This item increased in the third quarter when compared to the same period in 1998 due to an increase in other production expenses. The year-to-date decrease is attributed primarily to lower administrative and general expenses during the first half of 1999, as well as prior year prepayments related to renegotiations of coal supply contracts being fully amortized in 1998.

Maintenance expense. The decrease for the current quarter is mainly due to routine line maintenance performed during the third quarter of 1998. The year-to-date 1999 increase reflects scheduled maintenance on steam plant facilities.

Depreciation and amortization expense. The third quarter and year-to-date increases are primarily attributed to additions to plant during 1999 and increased amortization expense related to the amortization of gains from the sale of emission allowances when compared to the corresponding periods of 1998.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from weather to energy sales growth to a less regulated, more competitive environment.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, GULF is positioning the business to meet the challenge of increasing competition. For additional information, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of GULF and Item 1 - BUSINESS - "Competition" in the Form 10-K.

Compliance costs related to the Clean Air Act could affect earnings if such costs are not fully recovered through GULF's Environmental Cost Recovery Clause. For additional information about the Clean Air Act and other environmental issues, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Matters" of GULF in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

GULF's plans to achieve Year 2000 readiness have been implemented and are included in the SOUTHERN system's Year 2000 Program. The costs related to GULF's Year 2000 program are expected to be $5.2 million. From its inception through September 30, 1999, the Year 2000 program costs, recognized as expense, amounted to $4.5 million. For additional information, see SOUTHERN's MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION – "Future Earnings Potential" herein.

In reference to the ongoing matters with the Florida PSC concerning GULF's authorized return on equity (ROE) and the outstanding balances of certain regulatory assets, GULF, the Office of the Public Counsel, the Coalition for Equitable Rates, and the Florida Industrial Power Users Group jointly filed a stipulation and settlement in October 1999 to effect an informal disposition and complete and binding resolution of all matters before the Florida PSC related to the investigation into earnings and reduction of the authorized ROE and the

petition for a full revenue requirements rate case (for additional information, see Item 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS – "Future Earnings Potential" and Item 1 – Business – "Regulation – State Commissions" of GULF in the Form 10-K). The stipulation calls for base rates to be reduced by $10 million annually and provides for revenues above certain levels to be shared for 1999-2002. Customers will receive two-thirds of any revenue within the ranges and GULF will retain one-third. The sharing plan will be in place until the earlier of the day prior to the in-service date of GULF's Plant Smith Unit 3 or December 31, 2002. GULF filed a request to prospectively reduce its authorized ROE range from 11% – 13% to 10.5% – 12.5% in order to help ensure that the Florida PSC would approve the stipulation. Both the stipulation and the rate of return request were approved by the Florida PSC at the agenda conference on October 5, 1999. The decisions of the Florida PSC have been reflected in final orders.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was originally to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). GULF has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

Reference is made to Notes (B) and (F) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential.

FINANCIAL CONDITION

Overview

Major changes in GULF's financial condition during the first nine months of 1999 included the addition of approximately $48.4 million to utility plant. The funds for these additions and other capital requirements were derived primarily from operations. See GULF's Condensed Statements of Cash Flows for further details.

Financing Activities

In August 1999, GULF issued $50 million of 7.05% senior notes due August 15, 2004. The proceeds were used to repay a portion of its outstanding short-term indebtedness. GULF plans to continue, to the extent possible, a program to retire higher-cost debt and preferred stock and replace these securities with lower-cost capital.

Capital Requirements

Reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS of GULF under "Capital Requirements for Construction," "Environmental Matters" and "Other Capital Requirements" in the Form 10-K for a description of GULF's capital requirements for its construction program, environmental compliance efforts and maturing debt.

Sources of Capital

In addition to the financing activities previously described herein, GULF plans to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, GULF had at September 30, 1999, approximately $5.3 million of cash and cash equivalents and $41.5 million of unused committed lines of credit with banks in addition to $61.9 million liquidity support for variable rate pollution control bonds. Management believes that the need for working capital can be adequately met by utilizing lines of credit without maintaining large cash balances.

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MISSISSIPPI POWER COMPANY

MISSISSIPPI POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES:				
Revenues	$188,440	$183,293	$465,173	$452,638
Revenues from affiliates	13,154	8,406	17,446	17,829
Total operating revenues	201,594	191,699	482,619	470,467
OPERATING EXPENSES:				
Operation--				
Fuel	54,224	53,763	132,452	126,164
Purchased power from non-affiliates	26,457	17,880	35,964	31,168
Purchased power from affiliates	8,609	8,498	25,008	24,912
Other	30,479	24,213	85,209	81,161
Maintenance	5,741	12,672	31,607	35,630
Depreciation and amortization	11,884	11,456	35,453	34,550
Taxes other than income taxes	12,591	12,269	35,906	35,509
Federal and state income taxes	16,809	16,781	30,183	31,716
Total operating expenses	166,794	157,532	411,782	400,810
OPERATING INCOME	34,800	34,167	70,837	69,657
OTHER INCOME (EXPENSE):				
Interest income	53	337	203	600
Other, net	704	1,016	1,925	1,879
Income taxes applicable to other income	(280)	358	(912)	4
INCOME BEFORE INTEREST CHARGES	35,277	35,878	72,053	72,140
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	5,072	5,510	15,116	15,431
Interest on notes payable	751	-	2,037	918
Amortization of debt discount, premium and expense, net	358	364	1,075	1,087
Other interest charges	581	493	759	696
Distributions on preferred securities of subsidiary companies	699	699	2,097	2,097
Interest and other charges, net	7,461	7,066	21,084	20,229
NET INCOME	27,816	28,812	50,969	51,911
DIVIDENDS ON PREFERRED STOCK	503	503	1,510	1,502
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 27,313	$ 28,309	$ 49,459	$ 50,409

The accompanying notes as they relate to MISSISSIPPI are an integral part of these condensed statements.

