

# Second-Quarter 2007 Earnings Results

Don Felsing

Chairman & Chief Executive Officer



**BUILDING OUR ENERGY FUTURE**

August 2, 2007

## Safe Harbor Statement

This presentation 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," "could," "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: local, regional, national and international 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, the Federal Reserve, and other environmental and regulatory bodies in the United States and other countries, such as the Financial Services Authority of the U.K.; capital markets 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 and liquefied 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; the resolution of litigation; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the company. 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 website, [www.sec.gov](http://www.sec.gov), and on the company's website, [www.sempra.com](http://www.sempra.com).

## Second-Quarter 2007 Results

- ▶ Income from continuing operations improves by over 50%
- ▶ On track to achieve 2007 earnings guidance of \$3.75 to \$3.95 per share

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<i>(Dollars and shares in millions, except EPS - Unaudited)</i>				
Income from Continuing Operations	\$ 280	\$ 185	\$ 507	\$ 419
Net Income	\$ 277	\$ 373	\$ 505	\$ 628
<hr/>				
Diluted weighted-average shares outstanding	265	260	265	260
EPS - Continuing Operations	\$ 1.06	\$ 0.71	\$ 1.92	\$ 1.61
EPS - Net Income	\$ 1.05	\$ 1.43	\$ 1.91	\$ 2.42

## Sempra Utilities

<i>(Unaudited, dollars in millions)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
SDG&E Net Income	\$ 51	\$ 65	\$ 113	\$ 112
SoCalGas Net Income	54	58	109	107
Total Sempra Utilities	<u>\$ 105</u>	<u>\$ 123</u>	<u>\$ 222</u>	<u>\$ 219</u>

### ▶ SDG&E

- Higher transmission earnings in Q2-07
- Q2-06 included \$16 million from the favorable resolution of regulatory and tax matters and a positive litigation reserve adjustment

### ▶ SoCalGas

- Q2-06 included \$3 million benefit from a litigation reserve adjustment

# Sempra Commodities

<i>(Unaudited, dollars in millions)</i>	Three months ended June 30,		Six months ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Mark-to-Market Earnings *	\$ 122	\$ 83	\$ 279	\$ 243
Effect of EITF 02-3 **	<u>33</u>	<u>(14)</u>	<u>(53)</u>	<u>(58)</u>
GAAP Net Income	<u>\$ 155</u>	<u>\$ 69</u>	<u>\$ 226</u>	<u>\$ 185</u>

- ▶ Improved margins in Q2-07 across all product lines
- ▶ Announced RBS Sempra Commodities joint venture

\* Represents earnings from the fair market value of all commodities transactions. This metric is a useful measurement of profitability because it simultaneously recognizes changes in the various components of transactions and reflects how the business is managed.

\*\* Consists of the income statement effect of not recognizing changes in the fair market value of certain physical inventories, and capacity contracts for transportation and storage and derivative hedging activities related to synthetic fuels tax credits.

## RBS Sempra Commodities

### Financial Considerations:

- ▶ Net proceeds of \$1.0 to \$1.2 billion
  - Expected reduction of 2008 segment earnings implies a 10-12x multiple
- ▶ Regulatory capital expected to generally track 70% of total capital
  - Determined by U.K.'s Financial Services Authority (FSA)
  - Sempra's initial \$1.3 billion investment always considered regulatory capital
- ▶ Partners earn a 15% return on regulatory capital
- ▶ Sempra Energy expects to retain majority of JV profits until business almost doubles 2006 record earnings

## Sempra Generation

<i>(Unaudited, dollars in millions)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net Income	\$ 10	\$ 16	\$ 64	\$ 57

- ▶ Q2-07 decrease primarily due to mark-to-market losses on long-term contracts with Sempra Commodities
- ▶ Year-to-date 2007 results improve primarily due to lower administrative and development expenses

## Sempra Pipelines & Storage

<i>(Unaudited, dollars in millions)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net Income	\$ 17	\$ 28	\$ 33	\$ 39

- ▶ Q2-06 results included \$9 million benefit from favorable resolution of prior years' income tax issues



## Net Income by Business Unit

<i>(Unaudited, dollars in millions)</i>	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<b>Sempra Utilities:</b>				
San Diego Gas & Electric	\$ 51	\$ 65	\$ 113	\$ 112
Southern California Gas	54	58	109	107
Total Sempra Utilities	<u>105</u>	<u>123</u>	<u>222</u>	<u>219</u>
<b>Sempra Global:</b>				
Sempra Commodities	155	69	226	185
Sempra Generation*	10	16	64	57
Sempra Pipelines & Storage*	17	28	33	39
Sempra LNG	(13)	(17)	(23)	(22)
Total Sempra Global	<u>169</u>	<u>96</u>	<u>300</u>	<u>259</u>
Parent & Other	<u>6</u>	<u>(34)</u>	<u>(15)</u>	<u>(59)</u>
Continuing Operations	280	185	507	419
Discontinued Operations, Net of Income Tax	(3)	188	(2)	209
Consolidated Net Income	<u>\$ 277</u>	<u>\$ 373</u>	<u>\$ 505</u>	<u>\$ 628</u>

\* Excludes amounts now classified as discontinued operations.

## Financial Summary

- ▶ Q2-07 income from continuing operations increased by more than 50% over prior year's quarter
- ▶ 2007 year-to-date operating cash flow increased by nearly \$900 million over prior year's period
- ▶ RBS Sempra Commodities transaction announced
  - Rating agencies confirmed Sempra's debt ratings in anticipation of transaction
  - Option to start share repurchase early (\$160 million currently authorized)

## Operational Update – Sempra Utilities

- ▶ 230 kV Otay Metro transmission project in-service
- ▶ FERC authorized return on equity increased to 11.35% (effective July 1, 2007)
- ▶ Cost of Capital decision expected Q4-07
- ▶ General Rate Case decision expected Q1-08
- ▶ Sunrise Powerlink decision delayed until the second half of 2008
- ▶ Installation of smart meters expected to begin Q4-08

## Operational Update – Sempra Generation

- ▶ Acquired development rights to La Rumorosa Wind Power project
- ▶ Planned Phase I of 250 megawatts
- ▶ 20-year power purchase agreement with Southern California Edison for 100% of Phase I off-take



# Operational Update – Natural Gas Businesses

- ▶ Sempra Pipelines & Storage
  - Rockies Express – West under construction, on schedule
  - Bajanorte Pipeline expansion over 60% complete
  
- ▶ Sempra LNG
  - Energía Costa Azul construction over 80% complete
  - Cameron LNG construction roughly 55% complete

## RBS Sempra Commodities

- ▶ Expected close in Q4-07
- ▶ All key regulatory filings made with FSA, Federal Reserve, and FERC
- ▶ RBS will provide all necessary growth capital, credit and liquidity
- ▶ Significantly enhances the strength and flexibility of Sempra's balance sheet

## Summary

- ▶ Strong first-half performance from all businesses
- ▶ Expected financial initiatives following closing of RBS Sempra Commodities transaction
  - \$1.5 to \$2.0 billion stock buy-back
  - Annual dividend increase to \$1.40 per share from \$1.24 per share
  - Target ongoing dividend payout ratio of 35% to 40%
- ▶ Affirmed 2007 earnings guidance of \$3.75 to \$3.95 per share