

Ørsted Q4 2021 Earnings Call Transcription

2 February 2022

PRESENTATION

Operator

Hello, everyone, and welcome to this Ørsted Investor Presentation for Q4 and Full Year 2021 Results. For the first part of this call, all participants will be in listening-only mode, and afterwards there will be a question-and-answer session. Today, I am pleased to present Mads Nipper, CEO, and Marianne Wiinholt, CFO. Speakers, please begin.

Mads Nipper

Thank you very much, and good afternoon and good morning, everyone, and welcome to the Q4 2021 earnings call.

Never before has the world's climate challenges been greater and the message from science clearer that we need to act now to preserve our planet. And with more than 70% of the world's carbon emissions coming from the production and use of energy, the transition to a sustainable energy system is at the core of combating climate change.

With more than 30 years of experience in renewables as one of the five largest renewable energy companies in the world and as the undisputed leader in offshore wind, we at Ørsted want to play our part in realising this massive renewables buildout. And we plan to do so by reaching our strategic ambition of being the world's leading green energy major, installing approximately 50 GWs of renewable capacity by 2030 and combining technologies to offer customers fully integrated, multi-product solutions.

In many ways, the past year has been extraordinary, with various external factors impacting the markets where we operate. Throughout 2021, we experienced significantly lower wind speeds than normal, especially in North-Western Europe, where we have most of our operating offshore portfolio.

In February, Texas was subject to an unprecedented winter storm where the cold weather was accompanied by surging power prices, as conventional and renewable capacity across the state failed on tough conditions. The European energy crunch in the last part of the year, with extremely high and volatile gas and power prices, was also partly caused by weather conditions as the cold winter in the beginning of 2021 led to low levels of gas at storage mixed together with low wind and precipitation and increasing demand for power and gas caused by supply challenges.

Finally, the COVID-19 pandemic continued to affect societies and businesses globally, and led to economic uncertainty. And I'm pleased to say that we have successfully navigated the challenges during the year, and we have delivered significant results in 2021, strategically, operationally, and financially.

Let me take a moment to reflect on some of those accomplishments before getting into results. We are strongly committed to maintaining our number one position in global offshore wind. And in 2021, we have done so by securing 25% of the 18 GWs of offshore capacity auctions globally, and also by replenishing our pipelines with new future opportunities across all technologies.

We've demonstrated that we are an industry leader in innovation by reaching FID on our first renewable hydrogen project, having 10 hydrogen projects in development alongside several new MoUs with industry-leading partners, and by securing our first deep water lease right through the recent ScotWind auction that will be used to develop our first floating offshore wind farm.

We have committed to being the leading partner, and we have delivered by signing numerous corporate PPAs across geographies and with multiple technologies. This is further exemplified by the PPA signed for Borkum Riffgrund 3, which allowed us to substantially de-risk the originally fully merchant project and bring it to FID at attractive returns.

Taking a customer-centric approach, we have tailored the farm-down solution for our partners and ourselves to obtain revenue certainty, including a 25-year PPA with BASF. And we've launched even more key strategic partnerships across technologies and the world, which I'll explain in more detail later.

Finally, we continue to be the global energy leader in sustainability, publishing EU taxonomy-eligible numbers already in 2021, being recognised as the first energy company for net zero targets by the science-based targets initiative, and by promising all projects commissioned in 2030 and after to be net biodiversity positive.

And most recently, Ørsted was ranked, for the fourth-year in a row, as the world's most sustainable energy company on Corporate Knights' 2022 Global 100 Index. We have transformed our company completely to get where we are today, and I truly believe that sustainability will be a fundamental premise for all businesses in only a few years' time.

Let's now turn to our annual financial results. And I'm pleased that we have delivered full year results in line with our guidance. As of 2021, Group EBITDA, excluding new partnerships, came in at DKK 15.8 billion. The results are better than our Q2 and Q3 expectations of the lower end of the range, even in light of the extraordinary market conditions. Altogether, we see 2021 as having demonstrated the resilience of our business model, benefit of our diversification effect and our ability to maintain high availability rates even under difficult circumstances.

Furthermore, we once again demonstrated the power of our proven partnership model in 2021 as we close to 50% farm-down of Borssele 1 & 2 to Nordisk Bank Investment Manager, and the 50% farm-down of Greater Changhua 1 to Global Investment Group CEPQ and Cathay PE. The 8.5 billion of EBITDA we recognised for these two farm-downs are considered new partnerships, and thus were excluded from guidance.