MISSISSIPPI POWER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 50,969	$ 51,911
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	38,592	37,604
Deferred income taxes	3,853	(1,480)
Other, net	(6,115)	(4,127)
Changes in certain current assets and liabilities--		
Receivables, net	(28,547)	(7,959)
Inventories	(5,375)	(2,921)
Payables	(6,018)	(3,046)
Taxes accrued	16,756	16,140
Other	2,981	(997)
Net cash provided from operating activities	67,096	85,125
INVESTING ACTIVITIES:		
Gross property additions	(52,099)	(45,269)
Other	(2,827)	(266)
Net cash used for investing activities	(54,926)	(45,535)
FINANCING ACTIVITIES:		
Proceeds--		
Pollution control bonds	-	13,520
Other long-term debt	-	90,000
Retirements--		
Preferred stock	-	(87)
First mortgage bonds	-	(75,000)
Pollution control bonds	-	(13,000)
Senior Notes	(184)	-
Notes payable, net	30,200	-
Payment of preferred stock dividends	(1,510)	(1,502)
Payment of common stock dividends	(41,600)	(38,300)
Miscellaneous	(242)	(2,178)
Net cash used for financing activities	(13,336)	(26,547)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,166)	13,043
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,327	4,432
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 161	$ 17,475
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$19,310	$16,612
Income taxes	7,207	9,259

The accompanying notes as they relate to MISSISSIPPI are an integral part of these condensed statements.

MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service, at original cost	$1,582,881	$1,553,112
Less accumulated provision for depreciation	617,748	583,957
	965,133	969,155
Construction work in progress	67,474	51,517
Total	1,032,607	1,020,672
OTHER PROPERTY AND INVESTMENTS:	1,395	979
CURRENT ASSETS:		
Cash and cash equivalents	161	1,327
Receivables --		
Customer accounts receivable	40,131	29,829
Regulatory clauses under recovery	21,499	8,042
Other accounts and notes receivable	19,451	12,495
Affiliated companies	8,976	10,946
Accumulated provision for uncollectible accounts	(690)	(621)
Fossil fuel stock, at average cost	20,431	16,418
Materials and supplies, at average cost	20,097	18,735
Current portion of accumulated deferred income taxes	-	4,248
Prepayments	2,013	1,651
Vacation pay deferred	4,717	4,717
Total	136,786	107,787
DEFERRED CHARGES:		
Debt expense and loss, being amortized	12,838	13,713
Deferred charges related to income taxes	21,516	22,697
Long-term notes receivable	1,503	2,072
Work force reduction plan	6,646	12,748
Miscellaneous	16,917	8,937
Total	59,420	60,167
TOTAL ASSETS	$1,230,208	$1,189,605

The accompanying notes as they relate to MISSISSIPPI are an integral part of these condensed statements.

MISSISSIPPI POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock equity --		
Common stock (without par value) --		
authorized 1,130,000 shares; outstanding 1,121,000 shares	$ 37,691	$ 37,691
Paid-in capital	179,474	179,474
Premium on preferred stock	326	326
Retained earnings	181,599	173,740
	399,090	391,231
Preferred stock	31,809	31,809
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding Company Junior Subordinated Notes	35,000	35,000
Long-term debt	292,646	292,744
Total	758,545	750,784
CURRENT LIABILITIES:		
Long-term debt due within one year	50,020	50,020
Notes payable	43,200	13,000
Accounts payable --		
Affiliated companies	14,666	8,788
Regulatory clauses over recovery	-	4,412
Other	33,597	47,113
Customer deposits	3,649	3,272
Taxes accrued--		
Federal and state income	22,896	1,124
Other	28,322	31,379
Interest accrued	5,051	2,955
Miscellaneous	12,795	11,753
Total	214,196	173,816
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	140,680	143,852
Accumulated deferred investment tax credits	24,998	25,913
Deferred credits related to income taxes	35,293	37,277
Postretirement benefits other than pension	26,338	25,869
Accumulated provision for property damage	356	910
Work force reduction plan	11,663	13,051
Miscellaneous	18,139	18,133
Total	257,467	265,005
TOTAL CAPITALIZATION AND LIABILITIES	$1,230,208	$1,189,605

The accompanying notes as they relate to MISSISSIPPI are an integral part of these condensed statements.

MISSISSIPPI POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

Earnings

MISSISSIPPI's net income after dividends on preferred stock for the third quarter and year-to-date 1999 was $27.3 million and $49.5 million, respectively, compared to $28.3 million and $50.4 million for the corresponding periods of 1998. The slight decrease in earnings for the current quarter and year-to-date resulted from higher operating expenses which offset increased operating revenues.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Revenues	$5,147	2.8	$12,535	2.8
Revenues from affiliates	4,748	56.5	(383)	(2.1)
Purchased power from non-affiliates	8,577	48.0	4,796	15.4
Other operation expense	6,266	25.9	4,048	5.0
Maintenance expense	(6,931)	(54.7)	(4,023)	(11.3)

Revenues. Third quarter and year-to-date increases are essentially due to higher retail energy sales. Retail energy sales were up 5.1% for the quarter and 2.4% year-to-date. Retail sales to residential customers were down 4.8% and 5.6%, for the quarter and year-to-date, respectively, due to milder temperatures when compared to the same periods of 1998. Commercial and industrial sales were up 2.5% and 14.2%, respectively, for the quarter and 3.6% and 6.4%, respectively, year-to-date. Industrial energy sales were positively impacted by increased production by several larger industrial customers, while commercial energy sales were positively impacted by increased tourism and strong growth in this sector. Retail revenues, excluding those revenues which represent the recovery of fuel expense and certain other expenses and do not affect income, increased $1.7 million for the current quarter and $2.3 million year-to-date. Wholesale territorial revenues, excluding fuel revenues which do not affect income, increased $3.0 million for the current quarter and $8.7 million year-to-date.

