



Sempra Energy®

2004 ANNUAL REPORT

**Building Value. Delivering Results.**



Stephen L. Baum  
Chairman and Chief Executive Officer

## FELLOW SHAREHOLDERS

*Continuing to capitalize on new opportunities and execute our focused strategy.*

By all accounts, 2004 was a milestone year for Sempra Energy. We posted our sixth consecutive year of record earnings, made substantial progress in executing our growth strategy and set the foundation for future leadership of the company.

For the year, we generated net income of \$895 million, an increase of 38 percent over the \$649 million earned in 2003. Our earnings per diluted share were \$3.83, up 26 percent from 2003. Our energy-trading and power-generation units both demonstrated strong earnings growth, while our utilities continued their solid financial and operating performance.

In February 2005, the board of directors increased the annual dividend by 16 percent, based on the successful execution of our strategy and the expected cash flows from our growing businesses. This will allow the company to increase cash returns to shareholders in the short term while continuing to invest necessary capital for long-term growth.

We made major strides in advancing our liquefied natural gas (LNG) import business, signing supply and capacity agreements for our Energía Costa Azul facility in Baja California, Mexico. When it begins operations in 2008, Energía Costa Azul will be the first LNG receipt terminal on North America's West Coast, able to supply natural gas markets in the Southwestern United States and Mexico. Supply and capacity negotiations continue for our Cameron LNG terminal in Louisiana. We are ready to commence construction, once these negotiations are completed. We also began permitting a third receipt terminal in Port Arthur, Texas, due to come online in 2009.

Our California utilities—San Diego Gas & Electric (SDG&E) and Southern California Gas Co. (SoCalGas)—earned final approval from the California Public Utilities Commission (CPUC) in December for the first phase of their rate-setting plans. These plans ensure that both utilities will continue to earn a reasonable return on their investments over the next three years while providing exceptional service to their 23 million consumers.

The State of California has returned SDG&E to its role as a full-service energy provider. In June 2004, the CPUC approved SDG&E's regional energy-reliability plan, which calls for the acquisition of a new 550-megawatt (MW) natural gas-fired power plant being constructed near San Diego by Sempra Generation (formerly Sempra Energy Resources). SDG&E expects to assume ownership and operation of the plant when it is completed in 2006. As part of its approved plan, SDG&E also will acquire renewable energy resources and enter into a 10-year power-purchase agreement. The new infrastructure, including transmission upgrades, will add more than \$700 million to the utility rate base.

Sempra Commodities (formerly Sempra Energy Trading) enjoyed a record year amidst volatile commodity markets. At the end of 2004, the company had registered six consecutive years of profitability, due to its strong risk management, and product and geographic diversity. Given the industry turmoil in recent years with many traditional competitors exiting the sector, Sempra Commodities' achievements are even more remarkable.

Sempra Generation benefited from the first full year of operation of its new power plant fleet in the Southwest. Additionally, in July 2004, Sempra Generation assumed management of the Coletto Creek Power Station, a 632-MW coal-fired Texas power plant, along with eight other Texas power plants. These facilities were acquired jointly on a 50-50 basis with a financial partner for \$430 million. We now have a strong foothold in the profitable Southwestern U.S. power market—as well as a reliable stream of future earnings from its portfolio of mid- and long-term supply contracts.

Sempra Energy International continues to prosper with its Latin American transmission and distribution businesses, and has added an intensified market focus on natural gas pipelines and storage facilities. As such, we have changed the company's name to Sempra Pipelines & Storage and concentrated on developing natural gas infrastructure in North America, including two new storage facilities in Louisiana. These new facilities will complement our LNG development activities on the Gulf Coast.

To increase efficiencies, we have integrated the operations of our former Sempra Energy Solutions unit into Sempra Generation and Sempra Commodities.

With my planned retirement at the end of January 2006, our board of directors has taken the steps to transition to new leadership. In

Don Felsinger  
President and  
Chief Operating  
Officer



"At a time when many others in our industry have retreated and reinvented themselves, Sempra Energy has stayed the course and executed our strategy successfully. We pride ourselves on bucking conventional wisdom—testing the widely held theories through our own thorough research—and staying one step ahead of marketplace needs."