Our return on capital employed ROCE for 2021 was 15% above our target of an average group ROCE of around 11% to 12% for the period 2020 to 2027. On the back of our financials, we will propose a dividend of DKK 12.5 per share to the Annual General Meeting, corresponding to an increase in dividends of 8.7%, in line with our dividend policy.

Now, turning to slide four. I'm very pleased with how we have grown our firm capacity. During 2021, we grew our offshore wind firm capacity by 31%. We confirmed our strength as a partner when we were selected in Poland by PGE for the 2.5-GW Baltica 2 & 3 projects. And between the 2 GW of competitively-awarded capacity in New Jersey for Ocean Wind 2, and most recently in Maryland for Skipjack 2, we proved our ability to deliver a winning offering with competitive pricing, attractive terms, and an all-encompassing, local content package.

Turning to onshore. We demonstrated that we not only buy well, but that we create the right organic development opportunities, too. We acquired Brookfield Renewable Ireland in April of 2021, that included 327 MWs of operating assets and at that time, a 62-MW project under construction. Since then, we have brought two additional projects to FID, adding another 45 MWs to our firm capacity as well.

We also acquired Lincoln Land in MISO of the US in November of 2021, which is now operating and generating cash flows. And we are constructing the 518-MW wind and solar PV Helena Energy Centre, a greenfield development project. And altogether, we added 1.3 GWs of firm capacity within the onshore business. And by end 2022, we expect to have 4.7 GWs of operating onshore renewable capacity online.

Finally, for renewable hydrogen, we reached FID and started construction of the 2-MW H2RES project in Denmark, moving hydrogen from pen and paper to a tangible opportunity. And all in all, we have grown our firm capacity by 28% in just one year, reaching over 26 GWs today, and putting us even closer to our 2030 ambition, which I'll continue discussing on the next slide.

Our 2030 Ambition is 50 GWs by 2030, and of which, 30 GWs is offshore wind, and 17.5 GWs is onshore renewables. And I'm pleased to say that we are well on track to achieving this, because not only did we add around 6 GWs to our firm capacity in 2021, as just explained, but we also replenished our substantiated and opportunity pipelines.

Compared to the approximately 24 GWs of capacity needed to realise our 50-GW ambition, we today have a 24 GWs substantiated pipeline between offshore and onshore renewables and an additional 43-GW opportunity pipeline for offshore wind.

Let me take a few moments to reflect on our key accomplishments in market development this past year that has allowed us to have such strong pipelines. Most recently, we and our partners, Falck Renewables and BlueFloat Energy, were selected by the Crown Estate Scotland to enter into an option agreement for a new 1-GW floating offshore wind lease site.

We commend the ScotWind seabed auction for being large scale and for having focus on development phase commitments, which is exactly what is needed to allow for financial sustainable development and to make floating and deeper water wind cost-competitive. By securing this seabed lease area, we are confirming our ambitions in floating offshore wind while expanding our substantiated pipeline for offshore wind, which now sits at approximately 12.5 GWs.

We made progress on other offshore wind market entries as well, with a number of key strategic partnerships and MoUs established during 2021. This includes our most recent MoUs with two leading Korean utilities, KOSCO and KOMIPO, which explores renewable energy certificate offtake, joint operation and partnerships, and technology exchange for O&M, and is overall an important step in the development of the 1.6-GW Incheon offshore project.

In addition, I would mention our MoU with T&T and Vietnam, our MoU with Enefit in the Baltics, and our partnership with Fred Olsen Renewables and Hafslund Eco for the upcoming Norway seabed lease auction, as well as long-term development in Norway. Together, these have substantiated our opportunity pipeline, which now sits at approximately 43 GWs today. We also further build out our onshore wind and solar PV substantiated pipeline, which includes land control and interconnection positions in the US, UK, and Ireland.

Lastly, we continue to aim to be a global leader in renewable hydrogen and green fuels. And as such, we've continued to mature our existing strategic partnerships while building out our pipeline further. And we now have ten pipeline projects in established partnerships and five additional MoUs.

We are progressing well on the funding and construction of the existing projects. The first phase of our Westküste 100 project partnership, for example, is supported by the German Reallabor programme, and we and our partners are currently maturing the 30-MW electrolyser project towards finally close.

