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**Twenty years ago, we experienced the most transformational year in our history with the creation of Sempra Energy. The past year also was transformational. We embarked on our largest acquisition ever, executed on a robust capital plan to reinforce our California utilities' infrastructure, continued our business expansion in Mexico and moved our most ambitious project — the Cameron LNG joint-venture liquefaction-export project — closer to completion.**

**DEBRA L. REED**
Chairman, President and Chief Executive Officer

Since our formation in 1998, we have been successful in developing a balanced portfolio of businesses comprised of top-tier utilities and long-term-contracted energy infrastructure assets. These infrastructure assets have a utility-like risk profile and a visible earnings stream.

Over the next four years, we expect to grow our earnings at a rate above our peer utilities and our goal is to continue increasing our dividend as our earnings grow. Key to accomplishing this will be an effective capital-allocation strategy — we are focused on investing wisely for the future.

### Oncor Acquisition to Facilitate New Growth

On March 9, 2018, we completed our $9.45 billion acquisition of Energy Future Holdings Corp. (EFH), including its approximate 80-percent indirect ownership interest in Dallas-based Oncor Electric Delivery Company LLC (Oncor).

Serving more than 10 million people, Oncor is the largest electric utility in Texas and sixth largest in the U.S. Texas not only holds a national leadership position in energy production, but also features above-average energy growth with a population that is forecasted to expand by nearly 25 percent through 2030. Additionally, Texas has a constructive business and regulatory climate, and its economy (in terms of gross state product) is forecasted to grow 150 percent by 2030.

We expect the addition of Oncor, which has a sterling reputation, to enhance our growth platforms and broaden our base of U.S. utility earnings. Our majority interest in Oncor expands our presence in the U.S. Gulf Coast and cross-border regions, where we already have a strong foothold with our existing LNG projects, and natural gas and Mexican operations.

Under its approved rate case, Oncor plans to spend approximately $8.4 billion over the next five years to provide safe, reliable and affordable service to its growing customer base. Oncor management also has identified additional areas of potential investment beyond the base capital plan to benefit customers.

"We expect the addition of Oncor to enhance our growth platforms and broaden our base of utility earnings."

### Strengthening the SDG&E and SoCalGas Systems

San Diego Gas & Electric (SDG&E) and Southern California Gas Co. (SoCalGas) have robust capital programs underway to strengthen and modernize their systems, procure green energy and promote clean transportation.

The devastating California wildfires in late 2017 and early 2018 were an unwelcome reminder that our communities in the state are at risk during extreme fire conditions. Over the past decade, SDG&E has taken a series of proactive steps to implement a comprehensive fire-risk-mitigation program to help protect its customers, replacing wood power poles with steel, adding higher-strength conductors, increasing spacing between — and aggressively trimming vegetation near — power lines, and developing the largest utility weather network in the nation. SDG&E's weather stations provide real-time weather data, enhancing situational awareness for SDG&E operations personnel and increasing fire preparedness. Additionally, SDG&E provides this weather data to regional firefighting agencies, while contracting for supplemental firefighting resources, including a massive heli-tanker.

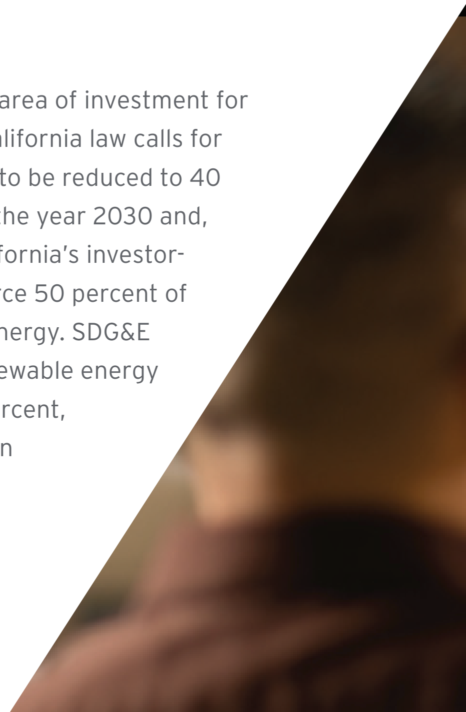
These investments in system hardening and improved fire preparedness are critical in helping to reduce SDG&E's risk exposure as worsening drought conditions and climate change increase the probability of fires in California.