—Don Felsinger

June 2004, the board announced the election of Don Felsing to the position of president and chief operating officer of Sempra Energy. Don, who previously served as group president of Sempra Global, has worked for Sempra Energy and SDG&E for 32 years. He and Neal Schmale, our chief financial officer, also were elected to the Sempra Energy board of directors. When I retire in 2006, Don is slated to become chief executive officer and Neal, chief operating officer, for Sempra Energy.

I could not be more proud of what we've collectively accomplished during my stewardship of Sempra Energy. Over the past six years, we've achieved more than 20 percent compounded annual growth in earnings per share and our stock value has enjoyed steady appreciation. In fact, our stock has outperformed the S&P 500 and the S&P Utility Index over the last five years.

Today, we are one of the very few integrated energy companies that successfully operates both regulated utilities and competitive energy businesses. Our California utilities emerged from the energy crisis of 2000-01 financially sound and dedicated to ensuring reliable energy supplies for their customers into the future, while maintaining their traditionally high levels of service. On the competitive side of the business, we have built one of the most successful energy-trading operations in North America, assembled a profitable and efficient power-generation portfolio, and gained first-mover advantage in the North American LNG market.

At the core of our success are the determined efforts of our 13,000 employees and our unwavering focus on successful execution of our strategy. We are committed to prudent risk management in every facet of our business and to preserving a solid balance sheet, so that we have the flexibility to take advantage of market opportunities today and in the future.

We also remain committed to being an active and integral member of the communities in which we operate. I am proud of our achievements in employment and supplier diversity, as well. In 2004, for the sixth consecutive year, Sempra Energy was ranked as one of the top five U.S. companies for minorities by *Fortune* magazine.

Finally, I want to thank you—our shareholders—for all your support during my tenure as chief executive officer. Going forward, you can rest assured that our new leadership team is every bit as dedicated to increasing the value of your investment and continuing what has become one of the great success stories in the energy business.

Sincerely,



Stephen L. Baum  
Chairman and Chief Executive Officer

Neal Schmale  
Chief Financial Officer



"Sempra Energy has a solid balance sheet, ample liquidity and strong, investment-grade credit ratings—all hallmarks of a successful company. But, none of these would be possible if we didn't make sound investment decisions. That's why our focus is on managing our risks effectively and maintaining financial flexibility, so that we can take advantage of the opportunities provided by a wide variety of economic conditions."

—Neal Schmale

## SEMPRA ENERGY AT A GLANCE

### CORPORATE PROFILE

Based in San Diego, Sempra Energy is an energy services company with 2004 revenues of \$9.4 billion. Sempra Energy serves one of the largest customer bases of any energy utility in the United States. With more than 13,000 employees worldwide, the Sempra Energy companies develop energy infrastructure, operate utilities, and provide related products and services to more than 29 million consumers in the United States, Europe, Canada, Mexico, South America and Asia. Sempra Energy common shares trade on the New York Stock Exchange (NYSE) under the symbol "SRE". Additional information is available on the Web at Sempra.com.

*A solid foundation of California utilities and focused growth of our other businesses.*



### SEMPRA UTILITIES

**San Diego Gas & Electric** serves 3.3 million consumers through 1.3 million electric meters and more than 800,000 natural gas meters. The utility's service area spans 4,100 square miles.

**Southern California Gas Co.**, the nation's largest natural gas distribution utility, serves a population of 19.5 million through 5.5 million meters. The company's service territory encompasses approximately 20,000 square miles.

### SEMPRA GLOBAL

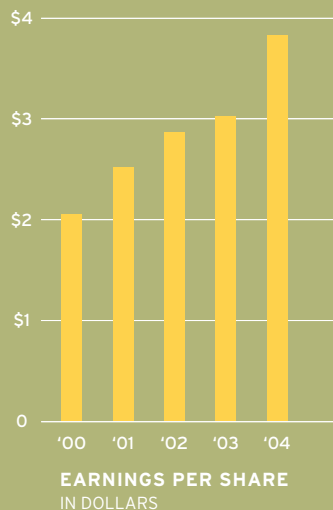
**Sempra Generation** develops and operates power plants and energy infrastructure for the competitive market. Its portfolio of active generation assets totals approximately 3,650 megawatts. Approximately 80 percent of this capacity is under contract through 2007, providing Sempra Generation stable earnings and cash flow into the future.

