SEABOARD CORP /DE/
Form 8-K
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) August 12, 2009

Seaboard Corporation
(Exact name of registrant as specified in its charter)

Delaware	1-3390	04-2260388
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

9000 W. 67th Street, Shawnee Mission, Kansas	66202
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (913) 676-8800

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On August 12, 2009, Registrant issued a press release announcing earnings for the quarter ended July 4, 2009. The full text of this press release is included as exhibit 99.1 to this Current Report on Form 8-K.

In accordance with General Instruction B.2 of Form 8-K, the information furnished pursuant to Item 2.02, and the related press release included as exhibit 99.1 to this Current Report, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The information furnished pursuant to Item 2.02, and such exhibit, shall not be deemed an admission as to the materiality of any information in this report on Form 8-K that is required to be disclosed solely to satisfy the requirements of Regulation FD.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

Registrant hereby furnishes the following exhibit pursuant to Item 2.02:

99.1 Press release of Seaboard Corporation dated August 12, 2009 announcing earnings for the quarter ended July 4, 2009.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: August 12, 2009

Seaboard Corporation

by: /s/ Robert L. Steer
Robert L. Steer, Senior Vice President,
Chief Financial Officer

IZE="2"> captured from the Kemper IGCC.

On June 7, 2011, consistent with the treatment of non-capital costs incurred during the pre-construction period, the Mississippi PSC granted the Company the authority to defer all non-capital Kemper IGCC-related costs to a regulatory asset during the construction period. This includes deferred costs associated with the generation resource planning, evaluation, and screening activities for the Kemper IGCC. The amortization period for the regulatory asset will be determined by the Mississippi PSC at a later date. In addition, the Company is authorized to accrue carrying costs on the unamortized balance of such regulatory assets at a rate and in a manner to be determined by the Mississippi PSC in future cost recovery mechanism proceedings.

On September 9, 2011, the Company filed a request for confirmation of the Kemper IGCC s CPCN with the Mississippi PSC authorizing the acquisition, construction, and operation of approximately 61 miles of CO_2 pipeline infrastructure at an estimated capital cost of $141 million. On January 11, 2012, the Mississippi PSC affirmed the confirmation of the Kemper IGCC s CPCN for the acquisition, construction, and operation of the CO_2 pipeline.

As of December 31, 2011, the Company had spent a total of $943.3 million on the Kemper IGCC, including regulatory filing costs. Of this total, $917.8 million was included in CWIP (which is net of $245.3 million of CCPI2 grant funds), $21.4 million was recorded in other regulatory assets, $3.1 million was recorded in other deferred charges and assets, and $1.0 million was previously expensed.

See PSC Matters Certificated New Plant herein for information on the proposed rate schedules related to the Kemper IGCC.

The ultimate outcome of these matters cannot be determined at this time.

Other Matters

In 2008, the Company received notice of termination from SMEPA of an approximately 100 MW territorial wholesale market-based contract effective March 31, 2011 which resulted in a decrease in annual base revenues of approximately $12 million. Later in 2008, the Company entered into a 10-year power supply agreement with SMEPA for approximately 152 MWs. This contract was effective April 1, 2011. This contract increased the Company s annual wholesale base revenues by approximately $16.1 million. In September 2010, SMEPA executed a 10-year Network Integration Transmission Service Agreement with Southern Company. Service began on April 1, 2011. The estimated Open Access Transmission Tariff revenue over the life of the contract is approximately $39.3 million with the Company s share being $29.3 million.

The Company is involved in various other matters being litigated and regulatory matters that could affect future earnings. In addition, the Company is subject to certain claims and legal actions arising in the ordinary course of business. The Company s business activities are subject to extensive governmental regulation related to public health and the environment, such as regulation of air emissions and water discharges. Litigation over environmental issues and claims of various types, including property damage, personal injury, common law nuisance, and citizen enforcement of environmental requirements such as air quality and water standards, has increased generally throughout the U.S. In particular, personal injury and other claims for damages caused by alleged exposure to hazardous materials, and common law nuisance claims for injunctive relief and property damage allegedly caused by greenhouse gas and other emissions, have become more frequent. The ultimate outcome of such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein or in Note 3 to the financial statements, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on the Company s financial statements. See Note 3 to the financial statements for a discussion of various other contingencies, regulatory matters, and other matters being litigated which may affect future earnings potential.

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ACCOUNTING POLICIES

Application of Critical Accounting Policies and Estimates

The Company prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Significant accounting policies are described in Note 1 to the financial statements. In the application of these policies, certain estimates are made that may have a material impact on the Company s results of operations and related disclosures. Different assumptions and measurements could produce estimates that are significantly different from those recorded in the financial statements. Senior management has reviewed and discussed the following critical accounting policies and estimates with the Audit Committee of Southern Company s Board of Directors.

Electric Utility Regulation

The Company is subject to retail regulation by the Mississippi PSC and wholesale regulation by the FERC. These regulatory agencies set the rates the Company is permitted to charge customers based on allowable costs. As a result, the Company applies accounting standards which require the financial statements to reflect the effects of rate regulation. Through the ratemaking process, the regulators may require the inclusion of costs or revenues in periods different than when they would be recognized by a non-regulated company. This treatment may result in the deferral of expenses and the recording of related regulatory assets based on anticipated future recovery through rates or the deferral of gains or creation of liabilities and the recording of related regulatory liabilities. The application of the accounting standards has a further effect on the Company s financial statements as a result of the estimates of allowable costs used in the ratemaking process. These estimates may differ from those actually incurred by the Company; therefore, the accounting estimates inherent in specific costs such as depreciation and pension and postretirement benefits have less of a direct impact on the Company s results of operations and financial condition than they would on a non-regulated company.

As reflected in Note 1 to the financial statements, significant regulatory assets and liabilities have been recorded. Management reviews the ultimate recoverability of these regulatory assets and liabilities based on applicable regulatory guidelines and GAAP. However, adverse legislative, judicial, or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could adversely impact the Company s financial statements.

Contingent Obligations

The Company is subject to a number of federal and state laws and regulations, as well as other factors and conditions that subject it to environmental, litigation, income tax, and other risks. See FUTURE EARNINGS POTENTIAL herein and Note 3 to the financial statements for more information regarding certain of these contingencies. The Company periodically evaluates its exposure to such risks and, in accordance with GAAP, records reserves for those matters where a non-tax-related loss is considered probable and reasonably estimable and records a tax asset or liability if it is more likely than not that a tax position will be sustained. The adequacy of reserves can be significantly affected by external events or conditions that can be unpredictable; thus, the ultimate outcome of such matters could materially affect the Company s financial statements.