Four of our projects are progressing with IPCEI, as well. IPCEI approval is key, and it allows the respective EU member states to fund the projects. Our Lingen Green Hydrogen project with BP was shortlisted as a German IPCEI project, as was the scale-up of the Westküste 100 project called HySCALE. The Yara Sluiskil project was shortlisted for the Dutch IPCEI project and our Green Fuels for Denmark flagship project with Maersk, SAS, Copenhagen Airport, DFDS, DSV, and others, was selected as a Danish IPCEI project.

Before moving on, I want to mention our two most recent accomplishments. First, we have reached an agreement with Liquid Wind AB to acquire a 45% ownership share of Liquid Wind's FlagshipONE e-methanol project, expected to produce 50,000 tons of e-methanol per year based on renewable hydrogen and biogenic CO₂. FlagshipONE is the late-stage development project that could become the world's first large-scale sustainable e-methanol project of many, especially as Liquid Wind AB plans to establish a series of facilities across Sweden to decarbonise the maritime sector.

Second, we have signed a MoU with international steel and technology major, Salzgitter, to collaborate on a number of circular, economy-related areas. These include green hydrogen production, potentially using power from our North Sea offshore wind assets, low CO₂ steel production that can be used in our future offshore wind farms, close loop recycling of scrap from decommissioned wind farms, and infrastructure.

We view this as an excellent opportunity to help decarbonise the hard-to-abate sector of steel production, as well as an example of our sustainability commitments, pursuing closed loop opportunities. And all in all, we believe we stand with one of the broadest and deepest portfolios of renewable hydrogen projects in the industry.

Now moving on to slide six, where I'll look at the recent development in the US offshore portfolio. Starting in Maryland, where we were awarded a contract for the full amount of our 846-MW Skipjack 2 project in the recent competitive offshore wind solicitation. The awarded 20-year offshore renewable energy certificate, or OREC, starts at USD 83.9 per MW hour in 2026 and escalates 3% per annum, which equals a levelised levelised 2007 price of USD 75.8 per MW hour.

Subject to final investment decision, Skipjack 2 and the previously-awarded 100-MW Skipjack 1 project will be built as one project with expected commissioning in 2026. We see this project demonstrating our capabilities in creating value in a competitive environment by leveraging our expertise to help our customers achieve their ambitious renewable targets, deliver on strong local content, and ultimately execute on a very attractive project.

With Skipjack 2, Ørsted has been awarded a total of around 5 GWs offshore wind projects in the US and we maintain our market leadership with the largest US offshore wind development pipeline. This leaves Ørsted and

our partners with proprietary seabed rights of around 3 GWs off the US East Coast, which can be utilised for upcoming solicitations.

In the US, we continue to see strong development and progress being made in maturing our industry-leading 5-GW development pipeline of projects, with the first FIDs expected in 2022 and 2023. Our first projects, that have been exposed to the federal permitting delays, carry costs related to developing a local supply chain which, together with current cost inflation, are impacting the value creation. Project development is most mature for our North-East cluster, and we can see that in particular, the cost of installation vessel has increased significantly, not least in light of the limited supply of Jones Act-compliant vessels.

We continue pursuing all technical, commercial and regulatory levers at our disposal to improve returns of these projects in the same way as we always do. The continuous fast progress of the federal permitting processes as well as the proposed clean energy tax policies being considered in Congress are important supportive factors, not only for our projects, but for the accelerated buildout of offshore wind in the U.S. in general. We remain fully committed to be a leader in the development of US offshore wind.

Now, turning to slide seven, where I'll give an update on our construction projects and pipeline, first, starting with projects under construction. We are currently constructing two of the world's largest offshore wind farms, Hornsea 2 in the UK, and Greater Changhua 1 & 2a in Taiwan.

At Hornsea 2, we have now successfully installed all array cables and all 165 turbines, and we reached first power at the end of last year when the offshore transmission asset was connected to the grid. Today, 17 turbines are energised, but significant parts of the electrical engineering work, as well as other key final commissioning steps, are still ongoing.

We saw progress according to plan until mid-December. However, the accelerating Omicron variant infection rates meant that it was not possible to mend the vessels used for commissioning work according to plan. And as a consequence, the ramp-up profile will be slower than our original internal expectations, but we still expect to commission Hornsea 2 in the first half of 2022, as previously communicated.