**Sempra Commodities** provides worldwide marketing and risk-management services to wholesale and retail customers for natural gas, power, petroleum products and base metals. Sempra Commodities is one of the largest marketers of natural gas in North America and one of the top marketers of base metals in the world.

**Sempra LNG** plans, constructs and operates liquefied natural gas (LNG) receipt terminals in North America. LNG imports will help address the growing shortfall in North American gas supplies. Energía Costa Azul, north of Ensenada in Baja California, Mexico, will process 1 billion cubic

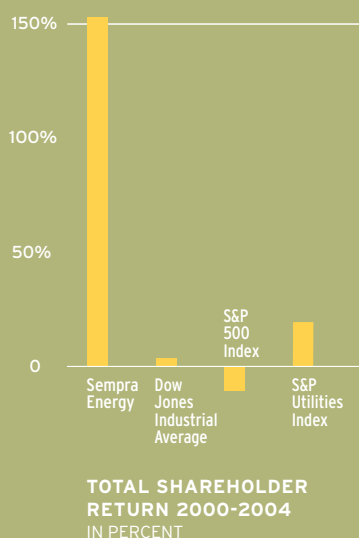
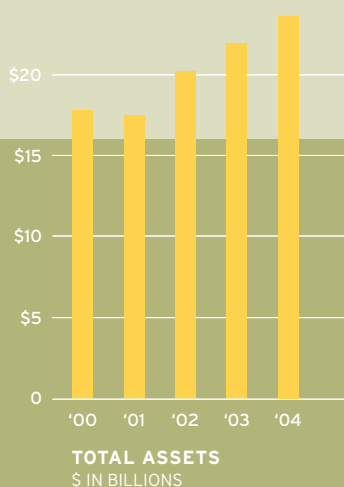
feet (Bcf) per day of natural gas. Cameron LNG, being developed near Lake Charles, Louisiana, will process 1.5 Bcf per day of natural gas. Port Arthur LNG will be built along the Port Arthur ship channel in Texas that is an entryway from the Gulf of Mexico. It is in the permitting stage and is expected to process 1.5 Bcf per day of natural gas.

**Sempra Pipelines & Storage** acquires, builds and operates natural gas pipelines and storage facilities in Mexico and the United States. The company operates 165 miles of high-pressure natural gas pipelines and is developing another 230-plus miles to connect major natural gas supply sources. In addition, through its Sempra Energy International subsidiary, the company provides natural gas and electricity distribution services to more than 2.8 million customers in Argentina, Chile, Mexico, Peru and the United States.



## FINANCIAL HIGHLIGHTS

*Growing earnings per share by an average of more than 20 percent annually since 1998.*



At December 31 or for the years then ended  
(Dollars in millions, except per-share amounts)

### CONSOLIDATED FINANCIAL DATA

	2004	2003	Percent change
Operating Revenues	\$ 9,410	\$ 7,887	19%
Net Income	\$ 895	\$ 649	38%
Net Income Per Share of Common Stock:			
Basic	\$ 3.92	\$ 3.07	28%
Diluted	\$ 3.83	\$ 3.03	26%
Weighted Average Number of Common Shares Outstanding (diluted, in millions)	233.9	214.5	9%
Total Assets	\$ 23,643	\$ 21,988	8%
Common Dividends Declared Per Share	\$ 1.00	\$ 1.00	—
Debt to Total Capitalization	50%	57%	
Book Value Per Share	\$ 20.77	\$ 17.17	21%
Capital Expenditures & Investments	\$ 1,157	\$ 1,251	-8%

## CORPORATE INFORMATION

### Transfer Agent

EquiServe Trust Company, N.A.  
P.O. Box 43069  
Providence, RI 02940-3069  
Telephone: 877-773-6772  
Hearing Impaired (TDD):  
800-952-9245  
Internet: [www.equiserve.com](http://www.equiserve.com)

### Shareholder Services

Investors with general questions regarding Sempra Energy, San Diego Gas & Electric, Southern California Gas Co. or Pacific Enterprises securities should contact the company at:

Sempra Energy  
Shareholder Services  
101 Ash Street  
San Diego, CA 92101-3017  
Telephone: 877-736-7727  
Fax: 619-696-2374  
E-mail: [investor@sempra.com](mailto:investor@sempra.com)  
Internet: [www.Sempra.com](http://www.Sempra.com)

### News and Information

To hear corporate news reports and stock updates, or to request materials, call 877-773-6397.

