

SOUTHERN CO
Form DEF 14A
April 15, 2005

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under § 240.14a-11(c) or § 240.14a-12

THE SOUTHERN COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**2005
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Letter to Stockholders

David M. Ratcliffe
Chairman, President and
Chief Executive Officer

Dear Fellow Stockholder:

You are invited to attend the 2005 Annual Meeting of Stockholders at 10:00 a.m., ET, on Wednesday, May 25, 2005 at the JW Marriott Hotel Buckhead Atlanta, 3300 Lenox Road NE, Atlanta, Georgia.

At the meeting, I will report on our business and our plans for the future. Also, we will elect our Board of Directors and vote on the other matters set forth in the accompanying Notice.

Your vote is important. Please review the proxy material and return your proxy form as soon as possible.

We look forward to seeing you on May 25th.

David M. Ratcliffe

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Notice of Annual Meeting of Stockholders May 25, 2005

TIME and DATE

10:00 a.m., ET, on Wednesday, May 25, 2005

PLACE

JW Marriott Hotel Buckhead Atlanta
3300 Lenox Road NE
Atlanta, Georgia 30326

DIRECTIONS

The JW Marriott Hotel Buckhead Atlanta is adjacent to Lenox Square Shopping Mall. From GA 400, accessible from I-85 and I-285, take Exit 2 (Lenox Road) and turn east onto Lenox Road. After crossing over Peachtree Road, turn right at the second traffic light and follow signs to hotel and free parking. If using MARTA, take the Northeast Line Doraville Train and exit the train at the Lenox Station. Follow signs to the hotel which is one block away.

ITEMS of BUSINESS

- (1) Elect 10 members of the Board of Directors;
- (2) Ratify appointment of independent auditors;
- (3) Consider and vote upon a stockholder proposal, if presented at the meeting, as described in Item No. 3 of the Proxy Statement; and
- (4) Transact other business properly coming before the meeting or any adjournments thereof.

RECORD DATE

Stockholders of record at the close of business on March 28, 2005 are entitled to attend and vote at the meeting.

ANNUAL REPORT to STOCKHOLDERS

The Southern Company Annual Report to stockholders for 2004 is enclosed but is not a part of this mailing.

VOTING

Even if you plan to attend the meeting in person, please provide your voting instructions in one of the following ways as soon as possible:

- (1) Internet use the Internet address on the proxy form
- (2) Telephone use the toll-free number on the proxy form
- (3) Mail mark, sign and date the proxy form and return it in the enclosed postage-paid envelope

By Order of the Board of Directors, Tommy Chisholm, Secretary, April 15, 2005

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Proxy Statement

General Information

Q: How do I give voting instructions?

A: You may attend the meeting and give instructions in person or give instructions by the Internet, by telephone or by mail. Information for giving instructions is on the proxy form. The Proxies, named on the enclosed proxy form, will vote all properly executed proxies that are delivered pursuant to this solicitation and not subsequently revoked in accordance with the instructions given by you.

Q: Can I change my vote?

A: Yes, you may revoke your proxy by submitting a subsequent proxy or by written request received by the Company's corporate secretary before the meeting.

Q: Who can vote?

A: All stockholders of record on the record date of March 28, 2005. On that date, there were 744,548,150 shares of Southern Company common stock outstanding and entitled to vote.

Q: How much does each share count?

A: Each share counts as one vote, except votes for directors may be cumulative. Abstentions that are marked on the proxy form are included for the purpose of determining a quorum, but shares that a broker fails to vote are not counted toward a quorum. Neither is counted for or against the matters being considered.

Q: What does it mean if I get more than one proxy form?

A: You will receive a proxy form for each account that you have. Please vote proxies for all accounts to ensure that all your shares are voted. If you wish to consolidate multiple registered accounts, please contact Stockholder Services at (800) 554-7626.

Q: Can the Company's Proxy Statement and Annual Report be accessed from the Internet?

A: Yes. You can access the Company's website at www.southerncompany.com to view these documents.

Q: Does the Company offer electronic delivery of proxy materials?

A: Yes. Most stockholders can elect to receive an e-mail that will provide electronic links to the Annual Report and Proxy Statement. Opting to receive your proxy materials on-line will save us the cost of producing and mailing documents and also will give you an electronic link to the proxy voting site.

You may sign up for electronic delivery when you vote your proxy via the Internet or:

n Go to our investor web site at <http://investor.southerncompany.com/>;

n Click on the word enroll for Electronic Delivery of Proxy Materials; and

n Follow the directions provided to complete your enrollment.

Once you enroll for electronic delivery, you will receive proxy materials electronically as long as your account remains active or until you cancel your enrollment. If you consent to electronic access, you will be responsible for your usual Internet-related charges (e.g. on-line fees, telephone charges) in connection with electronic viewing and printing of proxy materials and annual reports. The Company will continue to distribute printed materials to stockholders who do not consent to access these materials electronically.

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Q: What is householding ?

A: Certain beneficial owners of the Company's common stock, sharing a single address, may receive only one copy of the Proxy Statement and Annual Report unless the broker, bank or nominee has received contrary instructions from any beneficial owner at that address. This practice known as householding is designed to reduce printing and mailing costs. If a beneficial owner does not wish to participate in householding, he or she may contact Stockholder Services at (800) 554-7626 or at 270 Peachtree Street, Atlanta, Georgia 30303 and ask to receive a Proxy Statement or Annual Report. As noted earlier, beneficial owners may view the Proxy Statement and Annual Report on the Internet.

Q: When are stockholder proposals due for the 2006 Annual Meeting of Stockholders?

A: The deadline for the receipt of stockholder proposals to be considered for inclusion in the Company's proxy materials for the 2006 Annual Meeting of Stockholders is December 16, 2005. Proposals must be submitted in writing to Tommy Chisholm, Corporate Secretary, Bin 912, Southern Company, 270 Peachtree Street, Atlanta, Georgia 30303. Additionally, the proxy solicited by the Board of Directors for next year's meeting will confer discretionary authority to vote on any stockholder proposal presented at that meeting that is not included in the Company's proxy materials unless the Company is provided written notice of such proposal no later than March 1, 2006.

Q: Who pays the expense of soliciting proxies?

A: The Company pays the cost of soliciting proxies. The officers or other employees of the Company or its subsidiaries may solicit proxies to have a larger representation at the meeting. The Company has retained Georgeson Shareholder to assist with the solicitation of proxies for a fee not to exceed \$10,000, plus reimbursement of out-of-pocket expenses.

The Company's 2004 Annual Report to the Securities and Exchange Commission on Form 10-K will be provided without charge upon written request to Tommy Chisholm, Corporate Secretary, Bin 912, Southern Company, 270 Peachtree Street, Atlanta, Georgia 30303.

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Corporate Governance

COMPANY ORGANIZATION

Southern Company is a holding company managed by a core group of officers and governed by a Board of Directors that is currently comprised of 10 members. The nominees for election as directors consist of nine non-employees and one executive officer of the Company.

DIRECTOR INDEPENDENCE

No Director will be deemed to be independent unless the Board of Directors affirmatively determines that the Director has no material relationship with the Company, directly, or as an officer, shareowner or partner of an organization that has a relationship with the Company. The Board of Directors has adopted categorical guidelines which provide that a Director will not be deemed to be independent if within the preceding three years the Director:

- n Was employed by the Company or whose immediate family member was an executive officer of the Company.
- n Received or whose immediate family member received direct compensation from the Company or its affiliates, other than director and committee fees. (Compensation received by an immediate family member for services as a non-executive employee of the Company need not be considered.)
- n Was affiliated with or employed by or whose immediate family member was affiliated or employed in a professional capacity by a present or former external auditor of the Company.
- n Was employed or whose immediate family member was employed as an executive officer of a company where any member of the Company's present executives serve on that company's compensation committee.
- n Was an executive officer or an employee or whose immediate family member was an executive officer of a company that makes payments to or receives payments from the Company for property or services in an amount which in any single fiscal year exceeds the greater of \$1,000,000 or two percent of that company's consolidated gross revenues.