Unbilled Revenues

Revenues related to the retail sale of electricity are recorded when electricity is delivered to customers. However, the determination of KWH sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers, but not yet metered and billed, are estimated. Components of the unbilled revenue estimates include total KWH territorial supply, total KWH billed, estimated total electricity lost in delivery, and customer usage. These components can fluctuate as a result of a number of factors including weather, generation patterns, power delivery volume, and other operational constraints. These factors can be unpredictable and can vary from historical trends. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Company s results of operations.

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Pension and Other Postretirement Benefits

The Company s calculation of pension and other postretirement benefits expense is dependent on a number of assumptions. These assumptions include discount rates, healthcare cost trend rates, expected long-term return on plan assets, mortality rates, expected salary and wage increases, and other factors. Components of pension and other postretirement benefits expense include interest and service cost on the pension and other postretirement benefit plans, expected return on plan assets, and amortization of certain unrecognized costs and obligations. Actual results that differ from the assumptions utilized are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Company believes that the assumptions used are appropriate, differences in actual experience or significant changes in assumptions would affect its pension and other postretirement benefits costs and obligations.

Key elements in determining the Company s pension and other postretirement benefit expense in accordance with GAAP are the expected long-term return on plan assets and the discount rate used to measure the benefit plan obligations and the periodic benefit plan expense for future periods. The expected long-term return on postretirement benefit plan assets is based on the Company s investment strategy, historical experience, and expectations for long-term rates of return that consider external actuarial advice. The Company determines the long-term return on plan assets by applying the long-term rate of expected returns on various asset classes to the Company s target asset allocation. The Company discounts the future cash flows related to its postretirement benefit plans using a single-point discount rate developed from the weighted average of market-observed yields for high quality fixed income securities with maturities that correspond to expected benefit payments.

A 25 basis point change in any significant assumption (discount rate, salaries, or long-term return on plan assets) would result in a $1.3 million or less change in total benefit expense and a $16.3 million or less change in projected obligations.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company s financial condition remained stable at December 31, 2011. The Company s cash requirements primarily consist of funding ongoing operations, common stock dividends, capital expenditures, and debt maturities. Capital expenditures and other investing activities include investments to meet projected long-term demand requirements, to comply with environmental regulations, and for restoration following major storms. Operating cash flows provide a substantial portion of the Company s cash needs. For the three-year period from 2012 through 2014, the Company s projected common stock dividends, capital expenditures, and debt maturities are expected to exceed operating cash flows. Projected capital expenditures in that period include investments to build new generation, to add environmental equipment for existing generating units, and to expand and improve transmission and distribution facilities. The Company plans to finance future cash needs in excess of its operating cash flows primarily through debt and equity issuances. The Company intends to continue to monitor its access to short-term and long-term capital markets as well as its bank credit arrangements to meet future capital and liquidity needs. See Sources of Capital, Financing Activities, and Capital Requirements and Contractual Obligations herein for additional information.

The Company s investments in the qualified pension plan remained stable in value as of December 31, 2011. No contributions to the qualified pension plan were made for the year ended December 31, 2011. No mandatory contributions to the qualified pension plan are anticipated for the year ending December 31, 2012.

Net cash provided from operating activities totaled $231.5 million in 2011 compared to $132.7 million in 2010. The $98.8 million increase in net cash provided from operating activities was primarily due to a $50.6 million decrease in the use of funds related to the Kemper IGCC generation construction screening costs incurred during the first five months of 2010. The Mississippi PSC issued an order in June 2010 approving the Kemper IGCC. Pension, postretirement, and other employee benefits increased by $38.1 million primarily due to a cash payment made in 2010 to fund the qualified pension plan, other accounts payable increased by $36.8 million, and deferred income taxes increased by $34.2 million primarily related to a long-term service agreement (LTSA), bonus depreciation, and fuel cost recovery. Prepaid income taxes increased $30.0 million primarily due to tax refunds related to 2010 investment tax credits received in 2011. These increases in cash provided from operating activities were partially offset by a $45.0 million decrease in over recovered regulatory clause revenues related to lower fuel rates in 2011 and

2010 and a decrease in fossil fuel stock of $42.9 million primarily due to increases in coal and coal in transit. Net cash provided from operating activities totaled $132.7 million in 2010 compared to $170.6 million for 2009. The $38.0 million decrease in net cash provided from operating activities was primarily due to a $42.9 million cash payment to fund the qualified pension plan, an increase in spending related to the Kemper IGCC generation construction screening costs of $19.9 million, and a decrease in cash received related to lower fuel rates effective in the first quarter 2010. These decreases in cash were partially offset by an increase in deferred income taxes of $77.4 million primarily related to a LTSA, bonus depreciation, and an increase in investment tax credits of $22.2 million related to the Kemper IGCC.

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Net cash used for investing activities totaled $682.7 million for 2011 compared to $254.4 million for 2010. The $428.3 million increase was primarily due to an increase in property additions of $717.2 million primarily related to the Kemper IGCC and an increase in plant acquisition of $84.8 million due to the cash payment associated with the purchase of Plant Daniel Units 3 and 4. These increases in cash used for investing activities were partially offset by a construction payable increase of $63.3 million, a $100.0 million change in restricted cash associated with the second series revenue bonds issued in December 2010, and an increase of $208.8 million in capital grant proceeds received primarily related to CCPI2 and Smart Grid Investment grants. Net cash used for investing activities totaled $254.4 million for 2010 compared to $119.4 million for 2009. The $135.0 million increase was primarily due to an increase in property additions of $145.0 million primarily related to the Kemper IGCC and an increase in investment in restricted cash of $50.0 million, partially offset by capital grant proceeds of $23.7 million related to CCPI2 and the Smart Grid Investment grant and $33.8 million in construction payables. See FUTURE EARNINGS POTENTIAL Integrated Coal Gasification Combined Cycle herein for additional information.

Net cash provided from financing activities totaled $502.0 million in 2011 compared to $217.5 million in 2010. The $284.5 million increase in net cash provided from financing activities was primarily due to a $234.1 million increase in capital contributions from Southern Company, a $190.0 million increase in long-term debt, and a $130 million redemption of long-term debt. Net cash provided from financing activities totaled $217.5 million in 2010 compared to net cash used for financing activities of $8.6 million in 2009. The $226.1 million increase was primarily due to a $100.0 million increase in long-term debt at December 31, 2010, a $60.6 million increase in capital contributions from Southern Company, and a $40.0 million redemption of long-term debt in the third quarter 2009.

Significant changes in the balance sheet as of December 31, 2011 compared to 2010 include an increase in total property, plant, and equipment of $1.1 billion primarily due to the increase in construction work in progress related to the Kemper IGCC and an increase in plant in service related to the purchase of Plant Daniel Units 3 and 4. Other accounts payable increased $109.0 million primarily due to increases in construction projects. Long-term debt increased $641.6 million primarily due to the assumption of $270.0 million taxable revenue bonds in October 2011 and the issuance of $300.0 million of senior notes in October 2011. Accumulated deferred investment tax credits increased $76.1 million primarily related to the Kemper IGCC. Common stockholder s equity increased $311.8 million primarily due to the increase in paid-in capital due to $300.0 million in capital contributions from Southern Company in 2011.

