HY26 Interim Results Presentation

Transcript

SSE HY26 Interim Results

Good morning, everyone, and thank you for joining us today as we set out our transformational, fully funded investment plan to deliver high-quality capital and earnings growth.

As I give my first presentation as Chief Executive, I am delighted to say that before us lies the most exciting period of growth I have seen in my near three decades at SSE.

And by leaning into the UK networks opportunity, we are underlining our position as a top-tier European energy player.

Over the course of the next 30 minutes, we will:

- Outline how we have been ramping up delivery of game-changing infrastructure.
- Provide a brief update on our financial performance.
- And, finally, lay out the detail behind a bold new plan that faces into the paradigm shift under way in our sector.
- Before I hand over to our Chief Financial Officer, Barry O'Regan, to run through our results for the half year, I want to briefly set the context for how our integrated strategy optimises growth and creates long-term sustainable value.

TRANSFORMING FOR GROWTH – OUR 2030 INVESTMENT PLAN

- SSE's position at the heart of the energy transition in our core UK and Ireland markets has created a once-in-a-generation opportunity for the Group to significantly increase our investment in home-grown, secure and clean energy infrastructure.
- We have great options across Networks, Renewables and Flexibility, but within that the single biggest opportunity is in transmission, and that's our focus this morning.
- Under this plan, we will be investing £33bn, of which 80% will be in Networks, growing the regulatory asset base by a compound annual growth rate of around 25% to 2030 and positioning SSE as one of the fastest growing electricity network companies in the world.
- This will drive increasing levels of high-quality index-linked earnings with clear visibility to achieve between 225 to 250 pence Earnings Per Share by 2030 – after adjusting for the equity placing we have announced today.
- We are also able to extend our sustainable and progressive dividend policy over the same period.
- And it is important to emphasise that this is a fully funded plan with a firm commitment to maintaining a strong balance sheet.
- Around 90% of this will be self-funded, through strong operational cashflows or by steady increases in our levels of net debt and hybrid capital.
- The remaining 10% will be achieved through a combination of today's equity placing as well as targeted disposals.
- This is a hugely exciting investment plan which will deliver significant long-term value creation over the course of this decade and beyond.

SIX MONTH PROGRESS REPORT: DELIVERING ON OUR STRATEGY

- Our confidence is underpinned by SSE's track record of delivery.
- The roll call of SSE-built additions to the energy system in recent years is impressive and includes the delivery of complex projects like the Shetland HVDC connection, Viking wind farm, Seagreen, the North East 400kV scheme, Slough Multifuel and Keadby 2.
- And the relentless delivery continues with the headway we have made on construction and planning milestones over the past six months.
- In Networks, construction is now well under way on four of the 11 major transmission projects, with all major consents submitted and supply chain secured for the remainder.
- In Renewables, we are making strong progress on our 2.5GW construction programme including Dogger Bank, where 88 out of 95 turbines are now installed with the project remaining on track with the guidance we issued over a year ago. In addition, Yellow River is fully commissioned and Berwick Bank is consented and on track for participation in upcoming auction rounds.
- And Flexibility completes the picture as we progress construction on two vital new thermal generation projects in Ireland.
- As we'll set out today, Networks are the growing core of our investment plans. But they continue to be complemented by selective and disciplined growth projects across our other businesses.

SAFETY – SSE'S CORE VALUE

- And of course, it is critical that in making this progress we put our people first.
- Everything we will talk about today is underpinned by the hard work and dedication of our employees and contract partners, so keeping them safe and well will always be SSE's primary concern.
- It is therefore pleasing to report continued strength in our safety performance through a period of increased construction activity over the past six months.
- And with investment set to accelerate, it will be critical to maintain our focus on looking after those who work for, and on behalf of, SSE.
- I'll now hand over to Barry for an overview of performance in the first half of the year, before we turn to our exciting plans for the next five-year period.

Barry O'Regan

- Thank you, Martin, and good morning everyone.
- I'm sure you'll be keen to see further detail of our new investment plan, however it is important to briefly cover financial performance in the first half and, our reaffirmed outlook.

HY26 FINANCIAL PERFORMANCE IN LINE WITH EXPECTATIONS

- The £655m adjusted operating profit delivered by the Group over the past six months was in line with usual seasonal averages and therefore keeps us on track to deliver on our expectations for the full year.