Another major initiative is the Pipeline Safety Enhancement Plan (PSEP), an ongoing program under which SoCalGas and SDG&E are pressure-testing, repairing and, in some cases, replacing older natural gas transmission pipelines in their 117,000-mile network. Our California utilities have spent approximately $1.7 billion on the program since 2011, and major PSEP investments are expected to continue over the next decade.

In July 2017, state regulators deemed SoCalGas' Aliso Canyon storage facility safe to operate, allowing the first re-injections of natural gas at the facility in nearly two years. While Aliso Canyon is still only permitted to operate at less than one-third of its capacity, it remains a critical link in Southern California's energy supply chain. Since SoCalGas sealed the leaking well at the facility in February 2016, the utility has conducted the most comprehensive safety testing in the industry, as well as implemented a broad range of safety measures, including new metal tubing in every operating well, around-the-clock pressure monitoring and an infrared methane detection system. SoCalGas also is conducting rigorous safety tests and implementing new safety enhancements at its three other natural gas storage facilities.

### Advancing Clean Energy

Clean energy is an increasing area of investment for both SoCalGas and SDG&E. California law calls for carbon emissions in the state to be reduced to 40 percent below 1990 levels by the year 2030 and, over the same period, for California's investor-owned electric utilities to source 50 percent of their power from renewable energy. SDG&E already has increased the renewable energy in its supply portfolio to 43 percent, ranking it among the highest in the industry.



## Enhancing Pipeline Safety

As part of the pipeline safety program, SoCalGas and SDG&E are modernizing the natural gas transmission pipelines in their 117,000-mile network.

"I take a great amount of pride in the work our crews are doing to modernize the natural gas system to help ensure that our customers can safely and reliably access the natural gas they prefer to use for heating, cooking and more."

*Rick Phillips, senior director of SoCalGas, Pipeline Safety Enhancement Plan*

## Mitigating Fire Risk

Over the past decade, SDG&E has made significant strategic investments to harden its electric system and improve its fire preparedness. This includes building the largest utility weather network in the nation with 170 weather stations.

"We were on a mission to make a positive impact on the entire region in terms of reducing the threat of wildfires. Integrating weather science, big data and situational awareness into the operation of the power grid gives us an advantage in wildfire preparedness."

*Brian D'Agostino, SDG&E's meteorology program manager*

## Dynamic Growth in Mexico

Sempra Energy's Mexican subsidiary, IEnova, has grown to become one of the largest energy companies in Mexico.

"We are currently building eight energy projects in Mexico, from natural gas pipelines, to wind and solar plants and liquids storage terminals. Our position as a strategic partner in Mexico's new energy market is just beginning. IEnova is eagerly working to capitalize on some of the $45 billion in potential market opportunities in Mexico's energy sector."

*Tania Ortiz Mena, IEnova's chief development officer*

SoCalGas is pursuing increased development of renewable natural gas, which is natural gas produced by capturing methane emissions from organic sources, such as animal and food waste, garden and lawn clippings, paper and wood. Some studies estimate that California could supply as many as 20 percent of the residential gas customers in the state using renewable natural gas.

> "The investments we are making are fueling superior growth opportunities."

Since the transportation sector currently accounts for approximately 40 percent of California's carbon emissions, SDG&E and SoCalGas have implemented aggressive programs to promote alternative-fuel vehicles. SDG&E is working to expand the infrastructure to support electric vehicles with a network of charging stations. Both utilities also have ambitious programs to encourage the conversion of heavy-duty vehicles — trucks and buses — from diesel fuel to natural gas or electricity.

Finally, SDG&E is working with third parties to develop large battery storage technology to help store the power from renewable energy during times of excess generation, so it can be used later when energy demand is high. In early 2017, SDG&E completed a 30-megawatt (MW) battery-storage facility — one of the largest of its kind — as well as a smaller facility.

### The Market Opportunity in Mexico

On the infrastructure side of our business, our Mexican subsidiary, IEnova, has authored a dynamic growth story. With Mexico opening up its energy sector to private investment in 2014, IEnova now has more than $7.7 billion invested in assets in the country and ranks among the largest energy companies in Mexico.

