

**Thomas A. Fanning**

Chairman, President &amp; CEO, Southern Company

## Dear fellow shareholders,

One of the hallmarks of Southern Company has always been innovation. From our earliest days when James Mitchell lobbied London investors to secure the capital to build hydroelectric dams and transmission infrastructure in the state of Alabama at a time when electricity was not yet widely available in much of the southeastern United States, innovation has been a fundamental part of our company's DNA.

Fast forward to the present, where we once again find ourselves in a period of great change and opportunity. We live in an increasingly sophisticated digital age, where technology affects virtually everything we do, from how we manage our business operations to how we live our personal lives. At Southern Company, we are not merely adapting to this changing environment—we have the energy to *lead* the change.

As a company, we are committed to "play offense" in this changing environment. We honor our past by pushing forward to build the future of energy. That's why I'm so pleased with our historic growth in 2016. We proudly welcomed more than 6,000 new team members with the additions of AGL Resources (now Southern Company Gas) and PowerSecure. Our wholesale subsidiary, Southern Power, continued to acquire solar, wind and natural gas generation facilities. Southern Company Gas acquired a 50 percent equity interest in the Southern Natural Gas pipeline system. And we announced a strategic alliance between Bloom Energy and PowerSecure for the deployment of fuel cell and battery storage technologies.

Considered collectively, these moves are ultimately expected to provide new opportunities for growth beyond our traditional retail and wholesale business models. They are designed to help meet customers' current and expected future energy needs while diversifying revenue streams and supporting earnings growth. Just as Southern Company has historically embraced the full portfolio strategy with respect to power generation, the company has likewise embraced a strategy of diversification with respect to our portfolio of businesses, with the ultimate objective of supporting the long-term health and prosperity of the enterprise.

With the emergence of natural gas and renewables as increasingly dominant energy solutions—and with the prospect of distributed generation, new technologies and new strategic alliances—we recognize and value the changing energy landscape. Southern Company is committed to placing itself at the forefront of a rapidly evolving energy industry. The events of this past year underscore the fact that we are doing more than simply preparing for America's energy future. We are *creating* it.

The following is a brief synopsis of progress achieved during the past year with respect to our five strategic priorities:

**Excel at the Fundamentals**

Our traditional electric operating companies continue to be among the most highly rated utilities for customer satisfaction by J.D. Power, which ranks companies on the basis of power quality and reliability, price, billing and payment, corporate citizenship, communications and customer service. Southern Company was named to *Fortune* magazine's World's Most Admired Electric and Gas Utilities—one of only two companies to rank in the top three for each of the past seven years.

2016 was another outstanding year for our generating fleet, as well as our transmission and distribution systems. The system-wide equivalent forced outage rate (EFOR) for the combined winter and summer peak seasons—a major industry measure of reliability—was 1.76 percent, significantly better than our industry peers' 2.27 percent, an average of our best peers' EFOR for 2012-2014.

**Achieve Success with Major Construction Projects**

This past year saw significant milestones associated with our major construction projects, the Kemper County Energy Facility in Mississippi, and Plant Vogtle units 3 and 4 near Augusta, Georgia, both of which are at the forefront of innovation.

When placed in service, the Kemper County Energy Facility will be the first electric generation facility to utilize Transport

Integrated Gasification (TRIG™) technology at commercial scale, deploying low-grade lignite coal to generate electricity from synthesis gas. The facility has been designed to produce electricity as cleanly as a natural gas facility while capturing 65 percent of the carbon dioxide emissions produced.

Progress also continues at our other major construction project, the building of new nuclear units 3 and 4 at Georgia Power's Plant Vogtle. In November, workers placed the first nuclear reactor vessel in the state of Georgia in more than 30 years. When completed, these new units will generate electricity for homes and businesses throughout the state of Georgia.

**Support the Building of a National Energy Policy**

We continue our leadership role to support a comprehensive national energy policy through active engagement in public policy debate, working constructively with legislators and regulators to support energy policy that develops the full portfolio of generation sources, embraces innovation and promotes America's financial integrity.

The company is working with lawmakers on both sides of the aisle to advance the North American Energy Security and Infrastructure Act—a bipartisan effort that would help modernize our nation's energy infrastructure, protect the power grid, strengthen energy security and improve energy efficiency.

**Promote Energy Innovation**

Our team at the Energy Innovation Center is busy evaluating ideas and opportunities and developing new products and services to deliver tomorrow's energy solutions, today. From indoor agriculture to electric transportation options and the charging infrastructure to support them, we are inventing the future of energy.

And because no one has a monopoly on good ideas, we are engaged in various partnerships with both the public and private sectors, engaging some of the finest minds and creative resources available. In October, for example, we announced a strategic alliance between Bloom Energy and our subsidiary, PowerSecure, which will include project investment and joint technology development to provide behind-the-meter energy solutions. Together, Bloom and PowerSecure are delivering

reliable on-site generation solutions tuned to the customer's precise power requirements that can flexibly adapt to changing conditions, allowing for intelligent optimization of their energy usage while driving cost savings and long-term cost certainty.