Additionally, a Director will be deemed not to be independent if the Director or the Director's spouse serves as an executive officer of a charitable organization to which the Company made discretionary contributions exceeding the greater of \$1,000,000 or two percent of the organization's total annual charitable receipts.

In making the independence determination, the Board reviews and considers all commercial, consulting, legal, accounting, charitable or other business relationships that a Director or the Director's immediate family members have with the Company. As a result of its annual review of Director independence, the Board affirmatively determined that none of the following Directors has a material relationship with the Company and, as a result, such directors are determined to be independent: Daniel P. Amos, Dorrit J. Bern, Francis S. Blake, Thomas F. Chapman, Bruce S. Gordon, Donald M. James, Zack T. Pate, J. Neal Purcell and Gerald J. St. Pé. The remaining Director, David M. Ratcliffe, is Chairman of the Board, President and Chief Executive Officer of the Company.

Mr. James has notified the Company that he intends to resign from one outside board of which he is a member by the first annual stockholders meeting of such boards in 2006 bringing his number of outside board memberships to two. The Corporate Governance Guidelines are available on the Company's website at www.southerncompany.com under Investor Relations.

COMMUNICATING WITH THE BOARD

Stockholders may send communications to the Company's Board or to specified Directors by regular mail or electronic mail. Regular mail should be sent to the attention of Tommy Chisholm, Corporate Secretary, Southern Company, Bin 912, 270 Peachtree Street, Atlanta, Georgia 30303. The electronic mail address is CORPGOV@southernco.com. The electronic mail address also can be accessed from the Corporate Governance web page located under Investor Relations on the Southern Company website at www.southerncompany.com, under the link entitled Governance

Inquiries. With the

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exception of commercial solicitations, all stockholder communications directed to the Board or to specified Directors will be relayed to them.

DIRECTOR COMPENSATION

Only non-employee Directors are compensated for Board service. The pay components are:

Annual retainers:

- n \$40,000 if first elected as a Director before 1997, of which \$10,000 is deferred in shares of Company common stock until Board membership ends
- n \$49,000 if first elected as a Director in 1997 or later, of which \$19,000 is deferred in shares of Company common stock until Board membership ends
- n \$10,000 if serving as chair of a standing Board committee with the exception that the chair of the Audit Committee receives \$25,000

Equity grants:

- n 1,000 additional shares of Company common stock in quarterly grants of 250 shares are deferred until Board membership ends

Meeting fees:

- n \$2,500 for participation in a meeting of the Board
- n \$2,000 for participation in a meeting of a Committee of the Board other than a meeting of the Audit Committee
- n \$4,000 for attendance in person at a meeting of the Audit Committee
- n \$2,000 for participation by telephone in a meeting of the Audit Committee
- n \$2,000 for each day of a visit to a plant or office of the Company and for any other business meeting at which the Director participates as a representative of the Company

Directors may elect to defer up to 100 percent of their compensation until membership on the Board ends.

There is no pension plan for non-employee Directors.

MEETINGS OF NON-EMPLOYEE DIRECTORS

Non-employee Directors meet in executive session with no member of management present following each regularly scheduled Board meeting. There is a presiding Director at each of these executive sessions. Mr. Gerald J. St. Pé, chair of the Compensation and Management Succession Committee, served as presiding Director during the past year and will continue to serve until the Annual Meeting of Stockholders on May 25, 2005. Dr. Zack T. Pate, chair of the Nuclear Oversight Committee, has been named by non-employee Directors as the presiding Director to serve between the annual meetings of 2005 and 2006 or until a successor is named by the non-employee Directors. The presiding Director is selected from the chairs of the Board's five standing committees. See Communicating with the Board on page 3 for information regarding communications with the Board or its members.

COMMITTEES OF THE BOARD

Committee Charters

Charters for each of the five standing committees, the Company's Corporate Governance Guidelines and Code of Ethics can be found at the Company's website www.southerncompany.com. The Code of Ethics also is available in print to any stockholder who requests a copy from Tommy Chisholm, Corporate Secretary, Bin 912, Southern

Company,

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270 Peachtree Street, Atlanta, Georgia, 30303. The Audit Committee Charter is also shown in Appendix A of this Proxy Statement.

Audit Committee:

- n Members are Mr. Purcell, Chair, Mr. Blake, Mr. James and Dr. Pate
- n Met 14 times in 2004
- n Oversees the Company's financial reporting and audit processes, internal controls and legal, regulatory and ethical compliance; appoints the Company's independent auditors, approves their services and fees and reviews the scope and timing of their audits; reviews and discusses the Company's financial statements with management and the independent auditors, including critical accounting policies and practices, material alternative financial treatments within generally accepted accounting principles, proposed adjustments, control recommendations, significant management judgments and accounting estimates, new accounting policies and changes in accounting principles, any disagreements with management and other material written communications between the auditors and management; and recommends the filing of the Company's annual financial statements with the Securities and Exchange Commission (the SEC)

The Board has determined that the four members of the Audit Committee are independent as defined by the New York Stock Exchange corporate governance rules within its listing standards and rules of the SEC promulgated pursuant to the Sarbanes-Oxley Act of 2002. The Board has determined that Mr. Purcell qualifies as an audit committee financial expert as defined by the SEC. The Audit Committee Charter (see Appendix A) complies with the New York Stock Exchange corporate governance rules.

Compensation and Management Succession Committee:

- n Members are Mr. St. Pé, Chair, Mr. Amos and Mr. Chapman
- n Met six times in 2004
- n Evaluates performance of executive officers and establishes their compensation, administers executive compensation plans and reviews management succession plans

Finance Committee:

- n Members are Ms. Bern, Chair, Mr. Amos and Mr. Gordon
- n Met six times in 2004
- n Reviews the Company's financial matters, recommends actions such as dividend philosophy to the Board and approves certain capital expenditures

Governance Committee:

- n Members are Mr. Gordon, Chair, Ms. Bern, Mr. Chapman and Mr. St. Pé
- n Met five times in 2004
- n Oversees the composition of the Board and its committees, determines non-employee Directors' compensation, maintains the Company's Corporate Governance Guidelines and coordinates the performance evaluations of the Board and its committees.

GOVERNANCE COMMITTEE NOMINEES FOR ELECTION TO THE BOARD

The Governance Committee, comprised entirely of independent Directors, is responsible for identifying, evaluating and recommending nominees for election to the Board of Directors. The Committee solicits recommendations for candidates for consideration from its current Directors and is authorized to engage third party advisers to assist in the identification and evaluation of candidates for consideration. Any stockholder may make recommendations to the Governance Committee by sending a written statement setting forth the candidate's qualifications, relevant biographical information and signed consent to serve. These materials should be submitted in writing to the Company's corporate secretary and

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received by that office by December 16, 2005 for consideration by this Committee as a nominee for election at the Annual Meeting of Stockholders to be held in 2006. Any stockholder recommendation is reviewed in the same manner as candidates identified by the Committee.

The Governance Committee only considers candidates with the highest degree of integrity and ethical standards. The Committee evaluates a candidate's independence from management, ability to provide sound and informed judgment, history of achievement reflecting superior standards, willingness to commit sufficient time, financial literacy and number of other board memberships. The Board as a whole should be diverse and have collective knowledge and experience in accounting, finance, leadership, business operations, risk management, corporate governance and the Company's industry. The Committee recommends candidates to the Board of Directors for consideration as nominees. Final selection of the nominees is within the sole discretion of the Board of Directors.

All the nominees recommended by the Governance Committee for election to the Board at the 2005 Annual Meeting of Stockholders are currently directors.

Nuclear Oversight Committee:

n Membership is Dr. Pate, Chair

n Reviews and oversees the nuclear generating policies and facilities of the Company's subsidiaries

DIRECTOR ATTENDANCE

The Board of Directors met 11 times in 2004. The average attendance for directors at all Board and committee meetings was 95 percent. No nominee attended less than 75 percent of applicable meetings.

Directors are expected to attend the Annual Meeting of Stockholders. Nine of the 10 members of the Board of Directors attended the 2004 Annual Meeting of Stockholders.

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Table of Contents**Stock Ownership Tables****STOCK OWNERSHIP OF DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS**

The following table shows the number of shares of the Company's common stock owned by directors, nominees and executive officers as of December 31, 2004. 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 class.