As we previously discussed, we continue to expect to farm-down Hornsea 2 in 2022 upon or after commissioning. We continue to see high interest for direct investments into our assets, and our most recent deals demonstrate high confidence in offshore wind and provide a testament to our proven transaction model of providing contracts for full scope EPC, 20 years of O&M, and route to market.

At our Greater Changhua 1 & 2a projects, we continue to progress our offshore construction work and have installed 15 out of the 111 jacket foundations. We plan to reach first power in the first half of 2022 and still expect to commission the projects towards the end of 2022.

As we mentioned in Q3, we continue to see Taiwan being affected by COVID-19 restrictions, which could potentially impact the construction timeline, but hasn't yet. Since the Q3 call, we reached FID on our Borkum Riffgrund 3 and Code Wind 3 projects after signing 786 MWs of corporate PPAs and farming down Borkum Riffgrund 3, hereby meeting our partners' additionality mandates and limited merchant exposure.

Turning now to our onshore renewable projects under construction, and starting with the US onshore wind, we are near completion in terms of constructing for the 298-MW Haystack wind project and will formally commission in the first half of this year.

As previously discussed, we still expect some delays in commissioning of our US solar project Old 300 and the solar phase of Helena Energy Centre due to the forced labour allegations in China and US tariffs on Chinese goods. We take the issue of forced labour very seriously, and for future projects, we have decided to only use polysilicon-free panels until the traceability issues have been fully resolved.

In Europe, we have reached FID on our first Northern Ireland project. The 16-MW Ballykeel project has an offtake solution with Amazon and is on track to commission in 2023. The construction of the two other projects - the 62-MW Kennoxhead 1 project in Scotland and the 29-MW Lisheen 3 project in Ireland - are still progressing according to schedule and are expected to reach COD in 2022.

We also continue to advance our first renewable hydrogen project under construction, H2RES. The 2-MW electrolyser project will use our Avedøre Holme offshore wind facility as a source and is still expected to commission in the first half of 2022. All these parties together equate to the nearly 18 GWs of installed and under-construction renewable capacity.

The development of our water projects continues to progress as planned. In the US, we've added Skipjack 2 to our water capacity, and the US Interior Department recently kicked off the process for the New York Bight seabed lease offering. New York Bight is the first of seven potential offerings in 2022 through 2024 across different US seabed regions. We are eligible to bid for the New York Bight, and we'll provide updates in due time. Finally, the development of projects in Taiwan and Poland are also progressing as planned.

Let's move on to slide eight and an update on upcoming offshore wind auctions and tenders. And I'm extremely pleased with our strong year of successes in 2021, where we and our partners secured 25% of the awarded capacity globally through Poland, New Jersey and Maryland. The 4.5 GWs of gross offshore wind capacity is 50% above our strategic ambition of adding approximately 3 GWs of offshore wind per year.

From this, it is clear to me that our competitive advantages continue to shine through across different geographies and auction types, and we look to apply this in several of the plentiful number of auctions expected during 2022 and 2023.

And with this, I will now hand over the word to Marianne.

Marianne Wiinholt

Thank you, Mads, and good afternoon, everyone. And let's start with slide nine and the EBITDA for the quarter.

Looking at the Group level, we realised an EBITDA of DKK 8.3 billion, a significant increase on last year, driven by the gain from the 50% Greater Changhua 1 divestment. Our EBITDA, excluding the effect from new partnerships, was in line with Q4 2020.

As stated, when we gave our 2021 full-year guidance, we expected numerous drivers to impact the earnings, and this totalled DKK 0.2 billion in Q4. The underlying earnings composition did turn out differently than what we had anticipated, driven by the very strong performance from our CHP plants and gas business, whereas the energy crunch led to a larger than expected negative impact on our offshore wind assets.

During the quarter, we saw wind speeds roughly in line with the norm for the quarter, while the derived effect from the energy crunch had a negative impact of DKK 1 billion on our offshore sites earnings. The impact is related to higher balancing and intermittency costs, as well as having to buy back hedges caused by the delayed Hornsea 2 ramp-up, as Mads described earlier.

The negative EBITDA impact from our existing offshore partnerships in Q4 2021 related to a DKK 0.5 billion increase in rate provisions to our partners, while the project development costs increased by DKK 0.5 billion, driven by the continued expansion of our footprint.