Revenues from affiliates. Revenues from sales to affiliated companies within the Southern electric system will vary from period to period depending on demand and the availability and cost of generating resources at each company. These transactions do not have a significant impact on earnings.

Purchased power from non-affiliates. The increases in the current quarter and year-to-date 1999 when compared to the corresponding periods in 1998 reflects the higher demand for energy.

Other operation expense. These changes in this expense when compared to the same periods in 1998 are primarily due to timing differences related to the amortization of costs associated with the work force reduction plan during the third quarter and higher distribution expenses year-to-date.

Maintenance expense. This item is down for the third quarter and year-to-date 1999 due to reduced maintenance expense and the performance in the third quarter of 1998 of scheduled transmission and distribution line maintenance.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from weather to energy sales growth to a less regulated, more competitive environment. Operating revenues will be affected by any changes in rates under the PEP and ECO plans. The PEP has proven to be a stabilizing force on electric rates, with only moderate changes in rates taking place. For additional information, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of MISSISSIPPI in the Form 10-K.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, MISSISSIPPI is positioning the business to meet the challenge of increasing competition. For additional information, see Item 1 - BUSINESS - "Competition" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of MISSISSIPPI in the Form 10-K.

Compliance costs related to the Clean Air Act could affect earnings if such costs cannot be recovered. MISSISSIPPI's 1999 ECO Plan filing was approved, as filed, by the Mississippi PSC on March 18, 1999 and resulted in a slight increase in customer prices. For additional information about the Clean Air Act and other environmental issues, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Matters" of MISSISSIPPI in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

MISSISSIPPI's plans to achieve Year 2000 readiness have been implemented and are included in the SOUTHERN system's Year 2000 Program. The costs related to MISSISSIPPI's Year 2000 program are expected to be $5.6 million. From its inception through September 30, 1999, the Year 2000 program costs, recognized as expense, amounted to $5.1 million. For additional information, see SOUTHERN's MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION – "Future Earnings Potential" herein.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133 – an amendment of FASB Statement No. 133, which delayed adoption until the year 2001. MISSISSIPPI has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

Reference is made to Notes (B) and (F) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential.

FINANCIAL CONDITION

Overview

Major changes in MISSISSIPPI's financial condition during the first nine months of 1999 included the addition of approximately $52.1 million to utility plant. The funds for these additions and other capital requirements were derived primarily from operations. See MISSISSIPPI's Condensed Statements of Cash Flows for further details.

Financing Activities

MISSISSIPPI plans to continue, to the extent possible, a program to retire higher-cost debt and replace these securities with lower-cost capital.

Capital Requirements

In April 1999, MISSISSIPPI and Escatawpa Funding, Limited Partnership ("Escatawpa"), entered into a lease agreement whereby MISSISSIPPI will design and construct, as agent for Escatawpa, a 1,080 megawatt natural gas combined cycle facility. It is expected that the project will cost approximately $406 million, and upon completion of the facility, MISSISSIPPI will lease the facility from Escatawpa for an initial term of approximately 10 years. For additional information, reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Capital Requirements for Construction" of MISSISSIPPI and Notes 3 and 4 to the financial statements of MISSISSIPPI in Item 8 of the Form 10-K.

Reference is made to Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS of MISSISSIPPI under "Capital Requirements for Construction," "Environmental Matters" and "Other Capital Requirements" in the Form 10-K for a description of MISSISSIPPI's capital requirements for its construction program, environmental compliance efforts, sinking fund requirements and maturities of long-term debt.

Sources of Capital

In addition to the financing activities previously described herein, MISSISSIPPI plans to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, MISSISSIPPI had at September 30, 1999, approximately $161 thousand of cash and cash equivalents and approximately $74.5 million of unused committed credit arrangements with banks (including $10.8 million of such arrangements under which borrowings may be made only to fund purchase obligations relating to variable rate pollution control bonds). At September 30, 1999, MISSISSIPPI had short-term notes payable outstanding of $43.2 million. Management believes that the need for working capital can be adequately met by utilizing lines of credit without maintaining large cash balances.

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SAVANNAH ELECTRIC
AND
POWER COMPANY

SAVANNAH ELECTRIC AND POWER COMPANY
CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	1999	1998	1999	1998
OPERATING REVENUES:				
Revenues	$ 89,566	$ 82,746	$197,412	$199,437
Revenues from Affiliates	2,283	1,478	3,227	2,784
Total operating revenues	91,849	84,224	200,639	202,221
OPERATING EXPENSES:				
Operation--				
Fuel	20,998	21,193	38,542	42,447
Purchased power from non-affiliates	8,842	4,514	12,295	8,450
Purchased power from affiliates	9,184	8,830	28,637	28,210
Other	13,138	11,958	36,378	34,795
Maintenance	3,016	3,747	12,214	12,309
Depreciation and amortization	5,950	5,759	17,893	16,275
Taxes other than income taxes	3,640	3,446	9,467	9,412
Federal and state income taxes	8,833	8,721	12,936	16,447
Total operating expenses	73,601	68,168	168,362	168,345
OPERATING INCOME	18,248	16,056	32,277	33,876
OTHER INCOME (EXPENSE):				
Allowance for equity funds used during construction	21	46	34	91
Interest income	62	120	125	255
Other, net	(832)	(821)	(1,764)	(1,691)
Income taxes applicable to other income	298	561	634	839
INCOME BEFORE INTEREST CHARGES	17,797	15,962	31,306	33,370
INTEREST AND OTHER CHARGES:				
Interest on long-term debt	2,110	2,542	7,048	7,860
Allowance for debt funds used during construction	(42)	(34)	(169)	(82)
Interest on notes payable	334	40	532	178
Amortization of debt discount, premium and expense, net	241	221	709	628
Distributions on preferred securities of subsidiary trust	685	-	2,055	-
Other interest charges	764	94	949	292
Interest and other charges, net	4,092	2,863	11,124	8,876
NET INCOME	13,705	13,099	20,182	24,494
DIVIDENDS ON PREFERRED STOCK	-	581	-	1,743
NET INCOME AFTER DIVIDENDS ON PREFERRED STOCK	$ 13,705	$ 12,518	$ 20,182	$ 22,751

The accompanying notes as they relate to SAVANNAH are an integral part of these condensed statements.