The Company s ratio of common equity to total capitalization, excluding long-term debt due within one year, decreased from 59.8% in 2010 to 48.0% at December 31, 2011.

Sources of Capital

Except as described below with respect to potential DOE loan guarantees, the Company plans to obtain the funds required for construction and other purposes from sources similar to those used in the past, which were primarily from operating cash flows, security issuances, term loans, short-term borrowings, and equity contributions from Southern Company. In 2011, the Company received $300 million in capital contributions from Southern Company. See Capital Requirements and Contractual Obligations herein and Note 3 to the financial statements under Integrated Coal Gasification Combined Cycle for additional information. The amount, type, and timing of any future financings, if needed, will depend upon regulatory approval, prevailing market conditions, and other factors.

The Company has applied to the DOE for federal loan guarantees to finance a portion of the eligible construction costs of the Kemper IGCC. The Company is in advanced due diligence with the DOE. There can be no assurance that the DOE will issue federal loan guarantees to the Company. Through December 31, 2011, the Company has received $245.3 million in DOE CCPI2 grant funds that were used for the construction of the Kemper IGCC. An additional $25 million in CCPI2 grant funds is expected to be received for the initial operation of the Kemper IGCC.

Investment tax credits related to the Kemper IGCC of $77.4 million are not expected to be utilized until after 2012, which could result in additional financing needs. See Note 3 to the financial statements under Integrated Coal Gasification Combined Cycle for additional information.

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The issuance of securities by the Company is subject to regulatory approval by the FERC. Additionally, with respect to the public offering of securities, the Company files registration statements with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act). The amounts of securities authorized by the FERC, as well as the amounts registered under the 1933 Act, are continuously monitored and appropriate filings are made to ensure flexibility in the capital markets.

The Company obtains financing separately without credit support from any affiliate. See Note 6 to the financial statements under Bank Credit Arrangements for additional information. The Southern Company system does not maintain a centralized cash or money pool. Therefore, funds of the Company are not commingled with funds of any other company.

At December 31, 2011, the Company had approximately $211.6 million of cash and cash equivalents. Committed credit arrangements with banks at December 31, 2011 were as follows:

Expires[a]				Executable Term-Loans	
2012	2014	Total	Unused	One Year	Two Years
		(in millions)			
$131	$165	$296	$296	$25	$41

(a) No credit arrangements expire in 2013, 2015, or 2016.

See Note 6 to the financial statements under Bank Credit Arrangements for additional information.

Most of these arrangements contain covenants that limit debt levels and typically contain cross-default provisions that would trigger an event of default if the Company defaulted on other indebtedness above a specified threshold. The Company is currently in compliance with all such covenants.

These credit arrangements provide liquidity support to the Company s variable rate tax-exempt pollution control revenue bonds and commercial paper borrowings. At December 31, 2011, the Company had $40.1 million of outstanding pollution control revenue bonds requiring liquidity support.

The Company may also meet short-term cash needs through a Southern Company subsidiary organized to issue and sell commercial paper at the request and for the benefit of the Company and the other traditional operating companies. Proceeds from such issuances for the benefit of the Company are loaned directly to the Company. The obligations of each company under these arrangements are several and there is no cross affiliate credit support.

Details of short-term borrowings were as follows:

	Short-term Debt at the End of the Period	Short-term Debt During the Period [a]

	Amount Outstanding	Weighted Average Interest Rate	Average Outstanding	Weighted Average Interest Rate	Maximum Amount Outstanding
	(in millions)		*(in millions)*		*(in millions)*
December 31, 2011:					
Commercial paper	$	%	$ 7	0.21%	$70
December 31, 2010:					
Commercial paper	$	%	$12	0.28%	$63

(a) Average and maximum amounts are based upon daily balances during the period.

Management believes that the need for working capital can be adequately met by utilizing commercial paper programs, lines of credit, and cash.

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Financing Activities

In February 2011, the Company redeemed a $50 million series of revenue bonds issued in December 2010.

In March 2011, the Company s $80 million long-term bank note with a variable interest rate based on one-month London Interbank Offered Rate (LIBOR) matured.

In April 2011, the Company entered into a one-year $75 million aggregate principal amount long-term floating rate bank loan with a variable interest rate based on one-month LIBOR. The proceeds of this loan were used to repay maturing long-term and short-term indebtedness and for other general corporate purposes, including the Company s continuous construction program.

In September 2011, the Company entered into a one-year $40 million aggregate principal amount floating rate bank loan that bears interest based on one-month LIBOR. The proceeds were used to repay outstanding short-term debt and for general corporate purposes, including the Company s continuous construction program. In addition, the Company entered into a one-year extension of a $125 million aggregate principal amount floating rate bank loan that bears interest based on one-month LIBOR.

In September 2011, the Company entered into forward-starting interest rate swaps to mitigate exposure to interest rate changes related to anticipated debt issuances. The notional amount of the swaps totaled $600 million. The Company settled $300 million of the interest rate swaps in October 2011; $150 million related to its Series 2011A 2.35% Senior Note issuance at a gain of approximately $1.4 million which will be amortized to interest expense, in earnings, over five years and $150 million related to its Series 2011B 4.75% Senior Note issuance at a loss of approximately $0.5 million which will be amortized to interest expense, in earnings, over 10 years.

In October 2011, the Company issued $150 million aggregate principal amount of Series 2011A 2.35% Senior Notes due October 15, 2016 and $150 million aggregate principal amount of Series 2011B 4.75% Senior Notes due October 15, 2041. The net proceeds were used by the Company to pay amounts in connection with the purchase of Plant Daniel Units 3 and 4 as described herein under Purchase of the Plant Daniel Combined Cycle Generating Units, and for general corporate purposes, including the Company s continuous construction program.

In October 2011, the Company assumed the obligations of the lessor related to $270 million aggregate principal amount of Mississippi Business Finance Corporation Taxable Revenue Bonds, 7.13% Series 1999A due October 20, 2021, issued for the benefit of the lessor as described under Purchase of the Plant Daniel Combined Cycle Generating Units herein. These bonds are secured by Plant Daniel Units 3 and 4 and certain personal property. The bonds have been recorded on the financial statements at the fair value of the debt on the date of assumption, or $346.1 million, reflecting a premium of $76.1 million.

In addition to any financings that may be necessary to meet capital requirements, contractual obligations, and storm restoration costs, the Company plans to continue, when economically feasible, a program to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit.