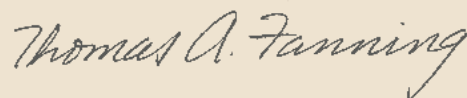
**Value and Develop Our People**

I am proud to report that in 2016 Southern Company was recognized by DiversityInc as one of the "Top 50 Companies for Diversity." DiversityInc also ranked Southern Company number one on its list of "Top 10 Companies for Opportunity." This is especially meaningful because it testifies that we were recognized not only for cultivating a diverse workplace, but that we are also considered the number one company in America in which the individuals who comprise that diverse workforce are afforded the opportunity to advance their careers. In addition, we earned a perfect score from the Human Rights Campaign on their Corporate Equality Index for 2017.

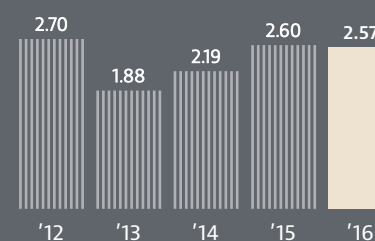
Studies show that diverse environments not only increase overall business performance, but also provide a space where employee differences foster innovation and true inclusiveness. At Southern Company, we are committed to the notion that true diversity refers not only to diversity of human attributes, but also diversity of thought. As a result, I've challenged our leadership with increasing our cultural bandwidth to breed creative disruption as we look for ways to shape energy policy and business strategy.

In closing, I would like to emphasize that I have never been more enthusiastic about the future. Rest assured, we remain committed to the ideals that have characterized our company for more than 100 years. James Mitchell's original vision and purpose is not forgotten. Customers remain at the center of all we do, and our mission continues to be bigger than our bottom line. On behalf of our management and employees, I want to thank you for your continued support.

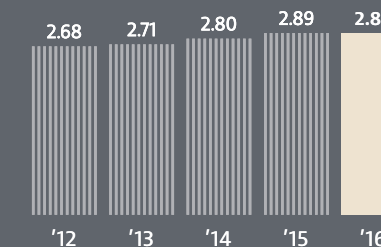
Sincerely,



**Thomas A. Fanning**  
March 20, 2017

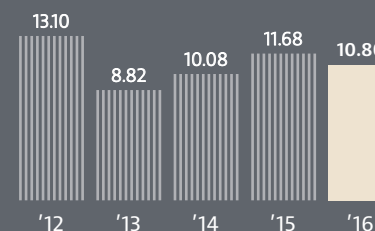


**Basic Earnings Per Share**  
(in dollars)

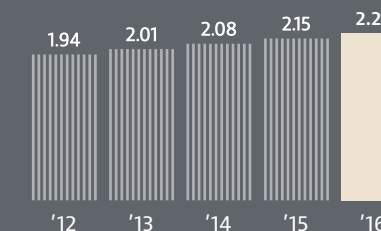


**Basic Earnings Per Share Excluding Kemper IGCC Impacts, Acquisition and Integration Costs, Equity Return Related to Kemper IGCC Schedule Extension, Southern Company Gas Earnings, net of Acquisition and Integration Costs, Acquisition Debt Financing Costs, Common Stock Share Issuances to Finance a Portion of Southern Natural Gas Company, L.L.C. (SNG) Acquisition, MC Asset Recovery Insurance Settlements and Leveraged Lease Restructure Charge\***  
(in dollars)

\* Not a financial measure under generally accepted accounting principles. See Glossary on page 36 for additional information and specific adjustments made to this measure by year.



**Return On Average Common Equity**  
(percent)



**Dividends Per Share**  
(in dollars)

	2016	2015	Change
Operating Revenues (in millions)	\$19,896	\$17,489	13.8 %
Earnings (in millions)	\$2,448	\$2,367	3.4 %
Basic Earnings Per Share	\$2.57	\$2.60	(1.2)%
Diluted Earnings Per Share	\$2.55	\$2.59	(1.5)%
Dividends Per Share (amount paid)	\$2.2225	\$2.1525	3.3 %
Dividend Yield (year-end, percent)	4.5	4.6	(2.2)%
Average Shares Outstanding (in millions)	951	910	4.5 %
Return On Average Common Equity (percent)	10.80	11.68	(7.5)%
Book Value Per Share	\$25.00	\$22.59	10.7 %
Market Price Per Share (year-end, closing)	\$49.19	\$46.79	5.1 %
Total Market Value Of Common Stock (year-end, in millions)	\$48,717	\$42,659	14.2 %
Total Assets (in millions)	\$109,697	\$78,318	40.1 %
Total Kilowatt-Hour Sales (in millions)	195,641	190,989	2.4 %
Retail	160,745	160,484	0.2 %
Wholesale	34,896	30,505	14.4 %
Total mMBtu Sales (in millions)	349	—	—
Total Utility Customers* (year-end, in thousands)	9,179	4,546	101.9 %

\* 2016 total utility customers now includes customers of Southern Company Gas. These customers were not previously included in this reporting category prior to Southern Company's acquisition of Southern Company Gas.