SAVANNAH ELECTRIC AND POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Thousands of Dollars)

	For the Nine Months Ended September 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 20,182	$ 24,494
Adjustments to reconcile net income to net cash provided by operating activities--		
Depreciation and amortization	19,027	17,552
Deferred income taxes and investment tax credits, net	1,881	6,077
Allowance for equity funds used during construction	(34)	(91)
Other, net	2,014	(893)
Changes in certain current assets and liabilities--		
Receivables, net	(19,828)	(16,866)
Inventories	(2,770)	(256)
Payables	5,501	3,729
Taxes accrued	3,605	2,655
Other	2,656	(1,655)
Net cash provided from operating activities	32,234	34,746
INVESTING ACTIVITIES:		
Gross property additions	(21,536)	(9,800)
Other	(3,205)	(660)
Net cash used for investing activities	(24,741)	(10,460)
FINANCING ACTIVITIES:		
Proceeds--		
Other long-term debt	-	50,000
Retirements--		
First mortgage bonds	(15,800)	(30,000)
Other long-term debt	(288)	(20,522)
Notes payable, net	26,100	1,000
Payment of preferred stock dividends	-	(1,743)
Payment of common stock dividends	(18,700)	(17,400)
Miscellaneous	251	(2,232)
Net cash used for financing activities	(8,437)	(20,897)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(944)	3,389
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,962	6,144
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,018	$ 9,533
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for--		
Interest (net of amount capitalized)	$10,126	$9,335
Income taxes	3,925	5,138

The accompanying notes as they relate to SAVANNAH are an integral part of these condensed statements.

SAVANNAH ELECTRIC AND POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

ASSETS

	At September 30, 1999 (Unaudited)	At December 31, 1998
UTILITY PLANT:		
Plant in service, at original cost	$795,222	$781,964
Less accumulated provision for depreciation	357,265	341,930
	437,957	440,034
Construction work in progress	9,699	2,908
Total	447,656	442,942
OTHER PROPERTY AND INVESTMENTS:	1,493	1,420
CURRENT ASSETS:		
Cash and cash equivalents	5,018	5,962
Receivables --		
Customer accounts receivable	28,802	18,030
Other accounts and notes receivable	4,512	3,543
Affiliated companies	3,371	1,388
Accumulated provision for uncollectible accounts	(303)	(284)
Fuel cost under recovery	23,751	17,628
Fossil fuel stock, at average cost	7,434	4,984
Materials and supplies, at average cost	6,816	6,496
Prepayments	581	4,772
Total	79,982	62,519
DEFERRED CHARGES:		
Deferred charges related to income taxes	16,407	17,130
Debt issue expense, being amortized	3,192	3,554
Premium on reacquired debt, being amortized	8,588	8,570
Prepaid pension costs	1,721	3,281
Cash surrender value of life insurance for deferred compensation plans	14,179	14,179
Miscellaneous	2,449	2,204
Total	46,536	48,918
TOTAL ASSETS	$575,667	$555,799

The accompanying notes as they relate to SAVANNAH are an integral part of these condensed statements.

SAVANNAH ELECTRIC AND POWER COMPANY
CONDENSED BALANCE SHEETS
(Stated in Thousands of Dollars)

CAPITALIZATION AND LIABILITIES

	At September 30, 1999 (Unaudited)	At December 31, 1998
CAPITALIZATION:		
Common stock equity --		
Common stock (par value value $5 per share) --		
authorized 16,000,000 shares; outstanding 10,844,635 shares	$ 54,223	$ 54,223
Paid-in capital	8,688	8,688
Retained earnings	114,436	112,954
	177,347	175,865
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding Company Junior Subordinated Notes	40,000	40,000
Long-term debt	147,384	163,443
Total	364,731	379,308
CURRENT LIABILITIES:		
Long-term debt due within one year	660	689
Notes payable	26,100	-
Accounts payable --		
Affiliated companies	5,113	5,014
Other	13,562	10,833
Customer deposits	5,389	5,224
Taxes accrued--		
Federal and state income	5,801	2,467
Other	4,072	2,891
Interest accrued	4,057	3,815
Vacation pay accrued	2,068	1,978
Miscellaneous	4,668	6,700
Total	71,490	39,611
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	84,145	82,778
Accumulated deferred investment tax credits	11,446	11,943
Deferred credits related to income taxes	20,231	21,349
Deferred compensation plans	10,172	9,788
Postretirement benefits	7,475	6,434
Miscellaneous	5,977	4,588
Total	139,446	136,880
TOTAL CAPITALIZATION AND LIABILITIES	$575,667	$555,799

The accompanying notes as they relate to SAVANNAH are an integral part of these condensed statements.

SAVANNAH ELECTRIC AND POWER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIRD QUARTER 1999 vs. THIRD QUARTER 1998
AND
YEAR-TO-DATE 1999 vs. YEAR-TO-DATE 1998

RESULTS OF OPERATIONS

Earnings

SAVANNAH's net income after dividends on preferred stock for the third quarter and year-to-date 1999 was $13.7 million and $20.2 million, respectively, as compared to $12.5 million and $22.8 million for the corresponding periods of 1998. The third quarter earnings increase is attributed to higher operating revenues. The year-to-date earnings decrease is mainly due to lower operating revenues primarily reflecting the Georgia PSC's accounting order, lower industrial retail energy sales and higher operation expenses. For additional information, see Note (M) in the "Notes to the Condensed Financial Statements" herein for details regarding the accounting order.