- The first half saw a step change in Transmission investment and earnings, so it's worth pausing to highlight the continued evolution of the latter.
- Around two thirds of earnings were generated by regulated Networks – an increase relative to the comparative period and in line with the continued upweighting of investment in that area.
- The increase in high-quality regulated earnings is a trend that is set to continue as we deliver on our investment programme.
- Turning to the bottom line, the Group delivered adjusted EPS of 36.1 pence, in line with our expectations for the period.

FINANCIAL RESULTS – NETWORKS

- In our combined Networks businesses, adjusted operating profit fell by £84m over the first six months.
- Profits almost doubled for Transmission, driven by the continued increase in investment as we make substantial progress on our large capital projects.
- Turning to Distribution, profits were lower, as expected given the non-recurring inflation adjustment in the prior period, with operational performance remaining strong.
- Overall, we continue to be pleased with the underlying financial and strategic performance achieved by our regulated businesses, which sets them up well for their future growth.

FINANCIAL RESULTS – RENEWABLES

- In SSE Renewables, strong progress continues to be made on Dogger Bank construction, and we were delighted to announce full completion of Yellow River in October.
- Whilst increased capacity largely offset unfavourable weather conditions, the 20% decrease in hedged prices that we flagged in May meant that adjusted operating profits have reduced this period.
- With the usual seasonality meaning that over two thirds of operating profit for this business is generated in the second half of the year, we remain confident that earnings will be higher on a year-on-year basis.

FINANCIAL RESULTS – FLEXIBILITY

- Turning to Flexibility, adjusted operating profits have fallen since the previous period.
- This movement was mainly due to the Customers business, where a bad debt release in the comparative period is combined with lower volumes in the first half.
- We expect a greater proportion of profits to be recognised in the second half for this business.

FINANCIAL RESULTS – NET INCOME AND DIVIDEND

- Below the line, net finance charges were stable, reflecting a combination of capitalisation effects and use of hybrid debt with coupons expected to increase in FY27.
- Our tax rate continues to decline with the "full expensing" capital allowances available on our increasing investment programme.

- As you know, our dividend policy is to deliver 5-10% growth across the year, and – as set out in May – our planned approach means that we today declare an interim dividend of 21.4 pence, being one third of our FY25 dividend.

OUTLOOK – SEGMENTAL GUIDANCE UNCHANGED

- Turning now to the financial outlook for FY26 and FY27, we are pleased to reconfirm the detailed segmental guidance we gave in May.
- With half-year results within the normal ranges of seasonality, we see the strong performance noted today continuing through the key winter months, subject to the usual variables around weather, market conditions and plant availability.
- And consistent with the approach in prior years, we will provide specific EPS guidance later in the financial year.
- Looking further ahead, the strategic execution that Martin highlighted earlier, means we remain confident in delivering against our FY27 earnings projection.
- With the first-half financial performance now covered, I'll pass you back to Martin for more detail on our transformational investment plans.

Martin Pibworth

Thank you, Barry.

It's important to set the scene for why a huge acceleration of investment in infrastructure will be needed in any realistic energy transition scenario.

ELECTRIFICATION: UNSTOPPABLE AND ACCELERATING

- Regardless of shifting political priorities, electrification of the global economy is unstoppable and accelerating.
- As you can see from the slide, there is a dramatic ramping up of electricity demand from 2030 out to 2050.
- That is a staggering amount of growth for the system to accommodate, particularly against a backdrop of an ageing gas generation fleet, nuclear closures and the reliance on imports from jurisdictions going through similar uncertain transitions.
- It is also worth emphasising that the surge in energy demand is unlikely to be smooth or linear; we will need a system that can accommodate uncertainty.
- These projections have a number of important implications.
- First, the need for a much more strategic, centralised approach to system planning to ensure the right infrastructure is built, in the right places at the right time.
- We are seeing this materialise through the Clean Power Plan, the development of the Strategic Spatial Energy Plan which will follow, and ambitious planning reform.
- Second, it requires a clear focus on the cost of capital and crowding investment in electricity infrastructure, because this is what will deliver in the long-term interests of customers.

- This was a key factor in the Government's welcome decision to rule out zonal pricing in the summer, and remains the driving force behind policy and regulatory decisions that are adding momentum to our strategy for value-enhancing growth.
- Meeting the needs of an electrifying economy requires four things:
  - Rapid expansion and reinforcement of the transmission network;
  - Strategic local distribution upgrades and modernisation;
  - A doubling or even tripling of homegrown energy generation supply;
  - And a greater focus on storage and flexibility to keep it all in balance.