Purchase of the Plant Daniel Combined Cycle Generating Units

In 2001, the Company began an initial 10-year term of an operating lease agreement for Plant Daniel Units 3 and 4. The Company was required to provide notice of its intent to either renew the lease or purchase Plant Daniel Units 3 and 4 by July 22, 2011. On July 20, 2011, the Company provided notice to the lessor of its intent to purchase Plant Daniel Units 3 and 4. The Company s right to purchase Plant Daniel Units 3 and 4 was approved by the Mississippi PSC in its order dated January 7, 1998, as amended on February 19, 1999, which granted the Company a CPCN for Plant Daniel Units 3 and 4.

On October 20, 2011, the Company purchased Plant Daniel Units 3 and 4 for $84.8 million in cash and the assumption of $270 million face value of debt obligations of the lessor related to Plant Daniel Units 3 and 4, which mature in 2021 and bear interest at a fixed stated interest rate

of 7.13% per annum. These obligations are secured by Plant Daniel Units 3 and 4 and certain personal property. Accounting rules require that Plant Daniel Units 3 and 4 be reflected on the Company s financial statements at the time of the purchase at the fair value of the consideration rendered. Based on interest rates as of October 20, 2011, the fair value of the debt assumed was $346.1 million. The fair value of the debt was determined using a discounted cash flow model based on the Company s borrowing rate at the closing date. The fair value is considered a Level 2 disclosure for financial reporting purposes. See Note 1 to the financial statements under Purchase of the Plant Daniel Combined Cycle Generating Units for additional information regarding the debt valuation. Accordingly, Plant Daniel Units 3 and 4 are reflected in the Company s financial statements at $430.9 million.

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In connection with the purchase of Plant Daniel Units 3 and 4, the Company filed a request on July 25, 2011 for an accounting order from the Mississippi PSC. This order, as approved on January 11, 2012, authorized the Company to defer as a regulatory asset, for the 10-year period ending October 2021, the difference between the revenue requirement under the purchase option for Plant Daniel Units 3 and 4 (assuming a remaining 30-year life) and the revenue requirement assuming the continuation of the operating lease regulatory treatment with the accumulated deferred balance at the end of the deferral being amortized into rates over the remaining life of Plant Daniel Units 3 and 4. On November 2, 2011, the Company filed a request with the FERC seeking the same accounting and regulatory treatment for its wholesale cost-based jurisdiction. The ultimate outcome of this matter cannot be determined at this time.

Credit Rating Risk

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain contracts that could require collateral, but not accelerated payment, in the event of a credit rating change to below BBB- and/or Baa3. These contracts are for physical electricity sales, fuel purchases, fuel transportation and storage, emissions allowances, and energy price risk management. At December 31, 2011, the maximum potential collateral requirements under these contracts at a rating below BBB- and/or Baa3 were approximately $330 million. Included in these amounts are certain agreements that could require collateral in the event that one or more Southern Company system power pool participants has a credit rating change to below investment grade. Generally, collateral may be provided by a Southern Company guaranty, letter of credit, or cash. Additionally, any credit rating downgrade could impact the Company s ability to access capital markets, particularly the short-term debt market.

Market Price Risk

Due to cost-based rate regulation and other various cost recovery mechanisms, the Company continues to have limited exposure to market volatility in interest rates, foreign currency, commodity fuel prices, and prices of electricity. To manage the volatility attributable to these exposures, the Company nets the exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company s policies in areas such as counterparty exposure and risk management practices. The Company s policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques that include, but are not limited to, market valuation, value at risk, stress testing, and sensitivity analysis.

To mitigate future exposure changes in interest rates, the Company enters into derivatives that have been designated as hedges. The weighted average interest rate on $280 million of outstanding variable rate long-term debt at December 31, 2011 was 0.63%. If the Company sustained a 100 basis point change in interest rates for all unhedged variable rate long-term debt, the change would affect annualized interest expense by approximately $2.8 million at December 31, 2011. See Note 1 to the financial statements under Financial Instruments and Note 10 to the financial statements for additional information.

To mitigate residual risks relative to movements in electricity prices, the Company enters into fixed-price contracts or heat-rate contracts for the purchase and sale of electricity through the wholesale electricity market. At December 31, 2011, exposure from these activities was not material to the Company s financial statements.

In addition, per the guidelines of the Mississippi PSC, the Company has implemented a fuel-hedging program. At December 31, 2011, exposure from these activities was not material to the Company s financial statements.

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The changes in fair value of energy-related derivative contracts, substantially all of which are composed of regulatory hedges, for the years ended December 31 were as follows:

	2011 Changes	2010 Changes
	Fair Value	
	(in thousands)	
Contracts outstanding at the beginning of the period, assets (liabilities), net	**$ (43,770)**	$ (41,734)
Contracts realized or settled	**32,381**	32,853
Current period changes[(a)]	**(39,601)**	(34,889)
Contracts outstanding at the end of the period, assets (liabilities), net	**$ (50,990)**	$ (43,770)

(a) Current period changes also include the changes in fair value of new contracts entered into during the period, if any.

The change in the fair value positions of the energy-related derivative contracts for the year ended December 31, 2011 was a decrease of $7.2 million, substantially all of which is due to natural gas positions. The change is attributable to both the volume of million British thermal units (mmBtu) and the price of natural gas. At December 31, 2011, the Company had a net hedge volume of 31.0 million mmBtu with a weighted average swap contract cost of approximately $1.98 per mmBtu above market prices, and a net hedge volume of 24.0 million mmBtu at December 31, 2010 with a weighted average swap contract cost of approximately $1.92 per mmBtu above market prices. The majority of the costs associated with natural gas hedges are recovered through the Company s ECM clause.

At December 31, 2011 and 2010, substantially all of the Company s energy-related derivative contracts were designated as regulatory hedges and are related to the Company s fuel hedging program. Therefore, gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in fuel expense as they are recovered through the ECM clause. Gains and losses on energy-related derivatives that are designated as cash flow hedges are used to hedge anticipated purchases and sales and are initially deferred in other comprehensive income before being recognized in income in the same period as the hedged transaction. Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income as incurred and were not material for any year presented. The pre-tax gains/(losses) reclassified from other comprehensive income to revenue and fuel expense were not material for any period presented and are not expected to be material for 2012.

