DEBRA L. REED
Chairman and
Chief Executive Officer

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The past year has been a challenging one in the financial and commodity markets for our industry. Share prices in the energy and utility sectors fell with lower natural gas and oil prices, and the prospect of higher interest rates.

Additionally, in late October, a natural gas leak was discovered at the SoCalGas Aliso Canyon natural gas storage facility outside Los Angeles. SoCalGas successfully stopped the leak in February 2016 and continues to work with regulators, public officials and the local community to mitigate the impacts. We recognize the disruption the leak caused to the community surrounding the Aliso Canyon facility. SoCalGas has been committed to helping local residents return to their normal lives as quickly as possible and supports forward-looking regulations to help ensure the safety of natural gas storage operations in the future.

Despite these challenges, we are executing successfully on our five-year performance plan. On an annual basis, we review our growth strategy with our board of directors. Under our five-year plan, within our three primary growth platforms — U.S. utilities, international utilities and long-term, contracted energy infrastructure (including liquefied natural gas [LNG], pipelines and renewable energy) — we already have identified and contracted for projects that should yield compound annual earnings growth about twice the utility industry average. Beyond five years, we also have an abundance of opportunities, with potential expansion of our LNG facilities, new natural gas and electric transmission in Mexico and South America, and organic growth in our U.S. and international utilities.

Our strategy of growing our utilities and long-term-contracted infrastructure businesses allows us to weather cycles and still produce strong financial results. In 2015, our adjusted earnings of $1.3 billion, or $5.21 per diluted share ($1.35 billion, or $5.37 per diluted share, on a GAAP basis), exceeded our earnings guidance. We also raised our 2016 dividend by 8 percent. We were able to do this because we have high visibility and confidence in our future earnings streams and cash flows.

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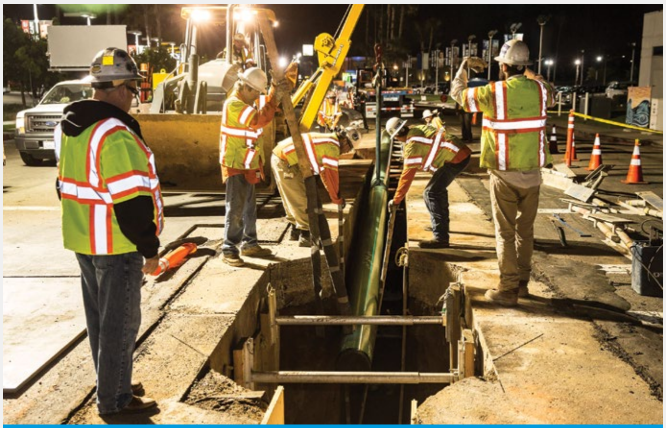
Over the past five years, we have delivered a total shareholder return of 110 percent, putting us in the top echelon of our industry. This compares with a total shareholder return during the same period for the Standard & Poor's



The Pipeline Safety Enhancement Plan is one of several initiatives SoCalGas and SDG&E have launched to enhance safety and reliability.

500 Utilities Index of 69 percent and, for the Standard & Poor's 500 Index, 81 percent. Additionally, since 2010, we have nearly doubled the size of our dividend.

I believe strongly that our success is sustainable in the long term, by focusing on these four activities:

- Keeping safety a top priority throughout our operations;
- Maintaining reliable, excellent customer service;
- Executing on a sound growth strategy; and
- Living our core values with high ethical standards and a commitment to corporate responsibility.

These are our organizational strengths and continue to be our focus as we move forward.

In 2015, SDG&E and SoCalGas filed with the California Public Utilities Commission (CPUC) a multi-party settlement in their General Rate Cases for the years 2016-18. We expect the CPUC to issue a final decision in the second quarter of 2016.

SDG&E and SoCalGas plan to spend $12 billion over the next five years to reinforce their natural gas and electric infrastructure, enhance system safety and reliability, and support California's ambitious environmental policies.