A MULTI-DECADE ORGANIC GROWTH OPPORTUNITY

- All of these drivers underline the multi-decade organic growth opportunity in front of SSE's carefully selected business mix.
- The need to alleviate system constraints and rewire Scotland underpins the huge projects Transmission has well under way.
- This is investment that the grid needs today – and it will lay the foundation for development of smart grids and a digital economy in the future.
- In Distribution, the next price control will mark a shift in pace as we deliver increasingly strategic plans that accelerate electrification for consumers.
- Across Renewables – which remain the cheapest form of new generation – we have a premium pipeline of options and significant delivery expertise.
- The North Sea leads the world in offshore wind, and the capability we have developed through projects like Dogger Bank and Seagreen gives us an enviable platform for future growth.
- And finally, our Flexibility capabilities give us resilience against unexpected market developments in an increasingly electrified world.
- Thermal plant will be rewarded in all transition scenarios – whether providing grid stability or security of supply – and it is complemented by a Customers business that is meeting the demands of a digitalised world focused on AI and datacentre growth.
- With supportive policy frameworks, and the expertise to deliver, SSE has unique access to the multi-decade organic growth opportunity in these core markets.

RECORD INVESTMENT DRIVING INDUSTRY-LEADING GROWTH

- We briefly touched upon some of these numbers in an earlier slide, but it is worth walking through what this once-in-a-generation opportunity means.
- The £33bn investment plan we present today is a trebling of the investment we delivered across the previous five years.
- This investment brings with it industry-leading capital growth, with our combined Networks RAV set to treble to around £40bn by the end of the decade – a 25% compound annual growth rate.

- Disciplined further investment in Renewables is likely to add a further 1.5GW of projects, combining with the 2.5GW already under construction to take installed capacity to around 9GW by 2030.
- This is growth that will create significant value for the Group across the life of the plan and longer term.
- It will underpin an increase in adjusted EPS to between 225 and 250 pence by FY30, after accounting for today's proposed placing.
- When compared to last years' FY25 EPS base – which remains unchanged – of 160.9p, this is a compound annual growth rate of between 7 to 9%.
- This accelerated investment is underpinned by secure UK Government regulatory frameworks, and it will unlock growth across the wider economy and support thousands of jobs over the course of the plan.

ONE OF THE FASTEST-GROWING ELECTRICITY NETWORKS IN THE WORLD

- Turning to Transmission, Ofgem's strategic approach to regulation has provided unprecedented and welcome visibility on investment to 2030.
- While we continue to engage constructively with Ofgem ahead of the Final Determination on RIIO-T3 next month, the vast majority of the transformational capex plan we announced today has its origin in the ASTI and LOTI programmes.
- Between the agreed ASTI and LOTI regimes and business-as-usual programmes, we see SSEN Transmission investment increasing to around £22bn across the period, net of the share from our supportive investment partner.
- This will deliver a 30% CAGR in the Transmission asset base, making it one of the fastest growing electricity networks in the world, with earnings increasing at an even faster rate over the plan.
- And, as I will come onto over the next few slides, with the high degree of visibility we have over the capex plan and with all major consents submitted, we are making sure that the business and the supply chain are well positioned to deliver.

HIGH DEGREE OF VISIBILITY OVER INVESTMENT REQUIRED

- The ASTI and LOTI projects are required in every realistic energy scenario. They are well advanced – with mature designs, optimised configurations and a supply chain ready to deliver.
- Around 90% of our investment in Transmission will be spent on these projects and business-as-usual investment, and it reflects the supply chain inflation we have seen over the past few years.
- These projects will connect homegrown renewable energy and transport the power produced to areas of increasing demand across the country.
- And they offer clear value for money for consumers by reducing current constraint costs, establishing the foundation for security of supply and reducing our national dependence on volatile energy markets.
- This high degree of visibility means that the Transmission story today is all about safely and efficiently converting the lines on this map into critical national infrastructure.

- And this is happening at pace.