The Company uses over-the-counter contracts that are not exchange traded but are fair valued using prices which are market observable, and thus fall into Level 2. See Note 9 to the financial statements for further discussion of fair value measurements. The maturities of the energy-related derivative contracts and the level of the fair value hierarchy in which they fall at December 31, 2011 were as follows:

Fair Value Measurements

December 31, 2011

	Total		Maturity	
	Fair Value	Year 1	Years 2&3	Years 4&5
		(in thousands)		
Level 1	$	$	$	$
Level 2	50,990	36,330	14,371	289
Level 3				
Fair value of contracts outstanding at end of period	$50,990	$36,330	$14,371	$289

The Company is exposed to market price risk in the event of nonperformance by counterparties to the energy-related derivative contracts. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody s Investors Service and Standard & Poor s, a division of The McGraw Hill Companies, Inc., or with counterparties who have posted collateral to cover potential credit exposure. Therefore, the Company does not anticipate market risk exposure from nonperformance by the counterparties. For additional information, see Note 1 to the financial statements under Financial Instruments and Note 10 to the financial statements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) enacted in July 2010 could impact the use of over-the-counter derivatives by the Company. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of over-the-counter derivatives, such as margin and reporting requirements, which could affect both the use and cost of over-the-counter derivatives. The impact, if any, cannot be determined until regulations are finalized.

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MANAGEMENT S DISCUSSION AND ANALYSIS (continued)

Mississippi Power Company 2011 Annual Report

Capital Requirements and Contractual Obligations

The construction program of the Company consists of a base level capital investment and capital expenditures to comply with existing environmental statutes and regulations. Included in the estimated base level capital investment amounts are expenditures related to the Kemper IGCC of $1.3 billion, $124 million, and $74 million in 2012, 2013, and 2014, respectively, which are net of SMEPA s 17.5% expected ownership share of the Kemper IGCC of approximately $466 million and $16 million in 2013 and 2014, respectively. These estimated base level capital investment amounts also include capital expenditures covered under LTSAs. Potential incremental environmental compliance investments to comply with the MATS rule and with the proposed water and coal combustion byproducts rules are not included in the construction program base level capital investment, except as described below. Although its analyses are preliminary, the Company estimates that the aggregate capital costs for compliance with the MATS rule and the proposed water and coal combustion byproducts rules could range from $1 billion to $2 billion through 2021 based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule. Included in this amount is $354 million that is also included in the Company s 2012 through 2014 base level capital investment described herein in anticipation of these rules. The Company s base level construction program and the potential incremental environmental compliance investments for the MATS rule and the proposed water and coal combustion byproducts rules over the next three years, based on the assumption that coal combustion byproducts will continue to be regulated as non-hazardous solid waste under the proposed rule, are estimated as follows:

	2012	2013	2014
Construction program:		*(in millions)*	
Base capital	$1,409	$250	$ 198
Existing environmental statutes and regulations	87	113	154
Total construction program base level capital investment	**$1,496**	**$363**	**$ 352**
Potential incremental environmental compliance investments:			
MATS rule	Up to $30	Up to $100	Up to $300
Proposed water and coal combustion byproducts rules	Up to $1	Up to $30	Up to $90
Total potential incremental environmental compliance investments	**Up to $31**	**Up to $130**	**Up to $390**

The construction program is subject to periodic review and revision, and actual construction costs may vary from these estimates because of numerous factors. These factors include: changes in business conditions; changes in load projections; storm impacts; changes in environmental statutes and regulations; the outcome of any legal challenges to environmental rules; changes in generating plants, including unit retirements and replacements, to meet new regulatory requirements; changes in FERC rules and regulations; Mississippi PSC approvals; changes in legislation; the cost and efficiency of construction labor, equipment, and materials; project scope and design changes; and the cost of capital. In addition, there can be no assurance that costs related to capital expenditures will be fully recovered. See Note 3 to the financial statements under Integrated Coal Gasification Combined Cycle for additional information.

In addition, as discussed in Note 2 to the financial statements, the Company provides postretirement benefits to substantially all employees and funds trusts to the extent required by the FERC.

Other funding requirements related to obligations associated with scheduled maturities of long-term debt, as well as the related interest, derivative obligations, preferred stock dividends, leases, and other purchase commitments are detailed in the contractual obligations table that

follows. See Notes 1, 2, 5, 6, 7, and 10 to the financial statements for additional information.

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MANAGEMENT S DISCUSSION AND ANALYSIS (continued)

Mississippi Power Company 2011 Annual Report

Contractual Obligations

	2012	2013-2014	2015-2016	After 2016	Uncertain Timing [d]	Total
			(in thousands)			
Long-term debt[a]						
Principal	$ 240,000	$ 50,000	$150,000	$ 832,695	$	$1,272,695
Interest	53,580	100,680	97,680	467,682		719,622
Preferred stock dividends[b]	1,733	3,465	3,465			8,663
Energy-related derivative obligations[c]	36,455	14,372	325			51,152
Foreign currency derivative obligations[c]	2,464	46				2,510
Interest rate derivative obligations[c]	15,208					15,208
Unrecognized tax benefits and interest[d]	3,349				2,295	5,644
Operating leases [e]	11,870	20,984	2,087	523		35,464
Capital leases[f]	633					633
Purchase commitments[g]						
Capital[h]	1,495,583	683,013				2,178,596
Coal	267,075	58,205	1,920	35,520		362,720
Natural gas[i]	159,394	265,426	181,486	146,169		752,475
Long-term service agreements[j]	14,123	29,287	30,212	30,264		103,886
Pension and other postretirement benefits plans[k]	5,232	11,288				16,520
Total	$2,306,699	$1,236,766	$467,175	$1,512,853	$2,295	$5,525,788

(a) All amounts are reflected based on final maturity dates. The Company plans to continue to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates as of January 1, 2012, as reflected in the statements of capitalization. Long-term debt excludes capital lease amounts (shown separately).

(b) Preferred stock does not mature; therefore, amounts are provided for the next five years only.

(c) For additional information, see Notes 1 and 10 to the financial statements.

(d) The timing related to the realization of $2.3 million in unrecognized tax benefits and corresponding interest payments in individual years beyond 12 months cannot be reasonably and reliably estimated due to uncertainties in the timing of the effective settlement of tax positions. See Note 5 to the financial statements for additional information.

(e) See Note 7 to the financial statements for additional information.

(f) The capital lease of $6.4 million is being amortized over a five-year period ending in 2012.

(g) The Company generally does not enter into non-cancelable commitments for other operations and maintenance expenditures. Total other operations and maintenance expenses for 2011, 2010, and 2009 were $266 million, $268 million, and $247 million, respectively.

(h) The Company provides forecasted capital expenditures for a three-year period. Amounts represent current estimates of total expenditures, excluding those amounts related to capital expenditures covered under long-term service agreements. In addition, such amounts exclude the Company s estimates of other potential incremental environmental compliance investments to comply with the MATS rule and the proposed water and coal combustion byproducts rules which are likely to be substantial and could be up to $31 million, up to $130 million, and up to $390 million for 2012, 2013, and 2014, respectively. See Note 3 to the financial statements under Integrated Coal Gasification Combined Cycle for additional information. Estimates include the sale of 17.5% of the Kemper IGCC to SMEPA. At December 31, 2011, significant purchase commitments were outstanding in connection with the construction program.