Significant income statement items appropriate for discussion include the following:

	Increase (Decrease)			
	Third Quarter		Year-To-Date	
	(in thousands)	%	(in thousands)	%
Revenues	$6,820	8.2	$(2,025)	(1.0)
Revenues from affiliates	805	54.5	443	15.9
Purchased power from non-affiliates	4,328	95.9	3,845	45.5
Other operation expense	1,180	9.9	1,583	4.5
Other interest charges	670	N/M	657	225.0

N/M – Not meaningful

Revenues. The third quarter 1999 revenues were up primarily due to increased retail energy sales to residential and commercial customers. Energy sales to those customers during the quarter rose by 5.1% and 9.6%, respectively, due mainly to hotter temperatures recorded in August 1999. Year-to-date 1999 revenues were down primarily due to the impact of the Georgia PSC's accounting order and lower industrial energy sales. Industrial energy sales were down by 18.1% and 19.8% for the quarter and year-to-date, respectively, due to reduced demand from one industrial customer and the shut-down of another industrial customer's facilities. In the third quarter and year-to-date 1999, the impacts on SAVANNAH's revenues from this shut-down were $0.3 million and $0.7 million, respectively. For additional information, see "Future Earnings Potential" herein.

Revenues from affiliates. Revenues from sales to affiliated companies within the Southern electric system will vary from period to period depending on demand and the availability and cost of generating resources at each company. These transactions do not have a significant impact on earnings.

Purchased power from non-affiliates. The third quarter and year-to-date increases are primarily due to higher demand for energy and increased costs for purchased power in the third quarter of 1999.

Other operation expense. The increases for the third quarter and year-to-date 1999 reflect additional storm damage reserve accruals and expenses associated with environmental clean-up activities at Plant Kraft.

Other interest charges. The increases in this item for the third quarter and year-to-date 1999 are primarily related to a potential tax audit settlement.

Future Earnings Potential

The results of operations discussed above are not necessarily indicative of future earnings potential. The level of future earnings depends on numerous factors ranging from weather to energy sales growth to a less regulated, more competitive environment.

In 1998, the Georgia PSC approved a four-year accounting order for SAVANNAH. Reference is made to Note (M) in the "Notes to the Condensed Financial Statements" herein and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SAVANNAH in the Form 10-K for additional information.

In mid-1998, one of SAVANNAH's largest industrial customers added an additional steam turbine unit. The impact of this on SAVANNAH's revenues had been planned for, and the customer is under contract for a minimum of 5 megawatts per year. In October 1998, another of SAVANNAH's largest customers closed its Savannah operations. Base revenues from this customer had averaged $2 million annually. Under the terms of its contract with SAVANNAH, this customer is obligated to pay $1 million annually through 2001.

With the enactment of the Energy Act and new legislation being discussed at federal and state levels to expand customer choice, SAVANNAH is positioning the business to meet the challenge of increasing competition. For additional information, see Item 1 - BUSINESS - "Competition" and Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SAVANNAH in the Form 10-K.

Compliance costs related to the Clean Air Act could affect earnings if such costs cannot be offset. For additional information about the Clean Air Act and other environmental issues, see Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS - "Environmental Matters" of SAVANNAH in the Form 10-K.

Reference is made to Part II - Item 1 - "Legal Proceedings" herein for information relating to a complaint and notice of violation brought against certain SOUTHERN subsidiaries at the request of the EPA.

SAVANNAH's plans to achieve Year 2000 readiness have been implemented and are included in the SOUTHERN system's Year 2000 Program. The costs related to SAVANNAH's Year 2000 program are expected to be $1.3 million. From its inception through September 30, 1999, the Year 2000 program costs, recognized as expense, amounted to $1.1 million. For additional information, see SOUTHERN's MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION – "Future Earnings Potential" herein.

The FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was originally to be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). SAVANNAH has not yet quantified the impact of adopting this statement on its financial statements; however, the adoption could increase volatility in earnings.

Reference is made to Notes (B) and (M) in the "Notes to the Condensed Financial Statements" herein for discussion of various contingencies and other matters which may affect future earnings potential.

FINANCIAL CONDITION

Overview

Major changes in SAVANNAH's financial condition during the first nine months of 1999 included the addition of approximately $21.5 million to utility plant. The funds for these additions and other capital requirements were derived primarily from operations and credit arrangements with banks. See SAVANNAH's Condensed Statements of Cash Flows for further details.

Financing Activities

In June 1999, SAVANNAH purchased on the open market all $15 million outstanding of its 7 7/8% Series First Mortgage Bonds due May 1, 2025. This purchase was financed with short-term debt. SAVANNAH plans to continue, to the extent possible, a program to retire higher-cost debt and replace these obligations with lower-cost capital.

Sources of Capital

SAVANNAH plans to obtain the funds required for construction and other purposes from sources similar to those used in the past. The amount, type and timing of any financings--if needed--will depend upon maintenance of adequate earnings, regulatory approval, prevailing market conditions and other factors. See Item 1 - BUSINESS - "Financing Programs" in the Form 10-K for additional information.

To meet short-term cash needs and contingencies, SAVANNAH had at September 30, 1999, approximately $5 million of cash and cash equivalents and approximately $34.4 million of unused credit arrangements with banks. At September 30, 1999, SAVANNAH had $26.1 million outstanding of notes payable to banks. Since SAVANNAH has no major generating plants under construction, management believes that the need for working capital can be adequately met by utilizing lines of credit.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR
THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
ALABAMA POWER COMPANY
GEORGIA POWER COMPANY
GULF POWER COMPANY
MISSISSIPPI POWER COMPANY
SAVANNAH ELECTRIC AND POWER COMPANY

INDEX TO APPLICABLE NOTES TO
FINANCIAL STATEMENTS BY REGISTRANT

Registrant	Applicable Notes
SOUTHERN	A, B, C, D, E, F, H, I, J, K, L, N, O
ALABAMA	A, B, C, F, G, H, I, J
GEORGIA	A, B, C, F, G, K, L
GULF	A, B, F
MISSISSIPPI	A, B, F
SAVANNAH	A, B, M