DELIVERING HIGH QUALITY TRANSMISSION GROWTH

- As I said earlier, four of the 11 ASTI and LOTI projects are already in construction, and all major consent applications have been submitted.
- All supply chain frameworks that we need have been secured, and we are working with our partners on their delivery capacity and manufacturing quality.
- This isn't a desktop exercise; this is securing key equipment, this is inspection of manufacturing facilities, this is accelerated innovation and support of the supply chain. It is heavy recruitment ahead of need; vast training programmes and deep community engagement. And this is all well under way.
- With our own resource in the Transmission business increasing five-fold in the past five years, we are putting everything in place to deliver most of these projects by 2030, ahead of the next phase of projects that will surely follow.
- This is an exciting moment for SSE, for Scotland and for the UK but we are acutely aware that local communities have a major stake in these projects.
- Having conducted what we believe to be the largest public consultation exercise Scotland has ever seen, we continue to engage with all parties and adapt our plans where we can.
- We are also investing in housing and community benefit funding that will have a lasting, positive impact on the north of Scotland.
- Ultimately, these vital projects are in our licence conditions and they will be delivered.
- The need is there.
- The supply chain is there.
- Consenting is progressing.
- They will make a huge difference to our energy system as constraints are eased and more homegrown clean energy is connected, providing a tangible economic payback for consumers.

DISTRIBUTION DRIVEN BY LONG-TERM ELECTRIFICATION TRENDS

- Distribution upgrades are more localised but they are much greater in number and hugely exciting in their own right.
- In its early consultations on the upcoming price control, Ofgem agrees.
- The regulator points to significant growth in electricity demand driven by the advance of technologies like electric vehicles, heat pumps and digital industries
- Distribution's southern licence area has enormous strategic potential as it unlocks data centre growth in the M4 corridor, while the northern network will connect increasing Scottish renewables capacity with local communities.
- We, alongside the system operator, are already creating the plans – and Ofgem is working on the frameworks – to move from a just-in-time network to a well-planned strategic one.
- At the same time, the Government is legislating for local area energy plans to create a bottom up vision of local needs.

- We see this business as consistently delivering around 10% RAV CAGR through ED3, alongside high-quality, index-linked earnings.
- And it promises to drive growth for the Group well into the 2030s and 2040s as we bring electrification to the doorstep.

RENEWABLES: MAINTAINING INVESTMENT DISCIPLINE

- Renewables will be the foundation of the future global electricity system.
- SSE has a premium pipeline and world-class teams to deliver clean North Sea energy which will power European economies for decades to come.
- In the course of our 2030 plan, we will complete major projects like Dogger Bank which are backed by long-term, high-quality and index-linked CfD contracts.
- This reflects, and is indeed a direct consequence of, our demonstrable track record of driving value through selective capital allocation in premium projects.
- We also have further options in offshore wind and additionally a significant pipeline onshore.
- Our plan outlined today includes around £2bn of uncommitted capex with which to bring forward further investments, but let me be absolutely clear: SSE will continue to maintain the strict capital discipline that has served us so well in the past and prioritise value over volume.
- Any investment we sanction will have a clear route to value creation, with adequate contingency for execution risk, deep consideration of supply chain capabilities and will be delivered through our established models, such as via partnership and project finance in offshore wind.
- But we must not lose sight of the longer-term opportunities here. The UK and Ireland will need a strong and diverse Renewables base to meet their energy goals and there is no doubt SSE will be a major part of that.
- I'll now pass you back to Barry for more on the visibility on earnings and value creation this plan gives us, and how we are funding it ...

Barry O'Regan

TRANSFORMING FOR GROWTH – OUR 2030 INVESTMENT PLAN

- Thank you, Martin.
- As we have outlined today, it is crystal clear that the right strategy at this point in the energy transition is to pivot the Group further into the transformational Networks opportunity.
- And Martin has just outlined not only the strategic importance of this investment, but also the high degree of visibility we have, our confidence in delivery and the market leading capital growth it brings.
- Over the next few slides, I will cover the clear visibility this strategic plan provides of value creation and earnings growth through the rest of the decade and beyond.

80% OF INVESTMENT INTO REGULATED NETWORKS

- Today's investment plan marks a significant evolution of capital allocation from the preceding five years.

- What has historically been a 50:50 investment split between Networks and markets, now becomes 80:20, upweighted in favour of Networks.
- And this upweighting provides the Group with a significant enhancement in earnings visibility.
- By FY30 we expect that around 80% of earnings will be index linked through either the stable regulatory framework provided by Networks or from our energy businesses where CfD, ROC, REFIT arrangements and a rising Capacity Mechanism provide a clear line of sight over future earnings.
- This is a material step-up from our position today – offering investors significant earnings stability and protection as we materially grow the business over the course of the decade.
- At the same time, we will retain 20% of value upside potential – mainly through Flexibility services – which also provides the Group with resilience against unexpected market events.