(i) Natural gas purchase commitments are based on various indices at the time of delivery. Amounts reflected have been estimated based on the New York Mercantile Exchange future prices at December 31, 2011.

(j) Long-term service agreements include price escalation based on inflation indices.

(k) The Company forecasts contributions to the pension and other postretirement benefit plans over a three-year period. The Company anticipates no mandatory contributions to the qualified pension plan during the next three years. Amounts presented represent estimated benefit payments for the nonqualified pension plans, estimated non-trust benefit payments for the other postretirement benefit plans, and estimated contributions to the other postretirement benefit plan trusts, all of which will be made from the Company s corporate assets. See Note 2 to the financial statements for additional information related to the pension and other postretirement benefit plans, including estimated benefit payments. Certain benefit payments will be made through the related benefit plans. Other benefit payments will be made from the Company s corporate assets.

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MANAGEMENT S DISCUSSION AND ANALYSIS (continued)

Mississippi Power Company 2011 Annual Report

Cautionary Statement Regarding Forward-Looking Statements

The Company s 2011 Annual Report contains forward-looking statements. Forward-looking statements include, among other things, statements concerning retail sales, retail rates, customer growth, storm damage cost recovery and repairs, economic recovery, fuel and environmental cost recovery and other rate actions, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, projections for the qualified pension plan and postretirement benefit plan, financing activities, start and completion of construction projects, plans and estimated costs for new generation resources, filings with state and federal regulatory authorities, impact of the Small Business Jobs and Credit Act of 2010, impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, estimated sales and purchases under new power sale and purchase agreements, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as may, will, could, should, expects, plans, anticipates, believes, estimates, pr potential, or continue or the negative of these terms or other similar terminology. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized. These factors include:

the impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the Energy Policy Act of 2005, environmental laws including regulation of water, coal combustion byproducts, and emissions of sulfur, nitrogen, carbon, soot, particulate matter, hazardous air pollutants, including mercury, and other substances, financial reform legislation, and also changes in tax and other laws and regulations to which the Company is subject, as well as changes in application of existing laws and regulations;

current and future litigation, regulatory investigations, proceedings, or inquiries, including FERC matters, the pending EPA civil action, and IRS and state tax audits;

the effects, extent, and timing of the entry of additional competition in the markets in which the Company operates;

variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;

available sources and costs of fuels;

effects of inflation;

ability to control costs and avoid cost overruns during the development and construction of facilities;

investment performance of the Company s employee benefit plans;

advances in technology;

state and federal rate regulations and the impact of pending and future rate cases and negotiations, including rate actions relating to fuel and other cost recovery mechanisms;

regulatory approvals and actions related to the Kemper IGCC, including Mississippi PSC approvals, potential DOE loan guarantees, the SMEPA purchase decision, and utilization of investment tax credits;

internal restructuring or other restructuring options that may be pursued;

potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to the Company;

the ability of counterparties of the Company to make payments as and when due and to perform as required;

the ability to obtain new short- and long-term contracts with wholesale customers;

the direct or indirect effect on the Company s business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;

interest rate fluctuations and financial market conditions and the results of financing efforts, including the Company s credit ratings;

the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general, as well as potential impacts on the availability or benefits of proposed DOE loan guarantees;

the ability of the Company to obtain additional generating capacity at competitive prices;

catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;

the direct or indirect effects on the Company s business resulting from incidents affecting the U.S. electric grid or operation of generating resources;

the effect of accounting pronouncements issued periodically by standard setting bodies; and

other factors discussed elsewhere herein and in other reports (including the Form 10-K) filed by the Company from time to time with the SEC.

The Company expressly disclaims any obligation to update any forward-looking statements.

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STATEMENTS OF INCOME

For the Years Ended December 31, 2011, 2010, and 2009

Mississippi Power Company 2011 Annual Report

	2011	2010	2009
		(in thousands)	
Operating Revenues:			
Retail revenues	**$ 792,463**	$ 797,912	$ 790,950
Wholesale revenues, non-affiliates	**273,178**	287,917	299,268
Wholesale revenues, affiliates	**30,417**	41,614	44,546
Other revenues	**16,819**	15,625	14,657
Total operating revenues	**1,112,877**	1,143,068	1,149,421
Operating Expenses:			
Fuel	**490,415**	501,830	519,687
Purchased power, non-affiliates	**6,239**	8,426	8,831
Purchased power, affiliates	**65,574**	75,230	83,104
Other operations and maintenance	**266,395**	268,063	246,758
Depreciation and amortization	**80,337**	76,891	70,916
Taxes other than income taxes	**70,127**	69,810	64,068
Total operating expenses	**979,087**	1,000,250	993,364
Operating Income	**133,790**	142,818	156,057
Other Income and (Expense):			
Allowance for equity funds used during construction	**24,707**	3,795	387
Interest income	**1,347**	215	804
Interest expense, net of amounts capitalized	**(21,691)**	(22,341)	(22,940)
Other income (expense), net	**(45)**	3,738	2,606
Total other income and (expense)	**4,318**	(14,593)	(19,143)
Earnings Before Income Taxes	**138,108**	128,225	136,914
Income taxes	**42,193**	46,275	50,214
Net Income	**95,915**	81,950	86,700
Dividends on Preferred Stock	**1,733**	1,733	1,733
Net Income After Dividends on Preferred Stock	**$ 94,182**	$ 80,217	$ 84,967

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2011, 2010, and 2009

Mississippi Power Company 2011 Annual Report

	2011	2010	2009
		(in thousands)	
Net Income After Dividends on Preferred Stock	**$ 94,182**	$ 80,217	$ 84,967
Other comprehensive income (loss):			
Qualifying hedges:			
Changes in fair value, net of tax of $(5,494), $1, and $-, respectively	**(8,870)**	2	
Reclassification adjustment for amounts included in net income, $(18), $-, and $-, respectively	**(29)**		
Total other comprehensive income (loss)	**(8,899)**	2	
Comprehensive Income	**$ 85,283**	$ 80,219	$ 84,967