Directors, Nominees and Executive Officers		Title of Security	Shares Beneficially Owned Include:	
			Shares Beneficially Owned(1)	Shares Individuals Have Rights to Acquire within 60 days(2)
Daniel P. Amos	Southern Common Stock	21,060		
Dorrit J. Bern	Southern Common Stock	24,346		
Francis S. Blake	Southern Common Stock	2,978		
Thomas F. Chapman	Southern Common Stock	11,347		
Thomas A. Fanning	Southern Common Stock	141,938	139,781	
H. Allen Franklin	Southern Common Stock	1,944,881	1,901,082	
Michael D. Garrett	Southern Common Stock	89,987	88,885	
Bruce S. Gordon	Southern Common Stock	25,104		
G. Edison Holland, Jr.	Southern Common Stock	146,343	141,555	
Donald M. James	Southern Common Stock	23,907		
Charles D. McCrary	Southern Common Stock	247,658	243,753	
Zack T. Pate	Southern Common Stock	30,982		
J. Neal Purcell	Southern Common Stock	10,616		224
D. M. Ratcliffe	Southern Common Stock	345,680	331,490	
Gerald J. St. Pé	Southern Common Stock	77,857		4,948

Directors, Nominees, and Executive Officers as a Group (19 people)

Southern Common Stock	3,652,135	3,312,717	5,172
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- (1) Beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or investment power with respect to a security, or any combination thereof.
- (2) Indicates shares of the Company's common stock that certain executive officers have the right to acquire within 60 days. Shares indicated are included in the Shares Beneficially Owned column.
- (3) Each director disclaims any interest in shares held by family members. Shares indicated are included in the Shares Beneficially Owned column.

STOCK OWNERSHIP OF CERTAIN OTHER BENEFICIAL OWNERS

According to Schedule 13G filed with the Securities and Exchange Commission on February 14, 2005, the following reported beneficial ownership of more than five percent of the outstanding shares of the Company's common stock as of December 31, 2004:

Name and Address	Shares Beneficially Owned	Percentage of Class Owned
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	42,951,500	5.8

Capital Research and Management Company held all of these shares as an investment adviser and had sole investment power over all of these shares and no voting power over any of these shares and disclaims beneficial ownership of the shares. This information is based solely on the Schedule 13G filed by Capital Research and Management Company.

Table of Contents**Matters to be Voted Upon****ITEM NO. 1 ELECTION OF DIRECTORS****Nominees for Election as Directors**

The Proxies named on the proxy form will vote, unless otherwise instructed, each properly executed proxy form for the election of the following nominees as Directors. If any named nominee becomes unavailable for election, the Board may substitute another nominee. In that event, the proxy would be voted for the substitute nominee unless instructed otherwise on the proxy form. Each nominee, if elected, will serve until the 2006 Annual Meeting of Stockholders.

Daniel P. Amos

Age:	53
Director since:	2000
Board committees:	Compensation and Management Succession, Finance
Principal occupation:	Chairman of the board and chief executive officer of AFLAC Incorporated, insurance holding company
Other directorships:	AFLAC Incorporated and Synovus

Dorrit J. Bern

Age:	54
Director since:	1999
Board committees:	Finance (<i>chair</i>), Governance
Principal occupation:	Chairman of the board, president and chief executive officer of Charming Shoppes, Inc., retail apparel stores
Other directorships:	Charming Shoppes, Inc. and Brunswick Corporation

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Francis S. Blake

Age	55
Director since:	2004
Board committees:	Audit
Principal occupation:	Executive vice president of The Home Depot, home improvement
Recent business experience:	Mr. Blake served as vice president, business development from 1998 to July 2000 of GE Power Systems, as senior vice president, corporate business development from July 2000 to May 2001 of General Electric Company and as U.S. Deputy Secretary of Energy from May 2001 to April 2002, when he assumed his current position.
Other directorships:	None

Thomas F. Chapman

Age:	61
Director since:	1999
Board committees:	Compensation and Management Succession, Governance
Principal occupation:	Chairman of the board and chief executive officer of Equifax, Inc., information services and transaction processing
Other directorships:	Equifax, Inc.

Bruce S. Gordon

Age:	59
Director since:	1994

Board committees:	Finance, Governance (<i>chair</i>)
Principal occupation:	Retired president of retail markets group of Verizon Communications, Inc., telecommunications
Recent business experience:	Mr. Gordon served as group president of enterprise business group of Verizon from December 1998 to July 2000, and as president of retail markets group of Verizon from July 2000 until his retirement in January 2004.
Other directorships:	Tyco International Ltd.

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Donald M. James

Age: 56

Director since: 1999

Board committees: Audit

Principal occupation: Chairman of the board and chief executive officer of Vulcan Materials Company, construction materials

Other directorships: Vulcan Materials Company, Protective Life Corporation and Wachovia Corporation

Zack T. Pate

Age: 68

Director since: 1998

Board committees: Audit, Nuclear Oversight (*chair*)

Principal occupation: Chairman emeritus of the World Association of Nuclear Operators and chairman emeritus of the Institute of Nuclear Power Operations (INPO), an independent, nonprofit organization promoting safety, reliability and excellence in the operation of nuclear electric generating plants

Recent business experience: Dr. Pate retired as chairman of the World Association of Nuclear Operators in 2002.

Other directorships: None

J. Neal Purcell

Age: 63

Director since: 2003

Board committees: Audit (*chair*)

Principal occupation: Retired vice-chairman, audit operations, of

KPMG, public accounting

Recent business
experience:

Mr. Purcell served as KPMG's Southeast Area
Managing Partner from July 1993 to October 1998
and as vice-chairman in charge of National Audit
Practice Operations from October 1998 until his
retirement on January 31, 2002.

Other directorships:

Dollar General Corporation, Kaiser Permanente,
Inc., and Synovus

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David M. Ratcliffe

Age:	56
Director since:	2003
Principal occupation:	Chairman of the board, president and chief executive officer of the Company
Recent business experience:	Mr. Ratcliffe served as president and chief executive officer of Georgia Power Company from May 1999 until January 2004 and as chairman and chief executive officer of Georgia Power Company from January 2004 until April 2004. He served as executive vice president of the Company from May 1999 until April 2004, and as president of the Company from April 2004 until July 2004, when he assumed his current position.
Other directorships:	CSX Corporation and Southern system companies Alabama Power Company, Georgia Power Company and Southern Power Company

Gerald J. St. Pé

Age:	65
Director since:	1995
Board committees:	Compensation and Management Succession (<i>chair</i>), Governance
Principal occupation:	Former president of Ingalls Shipbuilding and retired executive vice president of Litton Industries
Recent business experience:	Mr. St. Pé served as chief operating officer of Northrop-Grumman Ship Systems from August 1999 to November 2001.
Other directorships:	None

Each nominee has served in his or her present position for at least the past five years, unless otherwise noted.

The affirmative vote of a plurality of shares present and entitled to vote is required for the election of directors.
THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES LISTED IN ITEM NO. 1.

ITEM NO. 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has appointed Deloitte & Touche LLP as the Company's independent auditors for 2005. This appointment is being submitted to stockholders for ratification. Representatives of Deloitte & Touche LLP will be present at the Annual Meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement if they desire to do so.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEM NO. 2.

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ITEM NO. 3 STOCKHOLDER PROPOSAL ON POLITICAL CONTRIBUTIONS REPORT

The Company has been advised that Green Century Capital Management, Inc., 29 Temple Place, Suite 200, Boston, Massachusetts 02111, holder of 120 shares of common stock; New York City Employees Retirement System, City of New York Office of the Comptroller, 1 Centre Street, New York, New York 10007, holder of 920,950 shares of common stock; and Trillium Asset Management Corporation, 711 Atlantic Avenue, Boston, Massachusetts 02111, holder of 1,012 shares of common stock, propose to submit the following resolution at the 2005 Annual Meeting of Stockholders.