IEnova is working to capitalize on some of the $45 billion in potential market opportunities in Mexico's energy sector. The company continues to develop and operate an expanding network of natural gas pipelines. In November, IEnova completed the acquisition of Pemex's 25-percent indirect equity interest in the Los Ramones II Norte natural gas pipeline. IEnova's total indirect ownership in the 281-mile pipeline now is 50 percent. The pipeline is operational and one of the largest pipelines bringing U.S. natural gas to Mexico.

In July 2017, IEnova won a bid to develop its first liquid fuels terminals, part of what is expected to be a $10 billion market in Mexico. IEnova plans to develop three liquid fuels terminals, two of which will be in the high-consumption areas of Mexico City and Puebla, with the third located in the Port of Veracruz. IEnova has negotiated a long-term, firm, U.S. dollar-denominated capacity agreement with a Valero Energy Corp. subsidiary for these three terminals.

### Global Export of U.S. Natural Gas

For the first time in 60 years, the U.S. has become a net exporter of natural gas. This trend is driven by the plentiful supplies of domestic natural gas unearthed in shale formations and the development of technology to extract this gas economically. As Asia and Europe have become major consumers for U.S. natural gas, we and other companies have moved to develop LNG export terminals to process and ship domestic natural gas overseas.

We expect our Cameron LNG joint-venture project, located in Louisiana, to be one of the first new U.S. LNG liquefaction-export facilities to come online when it begins producing LNG in 2019. While the primary project contractor notified us and our partners last summer of construction delays, we expect Cameron LNG to generate significant earnings for Sempra Energy in 2020.

Industry analysts predict higher global demand for U.S. natural gas beyond 2020, especially in China. We currently have several developmental opportunities for new LNG export facilities in Louisiana, Texas and Mexico, with commercial discussions ongoing.

### A Look Back…and Ahead

The investments we are making in our utility and infrastructure businesses are fueling superior growth opportunities that should create long-term value for our shareholders.

Over the past 10 years, we have generated $16.4 billion in value for our shareholders through share appreciation and dividend growth. Our total return to shareholders, including reinvested dividends, during this period was 134 percent, better than both the Standard & Poor's 500 Index and Standard & Poor's 500 Utilities Index. Also, over the past decade, we have increased our dividend on common shares 165 percent. In February 2018, our board of directors approved another increase in our common dividend of approximately 9 percent.

In 2018, we are celebrating Sempra Energy's 20th anniversary. What began as a combination of two proud, century-old Southern California utility franchises has blossomed into a diversified, global energy company. With the addition of Oncor, we now have more than 20,000 employees serving approximately 43 million consumers worldwide. And, we have remained committed to making positive contributions to the many communities where we operate.

**"An investment of $10,000 in Sempra Energy in 1998 was worth more than $75,000 as of March 2018."**

*As of March 9, 2018.
**Closing stock price on June 29, 1998.
***Number of employees includes Oncor.

## 20 Years of Growth

| | 1998 | 2018* |
|---|---|---|
| Stock Price | $28.56** | $109.08 |
| Annualized Dividend | $1.56 | $3.58 |
| Employees | 12,000 | 20,000*** |
| Market Value | $6.1 billion | $28.8 billion |

Since 1998, we have nearly quadrupled our market value – approximately $29 billion as of March 9, 2018. Including the reinvestment of our dividends, an investment of $10,000 in Sempra Energy in 1998 was worth more than $75,000 as of March 9, 2018. We not only have created lasting value for you, our shareholders, but we have built a world-class organization. In the past year, Sempra Energy was recognized among Fortune magazine's "World's Most Admired Companies" and the Wall Street Journal's "Management Top 250" best-managed companies.

On March 9, 2018, I notified our board of directors that I plan to step down as president and CEO in May 2018 and retire in December 2018. Our board has appointed Jeff Martin, our chief financial officer, to be my successor as CEO. Jeff will be a tremendous leader for Sempra Energy going forward. As I reflect on my 40 years at the company, including the past seven years as CEO, I could not be prouder of what we have collectively accomplished, nor could I be more excited about the opportunities ahead of us. I, too, am proud of the quality and depth of the management team that we have built to lead us in the future. Of course, none of our success would be possible without your investment in our company – so, thank you for your continued confidence in us and our mission, and your support of me during my tenure as CEO. It has been an honor and a privilege to serve you.

**Sincerely,**

Debra L. Reed

**DEBRA L. REED**
Chairman, President and Chief Executive Officer