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2011, 2010, and 2009

Mississippi Power Company 2011 Annual Report

	2011	2010	2009
		(in thousands)	
Operating Activities:			
Net income	**$ 95,915**	$ 81,950	$ 86,700
Adjustments to reconcile net income to net cash provided from operating activities			
Depreciation and amortization, total	**83,787**	82,294	78,914
Deferred income taxes	**71,764**	37,557	(39,849)
Investment tax credits received		22,173	
Allowance for equity funds used during construction	**(24,707)**	(3,795)	(387)
Pension, postretirement, and other employee benefits	**3,169**	(34,911)	7,077
Hedge settlements	**848**		
Stock based compensation expense	**1,548**	1,186	886
Generation construction screening costs		(50,554)	(30,638)
Other, net	**(8,151)**	(3,404)	(3,229)
Changes in certain current assets and liabilities			
-Receivables	**5,864**	(8,185)	9,677
-Under recovered regulatory clause revenues			54,994
-Fossil fuel stock	**(27,933)**	14,997	(41,699)
-Materials and supplies	**(2,116)**	(879)	(649)
-Prepaid income taxes	**12,907**	(17,075)	1,061
-Other current assets	**1,606**	(4,633)	2,065
-Other accounts payable	**24,143**	(12,630)	(7,590)
-Accrued taxes	**1,209**	(4,268)	8,800
-Accrued compensation	**(187)**	2,291	(6,819)
-Over recovered regulatory clause revenues	**(16,544)**	28,450	48,596
-Other current liabilities	**8,373**	2,137	2,732
Net cash provided from operating activities	**231,495**	132,701	170,642
Investing Activities:			
Property additions	**(964,233)**	(247,005)	(101,995)
Plant acquisition	**(84,803)**		
Investment in restricted cash		(50,000)	
Distribution of restricted cash	**50,000**		
Cost of removal net of salvage	**(7,432)**	(9,240)	(9,352)
Construction payables	**97,079**	33,767	(5,091)
Capital grant proceeds	**232,442**	23,657	
Other investing activities	**(5,736)**	(5,587)	(2,971)
Net cash used for investing activities	**(682,683)**	(254,408)	(119,409)
Financing Activities:			
Decrease in notes payable, net			(26,293)

Proceeds			
Capital contributions from parent company	**299,305**	65,215	4,567
Senior notes issuances	**300,000**		125,000
Other long-term debt issuances	**115,000**	225,000	
Redemptions			
Capital leases	**(1,437)**	(1,330)	
Senior notes			(40,000)
Other long-term debt	**(130,000)**		
Payment of preferred stock dividends	**(1,733)**	(1,733)	(1,733)
Payment of common stock dividends	**(75,500)**	(68,600)	(68,500)
Other financing activities	**(3,641)**	(1,091)	(1,662)
Net cash provided from (used for) financing activities	**501,994**	217,461	(8,621)
Net Change in Cash and Cash Equivalents	**50,806**	95,754	42,612
Cash and Cash Equivalents at Beginning of Year	**160,779**	65,025	22,413
Cash and Cash Equivalents at End of Year	**$ 211,585**	$ 160,779	$ 65,025
Supplemental Cash Flow Information:			
Cash paid during the period for			
Interest (net of $10,065, $2,903 and $117 capitalized, respectively)	**$ 14,814**	$ 19,518	$ 19,832
Income taxes (net of refunds)	**(41,024)**	7,546	77,206
Noncash transactions accrued property additions at year-end	**135,902**	37,736	3,689
Assumption of debt due to plant acquisition	**346,051**		

The accompanying notes are an integral part of these financial statements.

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BALANCE SHEETS

At December 31, 2011 and 2010

Mississippi Power Company 2011 Annual Report

Assets	**2011**	2010
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 211,585**	$ 160,779
Restricted cash		50,000
Receivables		
Customer accounts receivable	**32,551**	37,532
Unbilled revenues	**27,239**	31,010
Other accounts and notes receivable	**7,080**	11,220
Affiliated companies	**23,078**	17,837
Accumulated provision for uncollectible accounts	**(547)**	(638)
Fossil fuel stock, at average cost	**140,173**	112,240
Materials and supplies, at average cost	**30,787**	28,671
Other regulatory assets, current	**69,201**	63,896
Prepaid income taxes	**37,793**	59,596
Other current assets	**8,881**	19,057
Total current assets	**587,821**	591,200
Property, Plant, and Equipment:		
In service	**2,902,240**	2,392,477
Less accumulated provision for depreciation	**1,019,251**	971,559
Plant in service, net of depreciation	**1,882,989**	1,420,918
Construction work in progress	**955,135**	274,585
Total property, plant, and equipment	**2,838,124**	1,695,503
Other Property and Investments	**6,520**	5,900
Deferred Charges and Other Assets:		
Deferred charges related to income taxes	**25,009**	18,065
Other regulatory assets, deferred	**185,694**	132,420
Other deferred charges and assets	**28,674**	33,233
Total deferred charges and other assets	**239,377**	183,718
Total Assets	**$ 3,671,842**	$ 2,476,321

The accompanying notes are an integral part of these financial statements.

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BALANCE SHEETS

At December 31, 2011 and 2010

Mississippi Power Company 2011 Annual Report

Liabilities and Stockholder s Equity	**2011**	2010
	(in thousands)	
Current Liabilities:		
Securities due within one year	**$ 240,633**	$ 256,437
Accounts payable		
Affiliated	**62,650**	51,887
Other	**168,309**	59,295
Customer deposits	**13,658**	12,543
Accrued taxes		
Accrued income taxes	**3,813**	4,356
Other accrued taxes	**53,825**	51,709
Accrued interest	**12,750**	5,933
Accrued compensation	**15,889**	16,076
Other regulatory liabilities, current	**5,779**	6,177
Over recovered regulatory clause liabilities	**60,502**	77,046
Liabilities from risk management activities	**54,127**	27,525
Other current liabilities	**17,533**	20,115
Total current liabilities	**709,468**	589,099
Long-Term Debt (See accompanying statements)	**1,103,596**	462,032
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**270,397**	281,967
Deferred credits related to income taxes	**11,058**	11,792
Accumulated deferred investment tax credits	**109,761**	33,678
Employee benefit obligations	**161,065**	113,964
Other cost of removal obligations	**126,424**	111,614
Other regulatory liabilities, deferred	**60,848**	58,814
Other deferred credits and liabilities	**37,228**	43,213
Total deferred credits and other liabilities	**776,781**	655,042
Total Liabilities	**2,589,845**	1,706,173
Cumulative Redeemable Preferred Stock (See accompanying statements)	**32,780**	32,780
Common Stockholder s Equity (See accompanying statements)	**1,049,217**	737,368
Total Liabilities and Stockholder s Equity	**$3,671,842**	$2,476,321

Commitments and Contingent Matters (See notes)