THE SOUTHERN COMPANY AND SUBSIDIARY COMPANIES
ALABAMA POWER COMPANY
GEORGIA POWER COMPANY
GULF POWER COMPANY
MISSISSIPPI POWER COMPANY
SAVANNAH ELECTRIC AND POWER COMPANY

NOTES TO THE CONDENSED FINANCIAL STATEMENTS:

(A) The condensed financial statements of the registrants included herein have been prepared by each registrant, without audit, pursuant to the rules and regulations of the SEC. In the opinion of each registrant's management, the information regarding such registrant furnished herein reflects all adjustments necessary to present fairly the results for the periods ended September 30, 1999 and 1998. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although each registrant believes that the disclosures regarding such registrant are adequate to make the information presented not misleading. It is suggested that these condensed financial statements of each registrant be read in conjunction with the financial statements of such registrant and the notes thereto included in the Form 10-K. Certain prior period amounts have been reclassified to conform with current period presentation. Due to seasonal variations in the demand for energy, operating results for the periods presented do not necessarily indicate operating results for the entire year.

The condensed financial statements of ALABAMA and GEORGIA included herein have been reviewed by ALABAMA's and GEORGIA's independent public accountants as set forth in their reports included herein as Exhibit 1 to ALABAMA's and GEORGIA's condensed financial statements.

(B) SOUTHERN's operating affiliates 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 unrecoverable regulatory assets and liabilities, and determine if any other assets have been impaired. For additional information, see Note 1 to the financial statements of each registrant in Item 8 of the Form 10-K.

(C) The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry--including SOUTHERN's--regarding the recognition, measurement and classification of decommissioning costs for nuclear generating facilities in the financial statements. In response to these questions, the FASB has decided to review the accounting for obligations related to the retirement of long-lived assets, including nuclear decommissioning. Reference is made to MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SOUTHERN, ALABAMA and GEORGIA in Item 7 and Note 1 to the financial statements of SOUTHERN, ALABAMA and GEORGIA under "Depreciation and Nuclear Decommissioning" in Item 8 of the Form 10-K.

(D) SOUTHERN engages in price risk management activities. Reference is made to MANAGEMENT'S DISCUSSION AND ANALYSIS - *"Derivative Financial Instruments" and Note 1 to the financial statements* of SOUTHERN in Item 8 of the Form 10-K for a discussion of these activities. Activities for non-trading purposes consist of transactions that are employed to mitigate SOUTHERN's risk related to interest rate and foreign currency exchange rate fluctuations. At September 30, 1999, the status of outstanding non-trading related derivative contracts was as follows:

Type	Year of Maturity or Termination	Notional Amount	Unrealized Gain (Loss)
		(in thousands)	
Interest rate caps	1999	$480,000	$(94)
Interest rate swaps	2002-2012	$773,019	$(14,775)
	2001-2012	£600,000	$(47,938)
	2002-2007	DM691,000	$(12,718)
Cross currency swaps	2001-2007	£413,800	$(3,377)
Cross currency swaption	2003	DM510,000	$3,297

£ - Denotes British pounds sterling.
DM - Denotes Deutschemark.

In January 1998, Southern Energy and Vastar Resources, Inc. combined their energy trading and marketing activities to form a joint venture. Southern Energy's investment in the joint venture is accounted for under the equity method of accounting. SOUTHERN and Vastar have made guarantees to certain counterparties regarding performance of contractual commitments by the joint venture. At September 30, 1999, outstanding guarantees related to the estimated fair value of net contractual commitments were approximately $166 million. Reference is made to MANAGEMENT'S DISCUSSION AND ANALYSIS - "Future Earnings Potential" of SOUTHERN in Item 7 and Notes 1 and 5 to the financial statements of SOUTHERN under the captions "Financial Instruments for Trading Activities" and "Energy Trading and Marketing Commitments", respectively, in Item 8 of the Form 10-K.

(E) SOUTHERN's principal business segment -- or its traditional business -- is the five regulated electric utility operating companies that provide electric service in four southeastern states. The other reportable business segment is non-traditional energy services provided by Southern Energy, which develops and manages electricity and other energy-related projects both in the United States and abroad. Intersegment revenues are not material. Financial data for business segments for the periods covered in the Form 10-Q are as follows:

	Regulated Domestic Electric Utilities	Southern Energy Non-Traditional Services International	Southern Energy Non-Traditional Services Domestic	Southern Energy Non-Traditional Services Total	All Other (Note)	Reconciling Eliminations	Consolidated
				(in millions)			
Three Months Ended September 30, 1999:							
Operating revenues	$ 2,991	$ 384	$ 302	$ 686	$ 66	$ (7)	$ 3,736
Segment net income (loss)	568	135	(41)	94	(39)	(8)	615
Nine Months Ended September 30, 1999:							
Operating revenues	7,116	1,223	488	1,711	165	(23)	8,969
Segment net income (loss)	1,000	281	(22)	259	(84)	(22)	1,153
Total assets at September 30, 1999	$25,254	9,660	4,117	13,777	1,203	(2,009)	38,225
Three Months Ended September 30, 1998:							
Operating revenues	$2,977	$ 400	$ 34	$ 434	$ 50	$ (4)	$ 3,457
Segment net income (loss)	497	51	7	58	(33)	(5)	517
Nine Months Ended September 30, 1998:							
Operating revenues	7,362	1,286	101	1,387	126	(10)	8,865
Segment net income (loss)	953	142	14	156	(69)	(11)	1,029
Total assets at December 31, 1998	24,421	9,578	2,869	12,447	1,438	(2,114)	36,192

(Note) The all other category includes parent SOUTHERN, which does not allocate operating expenses to business segments. Also, this category includes segments below the quantitative threshold for separate disclosure. These segments include a wireless communication company and a developmental company for energy products and services. Non-traditional services exclude interest expense to parent SOUTHERN.