VISIBILITY OVER EARNINGS GROWTH AND VALUE CREATION

- And with 80% of investment targeted towards Networks, it should come as no surprise that the majority of expected earnings and asset base growth will come from those businesses.
- Whilst negotiations over T3 remain constructive – and ongoing – we expect that the rapid regulatory asset growth in those businesses will deliver RAV of around £40bn by FY30, and this will provide a firm underpin to the step up in long-term earnings.
- And while more moderate earnings growth is expected in Renewables and Flexibility, these businesses continue to provide the Group with value upside potential as I have mentioned.
- It is important that – as we pivot and grow – we retain a sharp eye on commerciality and efficiency.
- And that is why we are also committing to driving upweighted annual recurring cost efficiencies across the Group of around £200m by FY28.
- This is an investment plan that has discipline and efficiency at its core, that offers visibility of value creation and therefore provides us with the confidence to target adjusted Earnings Per Share of between 225 and 250 pence by FY30, after accounting for today's placing.
- This is equivalent to a 7 to 9% CAGR from the FY25 baseline that we reported in May.
- That visibility of growth enables the extension of our sustainable and progressive dividend policy, with Dividend Per Share continuing to increase by between 5 and 10% per year to FY30.

FULLY FUNDED PLAN SUPPORTED BY STRONG BALANCE SHEET

- This fully-funded plan opens the door to an unprecedented investment opportunity that will change the Group's shape, size and overall trajectory.
- It also has a commitment to a strong balance sheet at its heart – reinforcing our commitment to existing investment grade credit ratings whilst leaving ample headroom for further earnings growth well into the next decade.
- With £33bn of investment and £6bn of other cash requirements such as dividends and interest payments, we expect the Group will have a total cash requirement of around £39bn, which will be met via a combination of primarily self-funded sources.

- 3further £14bn from increasing net debt and hybrid capital issued in a steady way throughout the plan.
- This expected debt increase is smaller than our three-fold increase in regulated assets and, when combined with the growth in earnings, means we remain below 4.5x net-debt-to-EBITDA throughout the course of the plan.
- Around £2bn is expected to come from targeted asset rotations, across the range of premium assets in our portfolio.
- These disposals will be timed to meet our investment needs towards the end of the five-year plan, with assets selected to maximise value.
- And for the remainder, an equity placing of £2bn will support the significant increase in investment announced today.
- We don't take issuing equity lightly, as you can see from the extent to which this plan is self-funded, but it's absolutely the right thing to do to unlock this exciting plan, grow the business and deliver attractive returns for our shareholders.

STRUCTURE OF PROPOSED EQUITY PLACING

- I'll now quickly step through the structure of the proposed non-pre-emptive equity placing to certain eligible institutional investors, which launched this morning at 7am.
- The intention is to raise gross proceeds of £2bn through an accelerated bookbuild, which represents approximately 10% of the current issued share capital.
- Concurrently we have a separate retail offer in the UK through Retail Book.
- The proceeds we expect to raise today will enable us to deliver a plan that is the foundation for long-lasting and sustainable growth of the highest quality.
- We have an exciting opportunity in front of us, and the plan we have announced today represents a pivotal moment in SSE's evolution.
- I'll now hand to Martin to close.

Martin Pibworth

SSE PLC: AT THE HEART OF THE ENERGY TRANSITION

- Thanks, Barry.
- We are building on the strength of a business that sits at the very heart of the energy transition.
- Our balanced portfolio of capabilities, assets and businesses offers investors resilience against inflationary movements and market volatility.
- With supportive policy frameworks and delivery expertise, SSE has a strategic growth opportunity that will create sustainable value for both shareholders and society for decades to come.
- We now look forward to working with investors, governments, regulators, communities, suppliers and consumers to help build a homegrown energy system that is independent of volatile international markets, more affordable for customers and better for the environment.

TRANSFORMING FOR GROWTH – OUR 2030 INVESTMENT PLAN

- To conclude: this is a defining moment for SSE.
- We have an ambitious plan that leans further into one of the world's fastest-growing electricity networks, underlining our status as a top-tier European energy player.
- And it offers:
  - A clear, well-defined funding route that balances the need for financial strength and earnings growth.
  - Rapid capital growth in our businesses, as we grasp this once-in-a-generation opportunity.
  - And it offers long-term value creation, with clear visibility over earnings growth and a sustainable and progressive dividend policy.
- This is a hugely exciting opportunity, and we are getting on with delivering it.

Thanks for your time this morning. We will now take your questions.