FELLOW SHAREHOLDERS:

One of our core strengths is our balanced portfolio of growth businesses — regulated utilities and long-term contracted energy infrastructure — that continue to perform well in a variety of market conditions. Over time, we believe that this portfolio approach allows us to benefit from multiple growth platforms, maximizing shareholder return and improving the execution of our financial plan.

Our California utilities, Southern California Gas Co. (SoCalGas) and San Diego Gas & Electric (SDG&E), are the foundation of our portfolio. We also have ownership in strong-performing electric utilities in Chile and Peru, and in one of the largest and fastest-growing private energy companies in Mexico. We have an expanding base of valuable contracted infrastructure assets and investments, most of which are under contract for 20 years or longer, including Cameron LNG, our Energía Costa Azul regasification terminal, and natural gas pipelines and storage facilities, as well as renewable energy plants.

Several market trends are supporting growth in our businesses:

- Increasing investment in utility safety and reliability, due to aging infrastructure worldwide;
- Electric grid modernization fueled by new technology, development of distributed generation and an influx of renewable energy resources;
- Electrification of the transportation sector to reduce carbon emissions;
- Increasing demand for liquefied natural gas (LNG), resulting in a global natural gas market; and
- Growing energy demand in Latin America, creating the need for new energy infrastructure.

DEBRA L. REED
Chairman, President and
Chief Executive Officer

Over the next five years, Sempra Energy expects to designate a majority of its capital investment plan to reinforcing infrastructure and enhancing system safety and reliability for its California utilities.

112%

Sempra Energy total shareholder return 2011-2016*

Executing on Our Strategy

Our strategic objective is to grow our earnings per share and dividend over the next five years at roughly double the rate of the utility industry average, while maintaining a risk profile similar to our utility peers. We are on track to achieve this, while also strengthening our balance sheet and retaining the financial flexibility to invest in additional growth opportunities beyond this period.

In 2016, we achieved our key financial and operational targets and executed well on our strategic plan, positioning ourselves for continued strong performance in 2017. Our 2016 earnings were $1.37 billion, or $5.46 per diluted share. On an adjusted basis, our 2016 earnings were $1.27 billion, or $5.05 per diluted share.

Our strategy has created long-term value for our shareholders. Over the past five years,* our total shareholder return was 112 percent, compared with 64 percent for the Standard & Poor's 500 Utilities Index and 98 percent for the Standard & Poor's 500 Index. During this same period, we increased our dividend by almost 60 percent, nearly doubled our market capitalization to approximately $25 billion and advanced several major projects in our utilities and infrastructure businesses. In February 2017, our board of directors approved raising our dividend by 9 percent to $3.29 on an annualized basis.

We recently implemented organizational changes to advance leadership development and increase alignment with our strategic plan. We reorganized our subsidiaries under two new operating groups. The Sempra Utilities group includes our utility operations: SoCalGas, SDG&E and Sempra South American Utilities. The Sempra Infrastructure group includes our energy infrastructure development activities, investments and operations: Sempra Mexico, Sempra LNG & Midstream and Sempra Renewables.

We also rotated many of our senior executives into new roles throughout the company. I believe this rotation helps our senior executives gain a "horizontal" perspective on the organization. As our executives manage different functions, they develop a deeper understanding of the different aspects of our businesses and are able to assume greater responsibility within the company.

*12/31/2011 through 12/31/2016

Investments in Safety and Reliability

Over the next five years, we expect to earmark the majority of our capital investment plan for our California utilities, with a primary focus on safety, reliability and support of California's energy and environmental initiatives.

Among the largest safety and reliability projects for SoCalGas and SDG&E is the Pipeline Safety Enhancement Plan. In 2011, the California Public Utilities Commission (CPUC) directed natural gas transmission operators in the state to develop an implementation plan to test or replace all transmission pipelines that have not been pressure-tested. Collectively, SoCalGas and SDG&E operate more than 115,000 miles of natural gas pipelines and have more than 90 active or completed Pipeline Safety Enhancement Plan projects.

As this report went to press, SoCalGas was continuing to work with regulators to resume operations at its Aliso Canyon natural gas storage facility following the natural gas leak. Over the past year, SoCalGas has resolved a number of key issues since successfully sealing the leaking well in February 2016. The Los Angeles County Department of Public Health completed indoor and outdoor testing, which facilitated relocated local residents returning to their homes last summer. Additionally, SoCalGas has entered into two settlement agreements with governmental agencies for claims related to the leak, including with the South Coast Air Quality Management District.

SoCalGas has dedicated considerable effort to strengthening the infrastructure at Aliso Canyon and, in November 2016, filed with regulators for approval to resume natural gas injections at the field. Aliso Canyon remains an important energy supply hub for Southern California to meet peak electric generation demand in the summer and peak natural gas heating demand in the winter.