RESOLVED: The shareholders of Southern Company (Company) hereby request that the Company provide a report updated semi-annually disclosing:

1. Policies and procedures for political contributions (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary contributions to political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 27 of the Internal Revenue Code including the following:
 - n An accounting of the Company s funds contributed to any of the persons described above;
 - n The business rationale for each of the Company s political contributions; and
 - n Identification of the person or persons in the Company who participated in making the decisions to contribute.

This report shall be posted on the company s website to reduce costs to shareholders.

SUPPORTING STATEMENT

As long-term shareholders of Southern Company, we support policies that apply transparency and accountability to corporate political giving. In our view, such disclosure is consistent with public policy in regard to public company disclosure.

Company executives exercise wide discretion over the use of corporate resources for political purposes. They make decisions without a stated business rationale for such donations. According to the Center for Responsive Politics (<http://www.opensecrets.org/softmoney/index.asp>), in 2001-02, the last fully reported election cycle, Southern Company contributed at least \$963,957 in soft dollar donations.

Relying only on the limited data available from Federal Election Commission and the Internal Revenue Service, the Center for Responsive Politics, a leading campaign finance watchdog organization, provides an incomplete picture of the Company s political donations. Complete disclosure by the company is necessary for the Company s Board and its shareholders to be able to fully evaluate the political use of corporate assets.

Although the Bipartisan Campaign Reform Act enacted in 2002 prohibits corporate contributions to political parties at the federal level, it allows companies to contribute to independent political committees, also known as 527s.

Absent a system of accountability, corporate executives will be free to use the Company s assets for political objectives that are not shared by and may be inimical to the interests of the Company and its shareholders. There is currently no single source of information that provides the information sought by this resolution. That is why we urge your support for this critical governance reform.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEM NO. 3 FOR THE FOLLOWING REASONS:

The proponents state that corporations are allowed to contribute to independent political committees. While this statement may be correct for many corporations, it is not true for Southern Company. Because the Company is a public utility holding company, the Company is subject to federal and state law restrictions on political contributions which are far more extensive than the restrictions which apply to most other types of corporations. Under current federal and state laws, notable among which is the Public Utility Holding Company Act of 1935, the Company and its subsidiaries are prohibited from making contributions or expenditures, directly or indirectly, to any organization in connection with candidates campaigns for federal, state or local public offices or in support of political party organizations. Prior to the enactment of the Bipartisan Campaign Reform Act of 2002 (BCRA), the Company and its

subsidiaries were permitted to make donations to political party building funds and the Company and certain of its subsidiaries did so. Under BCRA, this

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exception to general prohibitions against political contributions was eliminated and the Company and its subsidiaries have ceased to make such contributions.

The Company is committed to full compliance with these legal restrictions, and the ethics and compliance policies of the Company and its subsidiaries prohibit any use of corporate resources to make political contributions. The Board of Directors monitors the control mechanisms which have been put in place to assure compliance with the applicable laws and regulations as well as the Company's policies regarding political contributions. Because the Company cannot, and does not, make political contributions, the reporting on the Company's website being requested by the proponents would be unnecessary and inappropriate.

As requested by the proponents, a summary of the Company's policies prohibiting political contributions has been prepared and is being made available on the Company's website at www.southerncompany.com. A printed copy of the summary also will be sent to any stockholder, free of charge, upon request of Tommy Chisholm, Corporate Secretary, Bin 912, Southern Company, 270 Peachtree Street, Atlanta, Georgia 30303.

The vote needed to pass the proposed stockholders' resolution is a majority of the shares represented at the meeting and entitled to vote.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST ITEM NO. 3.

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Audit Committee Report

The Audit Committee (the Committee) oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for establishing and maintaining adequate internal controls over financial reporting, including disclosure controls and procedures, and for preparing the Company's consolidated financial statements. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements of the Company and its subsidiaries and management's report on the Company's internal control over financial reporting in the Annual Report to stockholders with management. The Committee also reviews the Company's quarterly and annual reporting on Forms 10-Q and 10-K prior to filing with the Securities and Exchange Commission (SEC). The Committee's review process included discussions of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and estimates and the clarity of disclosures in the financial statements.

The independent auditors are responsible for expressing opinions on the conformity of the consolidated financial statements with accounting principles generally accepted in the United States and on the conformity of management's assessment of the effectiveness of the Company's internal control over financial reporting and the effectiveness of the Company's internal control over financial reporting with the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Committee reviewed with the independent auditors their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, rules and regulations of the Public Company Accounting Oversight Board (PCAOB) and SEC and the New York Stock Exchange corporate governance rules. In addition, the Committee has discussed with the independent auditors their independence from management and the Company including the matters in the written disclosures made under Rule 3600T of the PCAOB, which, on an interim basis, has adopted Independence Standards Board No. 1, Independence Discussions with Audit Committees. The Committee also has considered whether the independent auditors' provision of non-audit services to the Company is compatible with maintaining their independence.

The Committee discussed the overall scopes and plans with the Company's internal and independent auditors for their respective audits. The Committee meets with the internal and independent auditors with and without management present, to discuss the results of their audits, evaluations by management and the independent auditors of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting. The Committee also meets privately with the Company's compliance officer. The Committee held 14 meetings during 2004.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board approved) that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and filed with the SEC. The Committee also reappointed Deloitte & Touche LLP as the Company's independent auditors for 2005. At the annual meeting of the Company's stockholders, the stockholders will be asked to ratify the Committee's selection of the independent auditors.

Members of the Committee:

J. Neal Purcell, Chair
Francis S. Blake
Donald M. James
Zack T. Pate

Table of Contents**PRINCIPAL ACCOUNTING FIRM FEES**

The following represents the fees billed to the Company for the last two fiscal years by Deloitte & Touche LLP (Deloitte & Touche) the Company s principal public accountant:

	2004	2003
	(In thousands)	
Audit Fees(a)	\$12,733	\$ 6,343
Audit-Related Fees(b)	302	3,901
Tax(c)	292	286
All Other	0	0
 Total	 \$13,327	 \$10,530

(a) Includes services performed in connection with financing transactions

(b) Includes benefit plan and other non-statutory audit services and accounting consultations in both 2004 and 2003, as well as internal control review services in 2003

(c) Includes review services in connection with the consolidated federal tax return, tax compliance services in connection with the benefit plans and licensing and training costs

The Audit Committee has adopted a Policy on Engagement of the Independent Auditor for Audit and Non-Audit Services (see Appendix B) that includes requirements for the Audit Committee to pre-approve services provided by Deloitte & Touche. This policy was initially adopted in July 2002 and since that time, all services included in the chart above have been pre-approved by the Audit Committee.

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**Compensation and Management Succession
Committee Report**

The Compensation and Management Succession Committee of the Board is responsible for the oversight and administration of the Company's executive compensation program. The Committee also administers the Company's stock option program and reviews all system-wide compensation and benefit programs. The Committee is composed entirely of independent directors and operates pursuant to a written charter.

TOTAL EXECUTIVE COMPENSATION

Executive Compensation Philosophy

The Company's executive compensation program is based on a philosophy that total executive compensation must be competitive and must be tied to the Company's short- and long-term performance. With the objective of maximizing stockholder value over time, our program aligns the interests of our executives and stockholders.

Determination of Total Executive Compensation

We retain an independent executive compensation consultant who provides information on total executive compensation paid at other large companies in the electric and gas utility industries. We review size-adjusted compensation data from electric and gas utilities having above \$2 billion in annual revenues from several sources, and general industry data if utility data is unavailable. Most of the utility companies used are included in the 20 companies that comprise the S&P Electric Utility Index—the peer group used in the five-year performance graph. Based on the market data, total executive compensation targets are set at an appropriate size-adjusted level. This means that for target-level performance, our program is designed to pay executives an amount that is at or near the median of the market. Total executive compensation is paid through an appropriate mix of both fixed and performance-based (incentive) compensation. Because our program focuses on incentive compensation, actual total compensation paid can be above or below the targets based on actual corporate performance.

Components of Total Executive Compensation

The primary components of our executive compensation program are:

- n Base pay (salary);

- n Short-term incentives (annual performance bonuses); and

- n Long-term incentives (stock options and performance-based dividend equivalents).