(F) Reference is made to Notes 3 and 7 to each of the registrant's financial statements, except SAVANNAH'S, in Item 8 of the Form 10-K for a discussion of the FERC orders in proceedings regarding the reasonableness of the return on common equity on certain of the Southern electric system's wholesale rate schedules and contracts and a discussion of the long-term power sales agreements. On October 14, 1999, the FERC approved a settlement agreement relating to the proceedings pending at the FERC which provides for an equity return of 11% under the formula rates. These rates are effective as of January 5, 1999 for three unit power sales contracts, and as of July 1, 1999 for the other contracts. Since the rates were placed in effect on July 1, 1999 under an interim order of the FERC, a total refund of approximately $4 million ($2.9 million for ALABAMA, $0.7 million for GEORGIA and $0.4 million for GULF) is required to reflect the change in the equity return from 12.5% to 11% under the three unit power sales contracts for the period January 5, 1999 through June 30, 1999. A liability for the refund is reflected in the September 30, 1999 balance sheet of the affected registrants.

(G) During the first nine months of 1999, statutory business trusts, formed by ALABAMA and GEORGIA of which such companies own all the common securities, issued mandatorily redeemable preferred securities as follows: (in thousands)

Company	Date of Issue	Amount	Rate	Notes	Maturity Date of Notes
ALABAMA	2/25/99	$50,000	Auction	$51,550	2/28/2029
GEORGIA	2/25/99	$200,000	6.85%	$206,186	3/31/2029

Substantially all the assets of each trust are junior subordinated notes issued by the related company in the respective approximate principal amounts set forth above. ALABAMA and GEORGIA consider that the mechanisms and obligations relating to the preferred securities issued for its benefit, taken together, constitute a full and unconditional guarantee by it of the respective trusts' payment obligations with respect to the preferred securities.

(H) Reference is made to Note 3 to the financial statements of SOUTHERN and ALABAMA in Item 8 of the Form 10-K for information relating to retail rate adjustment procedures.

(I) Reference is made to Note 3 to the financial statements of SOUTHERN and ALABAMA in Item 8 of the Form 10-K for information relating to a judgment against ALABAMA arising from discharges into Lake Martin. The trial court has denied the defendants' motion for a new trial and for remittitur, and ALABAMA has appealed to the Supreme Court of Alabama.

(J) Reference is made to Note 3 to the financial statements of SOUTHERN and ALABAMA in Item 8 of the Form 10-K for information relating to a class action charging ALABAMA with fraud and non-compliance with regulatory statutes relating to the offer, sale and financing of "extended service contracts" in connection with the sale of electric appliances. This action has been settled for an insignificant amount, and the case has been dismissed.

(K) Reference is made to Note 3 to the financial statements of SOUTHERN and GEORGIA in Item 8 of the Form 10-K for information concerning a three-year rate order approved by the Georgia PSC effective January 1, 1999. The order decreased annual retail rates by $262 million effective January 1, 1999 and by an additional $24 million effective January 1, 2000. The order further provides for $85 million each year, plus up to $50 million annually of any earnings in excess of a 12.5% retail return on common equity during the second and third years, to be applied to accelerated amortization or depreciation of assets. Two-thirds of any additional earnings in excess of the 12.5% return will be applied to rate reductions and the remaining one-third retained by GEORGIA. Pursuant to this provision, GEORGIA recognized, as a reduction to revenue, $77 million in the third quarter for potential rate refunds related to two-thirds of estimated earnings in excess of 12.5% return.

Under a previous three-year accounting order ending December 1998, GEORGIA's earnings were evaluated against a retail return on common equity range of 10% to 12.5%. Earnings in excess of 12.5% were used to accelerate the depreciation of electric plant. For earnings in excess of the 12.5% retail return, GEORGIA recorded charges of $113.8 million and $281.3 million, respectively, during the third quarter and year-to-date 1998.

(L) Reference is made to Note 3 to the financial statements of SOUTHERN and GEORGIA in Item 8 of the Form 10-K for information regarding GEORGIA's designation as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act and other environmental contingencies.

(M) In 1998, the Georgia PSC approved a new accounting order for SAVANNAH. Under this order, SAVANNAH will reduce electric rates to its small business customers, expense additional storm damage accruals and accrue additional depreciation on generating assets. For additional information concerning the four-year accounting order approved by the Georgia PSC in June 1998, reference is made to Note 3 to the financial statements of SAVANNAH in Item 8 of the Form 10-K.

(N) Reference is made to Note 3 to the financial statements of SOUTHERN in Item 8 and to Legal Proceedings in Item 3 of the Form 10-K for information relating to petitions for Chapter 11 bankruptcy relief which were filed in the U. S. Bankruptcy Court for the Southern District of Alabama. Effective with the bankruptcy filing in January 1999, Mobile Energy is accounted for under the equity method, rather than being consolidated as before. As a result of recent settlement discussions with Kimberly-Clark Corporation and the bondholders, Southern Energy reevaluated possible outcomes of the negotiations and recorded an after-tax write down of $69 million primarily representing SOUTHERN's equity investment in Mobile Energy. At September 30, 1999, Mobile Energy had total assets of $380 million and senior debt outstanding of $193 million of first mortgage bonds and $73 million related to tax-exempt bonds. In connection with the bond financings, SOUTHERN provided certain limited guarantees, in lieu of funding debt service and maintenance reserve accounts with cash. As of September 30, 1999, under an agreement with the bondholders, SOUTHERN had paid $38,272,000 pursuant to the guarantees. SOUTHERN continues to have guarantees outstanding of certain potential environmental and other obligations of Mobile Energy that represent a maximum contingent liability of $21 million at September 30, 1999. The ultimate outcome of this matter cannot now be determined.