SDG&E's electric safety and reliability projects include upgrading or adding new transmission facilities in San Diego and southern Orange County, as well as in the Cleveland National Forest. Additionally, in 2016, the utility received regulatory approval to own and operate two energy storage projects totaling 37.5 megawatts (MW). Battery storage is the latest technology to improve overall reliability of the electric grid, accommodate more renewable energy and ease grid congestion.

In 2016, SDG&E received regulatory approval to build up to 3,500 electric vehicle charging units over the next 3 years.

Sempra Energy's utilities serve

10.5 million

electric consumers and

25.4 million

natural gas consumers

Sempra Renewables and its partners placed into service more than 420 MW of new wind and solar generating capacity in 2016.

IEnova executed the largest follow-on equity offering in Mexico in the last two years

$1.6 billion

Clean Energy Initiatives

SDG&E and SoCalGas have been clean energy leaders in California and the nation. SDG&E already has secured more than 40 percent of its power resources from renewable energy and is well ahead of schedule to meet the state's renewable energy mandate of 50 percent by 2030.

SDG&E is supporting a statewide initiative to put 1.5 million electric vehicles on California's roads by 2025. In early 2016, SDG&E gained regulatory approval for a pilot program to build and own up to 3,500 electric vehicle charging units over the next three years. SDG&E has since filed with regulators to expand the program to 90,000 homes, as well as public locations.

For its part, SoCalGas is concentrating on building infrastructure to accelerate the conversion from diesel fuel to natural gas in the heavy-duty transportation sector, especially with trucks and other vehicles moving freight at Southern California's ports and harbors. Additionally, SoCalGas is working with others to capture methane from dairies and landfills to convert into renewable natural gas that can be used in the pipeline system.

As demand for renewable energy expands nationwide, Sempra Renewables has positioned itself as one of the largest renewable energy developers in the U.S. With its joint-venture partners, Sempra Renewables now has invested in 19 solar and wind projects across 11 states with a total generating capacity of nearly 2,400 MW. All of these projects have long-term contracts for their output.

Meeting Global Demand for Energy, New Infrastructure

Rising global market demand for clean-burning natural gas — especially industry forecasts for post-2020 — has raised the profile of LNG. Advanced drilling techniques have enabled previously hard-to-access U.S. reserves of oil and natural gas to be extracted from shale rock in 21 states. Thanks to this technology, the U.S. has a projected abundant 100-year supply of natural gas that can be tapped for sale to global markets at a competitive price. Our Cameron LNG joint-venture facility under construction in Louisiana is expected to be one of the first U.S. liquefaction-export projects to commence operations in 2018. The $10 billion project is fully contracted for 20 years, featuring three liquefaction facilities, or "trains," capable of processing and exporting up to 1.7 billion cubic feet of natural gas per day for Asia, Europe and other international markets.

We are actively pursuing additional potential U.S. LNG export development opportunities, including expanding the Cameron LNG facility and building a new export facility in Port Arthur, Texas.

Another promising growth avenue for us is in Mexico, Chile and Peru, where there is a need for new energy infrastructure to support increasing customer growth and energy demand.

With Mexico opening up its energy market to private investment, our IEnova operating unit continues to expand its footprint. In 2016, IEnova raised (U.S.) $1.6 billion in an equity offering, primarily to finance recent acquisitions, decreasing Sempra Energy's ownership in IEnova to 66.4 percent. In September, IEnova completed the acquisition of PEMEX's 50-percent share in the Gasoductos de Chihuahua joint venture. The acquired assets now wholly owned by IEnova include three natural gas pipelines and an ethane pipeline, as well as a liquid petroleum gas pipeline and associated storage terminal. Also in 2016, IEnova acquired Mexico's largest wind power complex, the 252-MW Ventika facility in northern Mexico, and won a government bid to develop two solar energy projects totaling 141 MW. Additionally, IEnova, together with TransCanada Corporation, won a government bid to develop an estimated $2.1 billion underwater natural gas pipeline connecting Mexico's Tuxpan port in the Gulf of Mexico with facilities on the U.S. side of the border in Texas.

In Chile and Peru, where we own two electric utilities — Chilquinta Energía and Luz del Sur — we are investing in new electric transmission and generation projects.

In addition to our external growth drivers, we also have undertaken an internal campaign to improve operational efficiencies and reduce costs companywide. I have great confidence that our external and internal initiatives will continue to produce successful results. Thank you for your continued faith in our company. We are committed to continuing to deliver superior returns and long-term value to you.

Sincerely,

Debra L. Reed

DEBRA L. REED
Chairman, President and Chief Executive Officer

IEnova continues to expand its footprint in Mexico as the country opens up its energy market to private investment.

140%
Sempra Energy dividend growth 2008-2017