The Company also provides certain perquisites to its executive officers that we review periodically to determine if they are reasonable and appropriate. The primary perquisites provided by the Company are financial planning services, club memberships (for business use) and home security.

BASE PAY

A range for base pay was determined for each executive officer, including Messrs. Franklin and Ratcliffe, by comparing the base pay at the appropriate peer group of companies described previously. The 2004 base pay level did not exceed the median by more than 10 percent for any of the named executive officers.

ANNUAL PERFORMANCE BONUSES

Annual bonuses are paid through the Omnibus Incentive Compensation Plan. All executive officers participated in this plan in 2004.

Table of Contents**Performance Goals**

Annual performance bonuses are based on the attainment of corporate performance goals and attainment of the respective business unit's adjusting goals. All performance goals were set in the first quarter of the year.

For 2004, the corporate performance goals included specific targets for:

n Company earnings earnings per share (EPS) and

n Subsidiary companies net income or return on equity

We believe that accomplishing the corporate goals is essential for the Company's continued success and sustained financial performance. A target performance level is set for each corporate performance goal. Performance above or below the targets results in proportionately higher or lower bonus payments. The bonus amount is then adjusted, up or down, based on the degree of achievement of the respective business unit's adjusting goals related to such measures as capital expenditures, cash flow, customer service, plant availability, system reliability and diversity.

A target percentage of base pay is established for each executive officer based on his or her position level for target-level performance. Annual performance bonuses may range from zero percent of the target to 220 percent based on actual corporate and business unit performance with an additional 10 percent of base salary possible for exceptional individual performance.

No bonuses are paid if performance is below a threshold level or if a minimum earnings level is not reached. Also, no bonuses are paid if the Company's current earnings are not sufficient to fund the Company's common stock dividend at the same level as the prior year. We also capped the maximum amount for the annual performance bonus for each executive officer at 0.6 percent of the Company's net income.

Annual Bonus Payments

The target percentage of base pay for the executive officers, except the Chief Executive Officer (CEO), ranged from 50 to 75 percent. Corporate and business unit performance met or exceeded the target levels in all areas in 2004, resulting in bonuses that exceeded the target levels.

LONG-TERM INCENTIVES

A significant portion of our total compensation program is in the form of long-term incentives including Company stock options and performance dividend equivalents.

Stock Options

The executive officers are granted options with 10-year terms to purchase the Company's common stock at the market price on the date of the grant under the terms of the Omnibus Incentive Compensation Plan. The stock option value was approximately 20 percent of total target compensation for executive officers, other than for Messrs. Franklin and Ratcliffe. The size of prior grants was not considered in determining the size of the grants made in 2004. These options vest over a three-year period. The options fully vest upon retirement and expire at the earlier of five years from the date of retirement or the end of the 10-year term. Therefore, Mr. Franklin's options became fully vested on July 1, 2004, his retirement date.

Performance Dividends

All optionholders, including executive officers, can receive performance-based dividend equivalents on post-1996 stock options held at the end of the year. Dividend equivalents can range from 25 percent of the Company's common stock dividend paid during the year if total stockholder return over a four-year period, compared to a group of other utility companies, is at the 30th percentile to 100 percent of the dividend paid if it reaches the 90th percentile. No dividend equivalents are paid if total stockholder return over the period is below the 30th percentile or if the Company's earnings are not sufficient to fund the current common stock dividend. For eligible stock options held on December 31, 2004, all participants, including the named executives, received a payout of \$1.22 per option, reflecting four-year total stockholder return that was one of the highest in the peer group.

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CHIEF EXECUTIVE OFFICER COMPENSATION

The committee meets without the presence of the CEO or other Company personnel to evaluate the CEO's performance as compared with previously established financial and nonfinancial goals. The committee also meets privately with its consultant who provides independent recommendations for total target compensation for the CEO. It reviews comprehensive market data developed by its independent consultant each year.

During 2004, the Committee reviewed the CEO's pay package with the entire Board, including total target compensation, cumulative accrued interest on deferred compensation, lump sum value of pension benefits, possible cost of change-in-control benefits and all perquisites.

Mr. Franklin served as CEO until his retirement on July 1, 2004. Mr. Ratcliffe served as CEO of Georgia Power Company and Executive Vice President of the Company from January 1, 2004 until April 1, 2004 when he was elected President of the Company. Upon Mr. Franklin's retirement, Mr. Ratcliffe became CEO of the Company. Messrs. Franklin and Ratcliffe each had a total target compensation that was determined in the same manner as that of the other executive officers of the Company and consists of the same components: Base Pay, Short-Term Incentive and Long-Term Incentives consisting of stock options and performance-based dividend equivalents as described above.

Total Compensation Target

Using the market data described above, the Committee established a 2004 total compensation target for Mr. Franklin for target-level performance of approximately \$5.8 million, which was 10 percent below the median of the market. For Mr. Ratcliffe, his annualized total target compensation as Company CEO was set at approximately \$5.7 million. (However, his actual total target compensation established for 2004 was lower because he did not serve as CEO for the entire year.)

Base Pay

The base pay levels for Messrs. Franklin and Ratcliffe were \$1,000,000 and \$925,000, per year, respectively, which were below the size-adjusted market median. (Because base pay changes generally are effective March 1, the salary paid in 2004, as shown in the Summary Compensation Table on page 23, is lower. For Mr. Ratcliffe, the base pay was effective July 1, 2004, the date he became CEO.)

Annual Bonus Payment

Mr. Franklin's target annual performance bonus under the Plan, to be paid for target-level performance, was 100 percent of his base pay. His actual bonus for 2004 performance was based on the degree of achievement of the Company's EPS goal. The bonus amount was adjusted as described above. Based on the Company's performance, Mr. Franklin was paid a bonus, as prorated based on the number of months before his retirement that was 214 percent of his target award opportunity. Mr. Ratcliffe's annual performance bonus for target-level performance was 75 percent of base pay until July 1, 2004 and 100 percent thereafter. Mr. Ratcliffe was paid a bonus that was 212 percent of his target award opportunity, including the portion of the year that he served as CEO of Georgia Power Company.

Stock Options

For Messrs. Franklin and Ratcliffe, the estimated annualized value of the grants made in 2004 in establishing total target compensation was approximately 40 percent of their respective total target compensation.

Performance Dividends

In establishing the total compensation target, the Committee considers the present value of the performance-based dividend equivalents associated with the current year's stock option grant. For 2004, that target value for Messrs. Franklin and Ratcliffe was approximately \$1.5 million which represented over 25 percent of total target compensation.

OTHER COMPENSATION

The Company maintains a Deferred Compensation Plan for eligible employees, including the executive officers. Participation is voluntary and permits deferral of up to 50 percent of salary and up to 100 percent of bonus awards. Except

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for certain prescribed hardship conditions, all amounts are deferred until termination of employment with the Company. A participant has two investment options under the Plan a prime-rate investment option and an option that tracks the performance of Southern Company common stock, neither of which produce above-market earnings. This is an unfunded plan and all amounts deferred are payable out of the general assets of the Company. The Committee has reviewed the terms of this plan. The Committee does not consider earnings on deferred compensation in establishing total compensation targets.

The Company also maintains additional non-qualified deferred compensation plans and arrangements that provide post-retirement compensation. The text under the Pension Plan Table on page 27 discusses the supplemental pension arrangements for the executive officers. The Committee reviews the supplemental pension arrangements of the executive officers as well as other benefit programs that are generally available to all employees of the Company.

POLICY ON INCOME TAX DEDUCTIBILITY OF EXECUTIVE COMPENSATION

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) limits the deductibility of certain executives compensation that exceeds \$1 million per year unless the compensation is paid under a performance-based plan as defined in the Code and that has been approved by stockholders. The Company has obtained stockholder approval of the Omnibus Incentive Compensation Plan. However, because our policy is to maximize long-term stockholder value, tax deductibility is only one factor considered in setting compensation.

SUMMARY

We believe that the policies and programs described in this report link pay and corporate performance and serve the best interests of stockholders. We frequently review the various pay plans and policies and modify them as we deem necessary to attract, retain and motivate talented executives.