Sempra Energy's Annual Report to the Securities and Exchange Commission (Form 10-K) is available to shareholders at no charge by writing to Shareholder Services.

This information, as well as corporate-governance guidelines, codes of ethics and board committee charters, also are available on the company's Web site at [www.Sempra.com](http://www.Sempra.com).

Sempra Energy also offers a quarterly *Performance Report* newsletter via e-mail for those who register at [www.Sempra.com/subscribe](http://www.Sempra.com/subscribe).

### Investor Relations

Security analysts, portfolio managers and other members of the financial community should contact:

Dennis V. Arriola  
Vice President, Communications  
and Investor Relations  
Telephone: 619-696-2901  
Fax: 619-696-2374

### Stock Exchange Listing

Sempra Energy Common Stock:  
Ticker Symbol: SRE  
New York Stock Exchange  
Pacific Stock Exchange

Sempra Energy Trust Preferred Securities:  
New York Stock Exchange

Sempra Energy Income Equity Units:  
New York Stock Exchange

Pacific Enterprises Preferred Stock:  
American Stock Exchange  
Pacific Stock Exchange

San Diego Gas & Electric  
Preferred Stock:  
American Stock Exchange

Southern California Gas Co.  
Preferred Stock:  
Pacific Stock Exchange

### Direct Common Stock Investment Plan

Sempra Energy offers a Direct Common Stock Investment Plan as a simple, convenient and affordable way to invest in the company. Cash dividends from a participant's account can be reinvested automatically in full or in part to purchase additional shares, or participants may choose to receive all or a portion of their cash dividends electronically or by check. Participation in the Plan requires an initial investment of as little as \$500. The Plan allows optional cash investments of as little as \$25 up to a maximum of \$150,000 per calendar year. Nonshareholders pay a \$15 fee for the initial cash investment in Sempra Energy. Brokerage commissions incurred in the purchase of shares will be paid by Sempra Energy. The Plan is offered only by the means of a prospectus, which can be obtained by calling the Plan Administrator, EquiServe Trust Co., N.A., at 877-773-6772, or through the Internet at [www.equiserve.com](http://www.equiserve.com).

Sempra Energy's Annual Report to the Securities Exchange Commission on Form 10-K, which includes as exhibits the certifications regarding the quality of the company's public disclosure that are filed by Sempra Energy's chief executive officer and chief financial officer under the Sarbanes-Oxley Act of 2002, is available to shareholders at no charge by writing to the company's Shareholder Services Department. Sempra Energy's chief executive officer has also certified to the New York Stock Exchange that Sempra Energy is in compliance with the NYSE's corporate governance listing standards.

This report contains statements that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When the company uses words like "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "would," "should" or similar expressions, or when the company discusses its strategy or plans, the company is making forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in the forward-looking statements. Forward-looking statements are necessarily based upon various assumptions involving judgments with respect to the future and other risks, including, among others: national, international, regional and local economic, competitive, political, legislative and regulatory conditions and developments; actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission and other regulatory bodies in the United States and other countries; capital market conditions, inflation rates, interest rates and exchange rates; energy and trading markets, including the timing and extent of changes in commodity prices; the availability of natural gas; weather conditions and conservation efforts; war and terrorist attacks; business, regulatory, environmental, and legal decisions and requirements; the status of deregulation of retail natural gas and electricity delivery; the timing and success of business development efforts; and other uncertainties, all of which are difficult to predict and many of which are beyond the company's control. These risks and uncertainties are further discussed in the company's reports filed with the Securities and Exchange Commission that are available through the EDGAR system without charge at its Web site, [www.sec.gov](http://www.sec.gov) and on the company's Web site, [www.Sempra.com](http://www.Sempra.com).



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