(O) In 1998, SOUTHERN's Board of Directors authorized SOUTHERN to make open market purchases of its common stock in an aggregate amount not to exceed $300 million through March 31, 1999. The purpose of the program was to provide shares of common stock for the purchase requirements of SOUTHERN's various stockholder, employee and outside director stock purchase plans. Under the program, 4.4 million shares had been repurchased and 2.4 million shares were reissued.

Also, in April 1999, SOUTHERN's board approved the repurchase of up to 50 million shares of SOUTHERN's common stock over the next two years through open market or privately negotiated transactions. The program does not establish a target stock price or timetable for specific repurchases. Under this program, 25,821,200 shares have been repurchased through November 9, 1999, with funding provided from SOUTHERN's commercial paper program.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

(1) On November 3, 1999, the United States of America, acting at the request of the EPA, brought a civil action in the U. S. District Court for the Northern District of Georgia against ALABAMA, GEORGIA and SCS. The complaint alleges violations of the prevention of significant deterioration and new source review provisions of the Clean Air Act with respect to coal-fired generating facilities at ALABAMA's Barry, Gorgas and Miller plants and GEORGIA's Bowen and Scherer plants and requests civil penalties and injunctive relief, including an order requiring the installation of the best available control technology at the affected units.

The EPA concurrently issued a notice of violation to the operating companies and SCS relating to ALABAMA's Barry, Gaston, Gorgas, Greene County and Miller plants, GEORGIA's Bowen and Scherer plants, GULF's Crist plant, MISSISSIPPI's Watson plant and SAVANNAH's Kraft plant.

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 equipment when performing maintenance and construction at coal burning plants constructed or under construction prior to 1978. SOUTHERN believes that it complied with applicable laws and the EPA's regulations and interpretations in effect at the time the work in question took place.

Although the outcome of this matter cannot presently be determined, a result adverse to SOUTHERN could require the expenditure of substantial additional capital at its existing plants and possibly require payment of substantial penalties.

(2) Reference is made to the Notes to the Condensed Financial Statements herein for information regarding certain legal and administrative proceedings in which SOUTHERN and its reporting subsidiaries are involved.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Exhibits 15 - Letter re: unaudited interim financial information
- (a) ALABAMA
- (b) GEORGIA

Exhibit 24 - (a) Powers of Attorney and resolutions. (Designated in the Form 10-K for the year ended December 31, 1998, File Nos. 1-3526, 1-3164, 1-6468, 0-2429, 0-6849 and 1-5072 as Exhibits 24(a), 24(b), 24(c), 24(d), 24(e) and 24(f), respectively, and incorporated herein by reference.)

Item 6. Exhibits and Reports on Form 8-K. (Continued)

- (b) Power of Attorney for GEORGIA. (Designated in the Form 10-Q for the quarter ended June 30, 1999, File No. 1-6468, as Exhibit 24(b).)

Exhibits 27 - Financial Data Schedule
- (a) SOUTHERN
- (b) ALABAMA
- (c) GEORGIA
- (d) GULF
- (e) MISSISSIPPI
- (f) SAVANNAH

(b) Reports on Form 8-K.

ALABAMA filed Current Reports on Form 8-K dated August 13, 1999 and September 21, 1999:

Items reported:	Item 5
	Item 7
Financial statements filed:	None

GULF filed a Current Report on Form 8-K dated August 17, 1999:

Items reported:	Item 5
	Item 7
Financial statements filed:	None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

THE SOUTHERN COMPANY

By *A. W. Dahlberg*
Chairman and Chief Executive Officer
(Principal Executive Officer)

By *W. L. Westbrook*
Financial Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

ALABAMA POWER COMPANY

By *Elmer B. Harris*
President and Chief Executive Officer
(Principal Executive Officer)

By *William B. Hutchins, III*
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GEORGIA POWER COMPANY

By *David M. Ratcliffe*
President and Chief Executive Officer
(Principal Executive Officer)

By *Thomas A. Fanning*
Executive Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

GULF POWER COMPANY

By *Travis J. Bowden*
President and Chief Executive Officer
(Principal Executive Officer)

By *A. E. Scarbrough*
Vice President - Finance
(Principal Financial and Accounting Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

MISSISSIPPI POWER COMPANY

By *Dwight H. Evans*
President and Chief Executive Officer
(Principal Executive Officer)

By *Michael W. Southern*
Vice President, Secretary, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signature of the undersigned company shall be deemed to relate only to matters having reference to such company and any subsidiaries thereof.

SAVANNAH ELECTRIC AND POWER COMPANY

By *G. Edison Holland, Jr.*
President and Chief Executive Officer
(Principal Executive Officer)

By *Kirby R. Willis*
Vice President, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

By */s/ Wayne Boston*
(Wayne Boston, Attorney-in-fact)

Date: November 11, 1999

EXHIBIT B. 12

Description of Underwriters

$50,000,000 7.05% Series A Senior Notes

Name of Underwriter	Principal Amount of Senior Notes
Edward D. Jones & Co., L.P. 12555 Manchester Road St. Louis, Missouri 63131	$25,000,000
Banc One Capital Markets, Inc.	$25,000,000

Underwritiers fees: $113,500

GULF POWER COMPANY

EXHIBIT B. 13

Summary of Debt Expenses in Conjunction with the
Issuance and Sale of $50,000,000 Principal Amount
Series B 7.05% Senior Notes Due 2004

Item Number	Issuance Expenses For:	Amount $
1	Charges of Trustee (Including Counsel)	3,552.00
2	Printing and Preparation of Registration Statement, Financial Statements, Prospectus, Competitive Bidding Papers, Supplemental Indenture, etc.	8,471.45
3	Fees and Expenses of Counsel	16,855.00
4	Fees of Accountants	24,000.00
5	Rating Fees	10,000.00
6	Expenses of Southern Company Services, Inc.	3,613.53
7	Miscellaneous Expenses	235.67
	Total Expenses of Issue	66,727.65
	Unamortized Discount Expense	146,000.00
	Total Cost of Issue	$212,727.65