Members of the Committee:

Gerald J. St. Pé, Chair

Daniel P. Amos

Thomas F. Chapman

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company s Compensation and Management Succession Committee is made up of non-employee directors who have never served as officers of, or been employed by, the Company. None of the Company s executive officers serve on a board of directors of any entity that has a director or officer serving on this Committee.

Table of Contents**Five-Year Performance Graph**

This performance graph compares the cumulative total stockholder return on the Company's common stock with the Standard & Poor's Electric Utility Index and the Standard & Poor's 500 Index for the past five years. The graph assumes that \$100 was invested on December 31, 1999, in the Company's common stock and each of the above indices, and that all dividends are reinvested. The distribution of shares of Mirant Corporation stock to Company stockholders effective April 2, 2001, is treated as a special dividend for purposes of calculating stockholder return. The stockholder return shown below for the five-year historical period may not be indicative of future performance.

	1999	2000	2001	2002	2003	2004
Southern Company	\$ 100	\$ 148.75	\$ 196.64	\$ 231.30	\$ 258.26	\$ 300.00
S & P Electric Utility Index	100	153.84	128.03	108.74	134.94	170.78
S & P 500 Index	100	90.90	80.09	62.39	80.29	89.03

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Other Information

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

No reporting person failed to file, on a timely basis, the reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended, except Mr. Michael D. Garrett who reported three transactions on one Form 4, late.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2004, subsidiaries of the Company purchased products and services in the amount of: \$1,125,506 from Equifax, Inc.; \$796,748 from The Home Depot; and \$282,825 from Vulcan Materials Company. Mr. Thomas F. Chapman, a director of the Company, is chairman and chief executive officer of Equifax, Inc.; Francis S. Blake, a director of the Company, is executive vice president of The Home Depot; and Donald M. James, a director of the Company, is chairman and chief executive officer of Vulcan Materials Company. These amounts are less than one-tenth of one percent of the 2004 revenues of the respective companies and are significantly below the threshold for disclosure under SEC rules, which is five percent of the gross revenues of either Southern Company or the other organization.

During 2004, Mr. Jeffrey G. Franklin, son of Allen Franklin, a former director and executive officer of the Company; Ms. Iris Franklin, daughter-in-law of Allen Franklin; Mr. David M. Huddleston, son-in-law of Michael D. Garrett, an executive officer of the Company; and Mr. James R. Beasley, son of Bernie Beasley, an executive officer of the Company, were employed by subsidiaries of the Company. Mr. Jeffrey Franklin was employed by Alabama Power Company as an Assistant to Executive Vice President. His compensation in 2004 was \$171,225. Ms. Franklin was employed by Alabama Power Company as a Market Specialist and received compensation in 2004 of \$83,571. Mr. Huddleston was employed by Alabama Power Company as an Engineering Supervisor and received compensation in 2004 of \$117,187. Mr. James Beasley was employed by Southern Nuclear Operating Company as an Engineer and received compensation in 2004 of \$66,156.

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Executive Compensation

EMPLOYMENT, CHANGE IN CONTROL AND SEPARATION AGREEMENTS

The Company has Change in Control Agreements with each of its executive officers shown on the Summary Compensation Table on page 23, except Mr. Franklin who retired on July 1, 2004. If an executive officer is involuntarily terminated, other than for cause, within two years following a change in control of the Company, the Agreements provide for:

- n lump sum payment of three times annual compensation,
 - n up to five years of coverage under group health and life insurance plans,
 - n immediate vesting of all stock options previously granted,
 - n payment of any accrued long-term and short-term bonuses and dividend equivalents, and
 - n 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:
- n an acquisition of at least 20 percent of the Company's stock,
 - n a change in the majority of the members of the Company's Board of Directors in connection with an actual or threatened change in control,
 - n a merger or other business combination that results in the Company's stockholders immediately before the merger owning less than 65 percent of the voting power after the merger, or
 - n a sale of substantially all the assets of the Company.

If a change in control affects only a subsidiary of the Company, these payments would only be made to executives of the affected subsidiary who are involuntarily terminated as a result of that change in control.

The Company's Omnibus Incentive Compensation Plan provides for pro-rata payments at not less than target-level performance if a change in control occurs and the plan is not continued or replaced with a comparable plan or plans. On February 22, 2002, Southern Company Services, Inc., Savannah Electric and Power Company and Gulf Power Company entered into an Amended and Restated Supplemental Pension Agreement with Mr. G. Edison Holland, Jr. that provides for a monthly payment to him after his retirement equal to the difference between the amount he will receive under the Southern Company Pension Plan and Supplemental Executive Retirement Plan and the amount he would receive under those plans had he been employed by subsidiaries of the Company an additional 12 years.

Table of Contents**Summary Compensation Table**

This table shows information concerning the Company's chief executive officers serving during 2004 and each of the other four most highly compensated executive officers of the Company serving during 2004.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(2)	Number of Securities Underlying Stock Options (#)	Long-Term Incentive Plan Payouts (\$)(3)	All Other Compensation (\$)(4)
H. Allen Franklin(1) Retired Chairman & CEO Southern Company	2004	525,662	1,034,918	17,010	519,115	2,319,320	125,905
	2003	966,240	2,083,162	5,940	501,935	2,404,720	59,881
	2002	929,215	1,984,320	7,080	382,242	1,672,510	61,822
David M. Ratcliffe Chairman, President & CEO Southern Company	2004	802,372	1,723,874	6,521	355,296	838,495	39,317
	2003	606,558	927,416	3,537	83,780	459,813	33,309
	2002	573,018	865,767	4,550	92,521	522,736	26,000
Thomas A. Fanning(5) Executive Vice President, CFO & Treasurer Southern Company	2004	506,327	770,721	561	63,215	239,155	24,977
	2003	375,820	522,369	110,691	42,314	223,482	156,405
	2002						
Michael D. Garrett(6) President & CEO Georgia Power Company	2004	498,323	764,123	161,355	53,419	231,474	122,563
	2003						
	2002						
G. Edison Holland, Jr. Executive Vice President & General Counsel Southern Company	2004	478,642	525,042	7,629	58,072	239,852	24,563
	2003	380,716	421,131	7,796	48,992	207,170	19,583
	2002	364,868	416,003	69,102	54,624	219,677	90,046
Charles D. McCrary President & CEO Alabama Power Company	2004	551,989	648,749	8,205	71,424	384,772	29,685
	2003	521,649	694,948	9,111	72,054	483,081	26,180
	2002	493,604	673,140	34,993	79,751	374,984	24,101

(1) Mr. Franklin retired as Chairman and CEO of the Company on July 1, 2004.

(2)

Tax reimbursement on certain perquisites. For Mr. Garrett, also includes the cost of perquisites and personal benefits including \$60,000 for club dues.

- (3) Payout of performance dividend equivalents on stock options granted after 1996, that were held by the executive at the end of the performance periods under the Omnibus Incentive Compensation Plan for the four-year performance periods ended December 31, 2002, 2003, and 2004, respectively. Dividend equivalents can range from 25 percent of the common stock dividend paid during the last year of the performance period if total shareholder return over the four-year period, compared to a group of other large utility companies, is at the 30th percentile to 100 percent of the dividend paid if it reaches the 90th percentile. If the total shareholder return is below the 30th percentile, no dividend equivalents are paid. For eligible stock options held on December 31, 2002, 2003, and 2004 all named executives received a payout of \$1.355, \$1.385 and \$1.22 per option, respectively.

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(4) Company contributions in 2004 to the Employee Savings Plan and Employee Stock Ownership Plan and non-pension related accruals under the Supplemental Benefit Plan.

	ESP(\$)	ESOP(\$)	SBP(\$)
H. Allen Franklin	8,634	740	31,916
David M. Ratcliffe	8,567	740	30,010
Thomas A. Fanning	8,309	740	15,928
Michael D. Garrett	9,225	740	15,900
G. Edison Holland, Jr.	8,333	740	15,490
Charles D. McCrary	7,454	740	21,491

For Mr. Franklin, also includes payment for unused vacation of \$84,615 in connection with his retirement. For Mr. Garrett, also includes additional relocation assistance of \$71,698 and additional incentive compensation of \$25,000.