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CAPITALIZATION

At December 31, 2011 and 2010

Mississippi Power Company 2011 Annual Report

	2011	2010	**2011**	2010
	(in thousands)		*(percent of total)*	
Long-Term Debt:				
Long-term notes payable				
6.00% due 2013	**50,000**	50,000		
2.35% due 2016	**150,000**			
2.25% to 5.625% due 2017-2041	**480,000**	330,000		
Adjustable rates (0.56% to 0.71% at 1/1/11) due 2011		205,000		
Adjustable rates (0.60% to 0.85% at 1/1/12) due 2012	**240,000**			
Adjustable rates (0.44% at 1/1/11) due 2040		50,000		
Total long-term notes payable	**920,000**	635,000		
Other long-term debt				
Pollution control revenue bonds:				
5.15% due 2028	**42,625**	42,625		
Variable rates (0.08% to 0.16% at 1/1/12) due 2020-2028	**40,070**	40,070		
Plant Daniel revenue bonds (7.13%) due 2021	**270,000**			
Total other long-term debt	**352,695**	82,695		
Capitalized lease obligations	**633**	2,070		
Unamortized debt premium (related to plant acquisition)	**74,551**			
Unamortized debt discount	**(3,650)**	(1,296)		
Total long-term debt (annual interest requirement $53.6 million)	**1,344,229**	718,469		
Less amount due within one year	**240,633**	256,437		
Long-term debt excluding amount due within one year	**1,103,596**	462,032	**50.5%**	37.5%
Cumulative Redeemable Preferred Stock:				
$100 par value				
Authorized: 1,244,139 shares				
Outstanding: 334,210 shares				
4.40% to 5.25% (annual dividend requirement $1.7 million)	**32,780**	32,780	**1.5**	2.7
Common Stockholder s Equity:				
Common stock, without par value				
Authorized: 1,130,000 shares				

Outstanding: 1,121,000 shares	**37,691**	37,691		
Paid-in capital	**694,855**	392,790		
Retained earnings	**325,568**	306,885		
Accumulated other comprehensive income (loss)	**(8,897)**	2		
Total common stockholder s equity	**1,049,217**	737,368	**48.0**	59.8
Total Capitalization	**$ 2,185,593**	$ 1,232,180	**100.0%**	100.0%

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF COMMON STOCKHOLDER S EQUITY

For the Years Ended December 31, 2011, 2010, and 2009

Mississippi Power Company 2011 Annual Report

	Number of Common Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)			
Balance at December 31, 2008	1,121	$37,691	$319,958	$278,802	$	$ 636,451
Net income after dividends on preferred stock				84,967		84,967
Capital contributions from parent company			5,604			5,604
Cash dividends on common stock				(68,500)		(68,500)
Balance at December 31, 2009	1,121	37,691	325,562	295,269		658,522
Net income after dividends on preferred stock				80,217		80,217
Capital contributions from parent company			67,228			67,228
Other comprehensive income (loss)					2	2
Cash dividends on common stock				(68,600)		(68,600)
Other				(1)		(1)
Balance at December 31, 2010	**1,121**	**37,691**	**392,790**	**306,885**	**2**	**737,368**
Net income after dividends on preferred stock				**94,182**		**94,182**
Capital contributions from parent company			**302,065**			**302,065**
Other comprehensive income (loss)					**(8,899)**	**(8,899)**
Cash dividends on common stock				**(75,500)**		**(75,500)**
Other				**1**		**1**
Balance at December 31, 2011	**1,121**	**$37,691**	**$694,855**	**$325,568**	**$(8,897)**	**$1,049,217**

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

Mississippi Power Company 2011 Annual Report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mississippi Power Company (the Company) is a wholly owned subsidiary of The Southern Company (Southern Company), which is the parent company of four traditional operating companies, Southern Power Company (Southern Power), Southern Company Services, Inc. (SCS), Southern Communications Services, Inc. (SouthernLINC Wireless), Southern Company Holdings, Inc. (Southern Holdings), Southern Nuclear Operating Company, Inc. (Southern Nuclear), and other direct and indirect subsidiaries. The traditional operating companies Alabama Power Company (Alabama Power), Georgia Power Company (Georgia Power), Gulf Power Company (Gulf Power), and the Company are vertically integrated utilities providing electric service in four Southeastern states. The Company operates as a vertically integrated utility providing electricity to retail customers in southeast Mississippi and to wholesale customers in the Southeast. Southern Power constructs, acquires, owns, and manages generation assets, including renewable energy projects, and sells electricity at market-based rates in the wholesale market. SCS, the system service company, provides, at cost, specialized services to Southern Company and its subsidiary companies. SouthernLINC Wireless provides digital wireless communications for use by Southern Company and its subsidiary companies and also markets these services to the public and provides fiber cable services within the Southeast. Southern Holdings is an intermediate holding company subsidiary, primarily for Southern Company s investments in leveraged leases. Southern Nuclear operates and provides services to Southern Company s nuclear power plants.

The equity method is used for entities in which the Company has significant influence but does not control and for variable interest entities where the Company has an equity investment, but is not the primary beneficiary.

The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC) and the Mississippi Public Service Commission (PSC). The Company follows generally accepted accounting principles (GAAP) in the U.S. and complies with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates. Certain prior years data presented in the financial statements have been reclassified to conform to the current year presentation.

Affiliate Transactions

The Company has an agreement with SCS under which the following services are rendered to the Company at direct or allocated cost: general and design engineering, operations, purchasing, accounting, finance and treasury, tax, information technology, marketing, auditing, insurance and pension administration, human resources, systems and procedures, digital wireless communications, and other services with respect to business and operations and power pool transactions. Costs for these services amounted to $185.5 million, $125.1 million, and $84.0 million during 2011, 2010, and 2009, respectively. The increase in 2011 SCS costs is primarily due to the construction of the new integrated coal gasification combined cycle (IGCC) electric generating plant located in Kemper County, Mississippi (Kemper IGCC) and large environmental projects. Cost allocation methodologies used by SCS prior to the repeal of the Public Utility Holding Company Act of 1935, as amended, were approved by the Securities and Exchange Commission (SEC). Subsequently, additional cost allocation methodologies have been reported to the FERC and management believes they are reasonable. The FERC permits services to be rendered at cost by system service companies. The Company also provides incidental services to and receives such services from other Southern Company subsidiaries which are generally minor in duration and amount.

The Company has an agreement with Alabama Power under which the Company owns a portion of Greene County Steam Plant. Alabama Power operates Greene County Steam Plant, and the Company reimburses Alabama Power for its proportionate share of all associated expenditures and costs, which totaled $12.2 million, $11.2 million, and $10.2 million in 2011, 2010, and 2009, respectively. The Company also has an agreement with Gulf Power under which Gulf Power owns a portion of Plant Daniel. The Company operates Plant Daniel, and Gulf Power reimburses the Company for its proportionate share of all associated expenditures and costs, which totaled $23.3 million, $25.0 million, and $20.9 million in 2011, 2010, and 2009, respectively. See Note 4 for additional information.

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The traditional operating companies, including the Company, and Southern Power jointly enter into various types of wholesale energy, natural gas, and certain other contracts, either directly or through SCS, as agent. Each participating company may be jointly and severally liable for the obligations incurred under these agreements. See Note 7 under Fuel Commitments for additional information.

Regulatory Assets and Liabilities

The Company is subject to the provisions of the Financial Accounting Standards Board in accounting for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and (liabilities) reflected in the balance sheets at December 31 relate to:

	2011	2010	Note
	(in thousands)		
Hurricane Katrina	**$**		