Additionally, SDG&E is promoting equitable rate reform. During the state's energy crisis in 2000-01, California legislators froze rates for certain residential customers. This created significant cost-shifting among customer classes over the years where SDG&E customers in the higher rate tiers have been subsidizing customers in the lower tiers by more than $300 million annually. In July, the CPUC approved a five-year transition plan to a new electric rate structure that will reduce the number of rate tiers in half by the end of 2016 and create more equitable rates among customers. In January 2016, the CPUC also issued a ruling revising rates for rooftop solar customers. Currently, only 5 percent of SDG&E's customers have rooftop solar systems and they are being subsidized by SDG&E's other customers.

In 2015, SDG&E became the first major California utility to procure 33 percent of its power needs from renewable energy resources — five years ahead of the state deadline. California Gov. Brown signed Senate Bill 350 into law in October, expanding California's renewable energy mandate to 50 percent by 2030.

Nationwide, 29 states now have adopted renewable portfolio standards, creating a $36 billion market for wind, solar and other clean energy sources. Sempra U.S. Gas & Power continues to expand its portfolio of renewable assets. Sempra U.S. Gas & Power and its joint-venture partners now have more than 2,000 megawatts (MW) of solar and wind power in operation or under construction in 10 states. In 2015, Sempra U.S. Gas & Power entered into long-term power-purchase contracts with customers to develop two more expansion phases — totaling 250 MW — of the company's Mesquite Solar complex in Arizona. Additionally, last year, Sempra U.S. Gas & Power acquired a 78-MW wind farm under development in Minnesota.

Our largest capital project is the Cameron LNG liquefaction-export facility in Louisiana. We and our Cameron LNG joint-venture partners are developing a facility that can process up to 1.7 billion cubic feet per day of natural gas for export to international markets, primarily Japan. The facility is contracted for 20 years. We expect earnings of $300 million to $350 million in 2019, the first full year of operations. Also, depending on market interest, we have the opportunity to expand the facility and already are in the process of obtaining the necessary regulatory permits.

While the market for LNG is sufficiently supplied in the short term, we believe additional supplies will be needed after 2020. LNG liquefaction-export projects on the U.S. Gulf Coast are among the most cost-competitive in the world. In addition to increasing liquefaction capacity at Cameron LNG, we have the opportunity to develop another liquefaction-export facility on the Gulf Coast at Port Arthur, Texas, where we currently own an ideal site on a major shipping channel. We have initiated the federal regulatory review process and, in February 2016, announced a joint-development agreement with an affiliate of Woodside Petroleum Ltd. for the proposed Port Arthur project. We have a similar agreement in place with PEMEX, Mexico's state-owned oil company, to explore developing liquefaction facilities at our Energía Costa Azul LNG terminal in Baja California, Mexico. Energía Costa Azul currently is fully contracted as an import facility through 2028.

We also have other exciting growth opportunities internationally, especially in Mexico, where the federal government has opened its energy markets to privatization. IEnova, our Mexican subsidiary, already has secured seven pipeline projects. These pipelines are fully contracted for 20 to 25 years and have potential for expansion to provide future growth opportunities. Along with new pipelines, IEnova may bid on electric transmission projects that are expected to be tendered in 2016. Additionally, in June, IEnova and its joint-venture partner completed the initial 155-MW phase of the Energía Sierra Juárez wind facility in Baja California. The facility is producing clean energy for SDG&E under a 20-year power-purchase agreement.

In June 2015, the initial 155-MW phase of the Energía Sierra Juárez wind facility came online in Baja California to produce clean energy for SDG&E customers.

The key to our future growth continues to be the disciplined execution of our strategy. We have built a deep, talented management team that spends considerable time charting the best path forward to create long-term value for our shareholders, while prudently managing our risks. We also have a board of directors with diverse expertise that actively reviews our strategy and monitors our execution of the strategy, challenging us to proactively consider opportunities and risks.

I believe the value proposition we offer investors remains unique: robust growth with a risk profile that is commensurate with that of the utility industry.

On behalf of our 17,000 employees, I want to thank you for continuing to invest in Sempra Energy. We are committed to profitable and sustainable growth and adhering to the values we believe are the cornerstone of our success.

Sincerely,

Debra L. Reed

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Chairman and Chief Executive Officer