(5) Mr. Fanning first became an executive officer of the Company on April 11, 2003.

(6) Mr. Garrett first became an executive officer of the Company on April 1, 2004.

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Table of Contents**Stock Options****OPTION GRANTS IN 2004**

Name	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year(2)	Exercise or Base Price (\$/Sh)(1)	Expiration Date(1)	Grant Date Present Value \$(3)
H. Allen Franklin	519,115	7.2	29.50	7/01/2009	1,707,888
David M. Ratcliffe	82,265	1.1	29.50	2/13/2014	270,652
	273,031	3.8	29.32	8/02/2014	911,924
Thomas A. Fanning	63,215	0.9	29.50	2/13/2014	207,977
Michael D. Garrett	53,419	0.7	29.50	2/13/2014	175,749
G. Edison Holland, Jr.	58,072	0.8	29.50	2/13/2014	191,057
Charles D. McCrary	71,424	1.0	29.50	2/13/2014	234,985

(1) Stock option grants were made on February 13, 2004, and for Mr. Ratcliffe, also on August 2, 2004, following his promotion to CEO. The options vest annually at a rate of one-third on the anniversary date of the grant. Grants fully vest upon termination as a result of death, total disability, or retirement and expire five years after retirement, three years after death or total disability, or their normal expiration date if earlier. Exercise price is the average of the high and low price of the Company's common stock on the date granted. Options may be transferred to a revocable trust and, for the named executives, also may be transferred to certain family members, family trusts, and family limited partnerships.

(2) A total of 7,231,703 stock options were granted in 2004.

(3) Value was calculated using the Black-Scholes option valuation model. The actual value, if any, ultimately realized depends on the return market value of the Company's common stock at a future date. Significant assumptions for the February 13, 2004 grant are shown below:

Volatility	Risk-free Rate of Return	Dividend Yield	Expected Term
19.65%	3.08%	4.75%	5 years

The assumptions for the August 2, 2004 grant to Mr. Ratcliffe were:

Volatility	Risk-free Rate of Return	Dividend Yield	Expected Term
19.00%	3.75%	4.88%	5 years

Table of Contents**Option Exercises****AGGREGATED OPTION EXERCISES IN 2004 AND YEAR-END OPTION VALUES**

Number of	Value	Number of Securities Underlying Unexercised Options at Year-End (#)	Value of Unexercised In-the-Money Options at Year-End (\$) (2)
<u>ETF Stock Issuer</u>		<u>Percentage (%)</u>	
NESTLE SA		2.03%	
NOVARTIS AG		1.48%	
ROCHE HOLDING PAR AG		1.39%	
HSBC HOLDINGS PLC		1.27%	
TOYOTA MOTOR CORP		1.07%	
ROYAL DUTCH SHELL PLC		1.05%	
TOTAL SA		1.01%	
BP PLC		1.00%	
ROYAL DUTCH SHELL PLC CLASS B		0.86%	
SANOFI SA		0.78%	
Total		11.94%	

iShares® MSCI EAFE ETF Weighting by Sector as of December 12, 2018*

<u>Sector</u>	<u>Percentage (%)</u>
Financials	19.17%
Consumer Discretionary	11.14%
Industrials	14.11%
Consumer Staples	11.54%
Health Care	11.42%
Materials	7.24%
Information Technology	5.98%
Communication	5.55%
Energy	5.82%
Real Estate	3.67%
Utilities	3.66%
Cash and/or Derivatives	0.70%
Total	100.00%

* Percentages may not sum to 100% due to rounding.

The Global Industry Classification Structure, which MSCI utilizes to classify the constituents of the MSCI EAFE Index, was updated in September 2018. Please see “ The MSCI EAFE Index” below for additional information about these updates.

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iShares® MSCI EAFE ETF Weighting by Country as of December 12, 2018*

<u>Country</u>	<u>Percentage (%)</u>
Japan	24.33%
United Kingdom	17.00%
France	10.98%
Germany	8.76%
Switzerland	8.70%
Australia	6.86%
Hong Kong	3.75%
Netherlands	3.46%
Spain	3.05%
Sweden	2.67%
Italy	2.23%
Denmark	1.74%
Singapore	1.33%
Finland	1.04%
Cash and/or Derivatives	0.70%
Other	3.42%
Total	100.02%

* Percentages may not sum to 100% due to rounding.

Representative Sampling

BFA uses a representative sampling indexing strategy to manage the ETF. This strategy involves investing in a representative sample of securities that collectively has an investment profile similar to that of the underlying index.

The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of the underlying index.

The ETF generally invests at least 90% of its assets in the securities of the underlying index and in depositary receipts representing securities of the underlying index. The ETF may invest the remainder of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates, as well as in securities not included in the underlying index, but which BFA believes will help the ETF track the underlying index. Also, the ETF may lend securities representing up to one-third of the value of the ETF's total assets (including the value of the collateral received).

Tracking Error

The performance of the ETF and the underlying index may vary due to a variety of factors, including differences between the securities and other instruments held in the ETF's portfolio and those included in the underlying index, pricing differences (including differences between a security's price at the local market close and the ETF's valuation of a security at the time of calculation of the ETF's net asset value), differences in transaction costs, the ETF's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the underlying index or the costs to the ETF of complying with various new or existing regulatory requirements. Tracking error also may result because the ETF incurs fees and expenses, while the underlying index does not. BFA expects that, over time, the ETF's tracking error will not exceed 5%. The ETF's use of a representative sampling indexing strategy can be expected to produce a larger tracking error than would result if the ETF used a replication indexing strategy in which an ETF invests in substantially all of the securities in its index in approximately the same proportions as in the underlying index.

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As of November 30, 2018, iShares® reported the following average annual returns on the market price of the ETF's shares and the MSCI EAFE Index. The market price of the ETF's shares takes into account distributions on the shares and the returns shown account for changes in the mid-point of the bid and ask prices at 4:00 p.m., Eastern time on the relevant date. ETF shares: 1 year, -7.68%; 3 years, 4.09%; 5 years, 1.84%; 10 years, 7.38%; since inception, 4.85%; index: 1 year, -7.94%; 3 years, 4.12%; 5 years, 1.84%; 10 years, 7.47%; since ETF inception, 4.90%.

Industry Concentration Policy

The ETF will concentrate its investments (i.e., hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the underlying index is concentrated.

The MSCI EAFE Index

The MSCI EAFE Index (the underlying index) is a stock index calculated, published and disseminated daily by MSCI Inc., which we refer to as "MSCI", through numerous data vendors, on the MSCI website and in real time on Bloomberg Financial Markets and Reuters Limited.

Net Total Return Methodology

The ETF tracks the net total return version of the underlying index. A net total return index represents the total return earned in a portfolio that tracks the price return version of the index and reinvests dividend income, net of certain withholding taxes, in the overall index, not in the specific stock paying the dividend. The difference between the price return calculation and the net total return calculation of an index is that, with respect to the price return calculation, changes in the index level reflect changes in stock prices, whereas with respect to the net total return calculation of the index, changes in the index level reflect both movements in stock prices and the reinvestment of dividend income net of certain withholding taxes.

MSCI's net total return methodology reinvests net cash dividends in the index the day the security is quoted ex-dividend, or on the ex-date (converted to U.S. dollars, as applicable). Certain dividends, including special/extraordinary dividends and commemorative dividends, are reinvested in the index if, a day prior to the ex-date, the dividend impact on price is less than 5%. If the impact is 5% or more, the dividend will be reflected in the index through a price adjustment. A specific price adjustment is always applied for stock dividends that are issued at no cost to the shareholders, an extraordinary capital repayment or a dividend paid in the shares of another company. Cash payments related to corporate events, such as mergers and acquisitions, are considered on a case-by-case basis.

Notwithstanding the ETF's investment objective, the return on your notes will not reflect any dividends paid on the ETF shares, on the securities purchased by the ETF or on the securities that comprise the underlying index.

MSCI divides the companies included in the index into eleven Global Industry Classification Sectors: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate and Utilities. As of the close of business on September 21, 2018, MSCI and S&P Dow Jones Indices LLC updated the Global Industry Classification Sector structure. Among other things, the update broadened the Telecommunications Services sector and renamed it the Communication Services sector. The renamed sector includes the previously existing Telecommunication Services Industry group, as well as the Media Industry group, which was moved from the Consumer Discretionary sector and renamed the Media & Entertainment Industry group. The Media & Entertainment Industry group contains three industries: Media, Entertainment and Interactive Media & Services. The Media industry continues to consist of the Advertising, Broadcasting, Cable & Satellite and Publishing sub-industries. The Entertainment industry contains the Movies & Entertainment sub-industry (which includes online entertainment streaming companies in addition to companies previously classified in such industry prior to September 21, 2018) and the Interactive Home Entertainment sub-industry (which includes companies previously classified in the Home Entertainment Software sub-industry prior to September 21, 2018 (when the Home Entertainment Software sub-industry was a sub-industry in the Information Technology sector)), as well as producers of interactive gaming products, including mobile gaming applications). The Interactive Media & Services industry and sub-industry includes companies engaged in content and information creation or distribution through proprietary platforms, where revenues are derived primarily through pay-per-click advertisements, and includes search engines, social media and networking platforms, online classifieds and online review companies. The Global Classification

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structure changes are effective for the MSCI EAFE Index as of the open of business on December 3, 2018 to coincide with the November 2018 semi-annual index review.

The above information supplements the description of the underlying index found in the accompanying general terms supplement no. 1,734. For more details about the underlying index, the underlying index sponsor and license agreement between the underlying index sponsor and the issuer, see “The Underliers — MSCI Indices” on page S-46 of the accompanying general terms supplement no. 1,734. Additional information about the underlying index is available on the following website: msci.com/index-methodology. We are not incorporating by reference the website or any material it includes in this pricing supplement.

iShares® is a registered trademark of BlackRock Institutional Trust Company, N.A. (“BITC”). The securities are not sponsored, endorsed, sold, or promoted by BITC. BITC makes no representations or warranties to the owners of the securities or any member of the public regarding the advisability of investing in the securities. BITC has no obligation or liability in connection with the operation, marketing, trading or sale of the securities.

The MSCI indices are the exclusive property of MSCI Inc. (“MSCI”). MSCI and the MSCI index names are service mark(s) of MSCI or its affiliates and are licensed for use for certain purposes by GS Finance Corp. and its affiliates. These securities, based on such index, have not been passed on by MSCI as to their legality or suitability, and are not issued, sponsored, endorsed, sold or promoted by MSCI, and MSCI bears no liability with respect to any such securities. No purchaser, seller or holder of the securities, or any other person or entity, should use or refer to any MSCI trade name, trademark or service mark to sponsor, endorse, market or promote the securities without first contacting MSCI to determine whether MSCI’s permission is required. Under no circumstances may any person or entity claim any affiliation with MSCI without the prior written permission of MSCI. The general terms supplement contains a more detailed description of the limited relationship MSCI has with GS Finance Corp. and any related securities.

The Russell 2000® Index

The Russell 2000® Index measures the composite price performance of stocks of 2,000 companies incorporated in the U.S., its territories and certain “benefit-driven incorporation countries.”

As of December 20, 2018, the 2,000 companies included in the Russell 2000® Index were divided into nine Russell Global Sectors. The Russell Global Sectors include (with the approximate percentage currently included in such sectors indicated in parentheses): Consumer Discretionary (14.69%), Consumer Staples (2.41%), Financial Services (24.02%), Health Care (13.66%), Materials & Processing (5.97%), Other Energy (3.45%), Producer Durables (13.27%), Technology (12.57%) and Utilities (4.96%). (Sector designations are determined by the underlier sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.)

In addition to the exclusions discussed under “Exclusions from the Russell 2000® Index” on page S-62 of the accompanying general terms supplement no. 1,734, a company with 5% or less of its voting rights in the hands of unrestricted shareholders is no longer eligible for inclusion in the Russell 2000® Index. Existing constituents of the Russell 2000® Index that do not currently have more than 5% of the company’s voting rights in the hands of unrestricted shareholders have until the September 2022 review to meet this requirement.

The above information supplements the description of the basket underlier found in the accompanying general terms supplement no. 1,734. This information was derived from information prepared by the underlier sponsor, however, the percentages we have listed above are approximate and may not match the information available on the underlier sponsor’s website due to subsequent corporate actions or other activity relating to a particular stock. For more details about the underlier, the underlier sponsor and license agreement between the underlier sponsor and the issuer, see “The Underliers — Russell 2000® Index” on page S-61 of the accompanying general terms supplement no. 1,734.

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The Russell 2000[®] Index is a trademark of Russell Investment Group (“Russell”) and has been licensed for use by GS Finance Corp. The securities are not sponsored, endorsed, sold or promoted by Russell, and Russell makes no representation regarding the advisability of investing in the securities.

Historical Closing Levels of the Basket Underliers

The respective closing level of the basket underliers have fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the level of any of the basket underliers during the period shown below is not an indication that the basket underliers are more or less likely to increase or decrease at any time during the life of your notes.

You should not take the historical levels of the basket or the basket underliers as an indication of the future performances of the basket underliers. We cannot give you any assurance that the future performance of the basket, basket underliers or the basket underlier stocks will result in your receiving an amount greater than the outstanding face amount of your notes on the stated maturity date.

Neither we nor any of our affiliates make any representation to you as to the performance of the basket or the basket underliers. Before investing in the offered notes, you should consult publicly available information to determine the level of the basket underliers between the date of this pricing supplement and the date of your purchase of the offered notes. The actual performance of the basket and the basket underliers over the life of the offered notes, as well as the cash settlement amount at maturity, may bear little relation to the historical levels shown below.

The graphs below show the daily historical closing levels of each basket underlier from December 27, 2008 through December 27, 2018. We obtained the closing levels in the graphs below from Bloomberg Financial Services, without independent verification. Although the official closing levels of the Russell 2000[®] Index are published to six decimal places by its underlier sponsor, Bloomberg Financial Services reports the levels of the Russell 2000[®] Index to fewer decimal places.

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Historical Basket Levels

The following graph is based on the basket closing level for the period from December 27, 2008 through December 27, 2018 assuming that the basket closing level was 100 on December 27, 2008. We derived the basket closing levels based on the method to calculate the basket closing level as described in this pricing supplement and on actual closing levels of the relevant basket underliers on the relevant date. The basket closing level has been normalized such that its hypothetical level on December 27, 2008 was 100. As noted in this pricing supplement, the initial basket level will be set at 100 on the trade date. The basket closing level can increase or decrease due to changes in the levels of the basket underliers.

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VALIDITY OF THE NOTES AND GUARANTEE

In the opinion of Sidley Austin llp, as counsel to GS Finance Corp. and The Goldman Sachs Group, Inc., when the notes offered by this pricing supplement have been executed and issued by GS Finance Corp., the related guarantee offered by this pricing supplement has been executed and issued by The Goldman Sachs Group, Inc., and such notes have been authenticated by the trustee pursuant to the indenture, and such notes and the guarantee have been delivered against payment as contemplated herein, (a) such notes will be valid and binding obligations of GS Finance Corp., enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above and (b) such related guarantee will be a valid and binding obligation of The Goldman Sachs Group, Inc., enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the laws of the State of New York and the General Corporation Law of the State of Delaware as in effect on the date hereof. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated July 10, 2017, which has been filed as Exhibit 5.6 to the registration statement on Form S-3 filed with the Securities and Exchange Commission by GS Finance Corp. and The Goldman Sachs Group, Inc. on July 10, 2017.

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We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this pricing supplement, the accompanying product supplement no. 1,738, the accompanying general terms supplement no. 1,734, the accompanying prospectus supplement or the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This pricing supplement, the accompanying product supplement no. 1,738, the accompanying general terms supplement no. 1,734, the accompanying prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this pricing supplement, the accompanying product supplement no. 1,738, the accompanying general terms supplement no. 1,734, the accompanying prospectus supplement and the accompanying prospectus is current only as of the respective dates of such documents.

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GS Finance Corp.
Leveraged Buffered Basket-Linked Notes
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Group, Inc.

Goldman Sachs & Co. LLC