Earnings in our onshore business increased by 64%, driven by the ramp-up in generation capacity, which was partly offset by the costs relating to the continued expansion of our onshore business.

In 'Bioenergy and Others', earnings significantly increased, driven by exceptional performance by our CHP plants due to the higher power prices, higher heat and power generation, as well as higher sale of ancillary services. As we only hedge the power we co-generate with heat, we fully benefited from the high-power prices on our condensing power generation in the quarter.

Earnings from our gas markets and infrastructure increased significantly due to a strong underlying performance. In Q3 2021, we conducted renegotiations of gas purchase contracts, and because of the ongoing negotiations of these contracts and the uncertainty around price levels we would settle upon, we have not locked in our margins as we would normally do. Hence, with the increase in gas prices throughout Q4 2021, we were able to secure a very solid contribution from the sale of these volumes.

Let's continue to slide 10, covering our net profit, net debt, and credit metric. Net profit for the period totalled DKK 3.3 billion, which was significantly above last year, driven by the higher EBITDA in the quarter. Our net debt at the end of the fourth quarter amounted to DKK 24.3 billion, an increase of DKK 3.1 billion during the quarter.

Our cash flow from operating activities reflected the EBITDA as well as tax equity contribution from our partner at Haystack in the US, offset by combined initial margin payments to clearing houses and margin payments on unrealised hedges of DKK 8.8 billion. These margin payments only impact liquidity temporarily.

Our gross investments totalled DKK 11.8 billion, driven by our continued investments into offshore and onshore wind and Solar PV farms, while the divestments proceeds related to the 50% farm-down of the Greater Changhua 1 project.

Finally, we had exchange rate adjustments of DKK 1 billion relating to appreciation of the British pound. Our key metric FFO to adjusted net debt stood at 31% for the 12-month period ending December 2021, which is still well ahead of our credit metric target, despite the significant margin payments that we had to post.

Let's turn to slide 11, and our financial and non-financial ratios. Our return on capital employed came in at 15%, with the increase compared to last year being driven by the farm-down gain. In 2021, our taxonomy-eligible share of revenues was about 66%, while our share of EBITDA was 90%, and the share of gross investments was 99%. As we have stated previously, we expect the share of taxonomy-eligible revenue to increase in the coming years as we plan to phase out coal completely during 2023 and gradually reduce our gas activities.

Our greenhouse gas emissions intensity from our heat and power generation, namely our Scope 1 and 2 emissions, was on par with 2021. The emissions from our supply chain and sales activity decreased by 28% compared to last year, driven by lower gas volumes.

Turning to safety, we have seen a 4% reduction in the number of injuries, and a 15% increase in working hours, which led to a 17% reduction in the total recordable injury rate during 2021.

And this concludes the Group's financials for Q4 2021. And then, let's turn to slide 12 and the outlook for 2022.

Our guidance for 2022 EBITDA, excluding new partnerships is expected to be DKK 19 billion to 21 billion, representing a significant step-up on 2021 EBITDA. As of 2022, we have increased the range of our guidance to DKK 2 billion instead of the previous DKK 1 billion, due to the increasing size of our renewable portfolio. As in previous years, our EBITDA guidance does not include earnings from new partnership agreements.

In terms of new partnerships in 2022, we expect to close both the 50% farm-down of Borkum Riffgrund 3 expectedly during Q1 as well as the farm-down of 50% share of the Hornsea 2 project expectedly during the summer. We have not included any gains from these farm-downs in our guidance, but we have assumed a derived reduction inside earnings from Hornsea 2 in the second half of the year. Including the expected farm-down gains from those two transactions, the 2022 EBITDA will be significantly higher than 2021 EBITDA, including new partnerships of DKK 24.3 billion.

Looking at the directional earnings development for each of the business units, we expect the earnings in offshore and onshore to be significantly higher than 2021, while earnings in 'Bioenergy and Other' is expected to be significantly lower.

I would like to go through the earnings drivers in more detail, starting with offshore, where the significant positive impact is driven by a number of factors:

Earnings from sites in 2021 were negatively affected by very low wind speeds, which for 2022 is not expected to repeat it, but on the contrary, revert to a normal wind year.

Both Hornsea 2 and Greater Changhua 1 & 2a will contribute with a ramp-up of generation, and we expect to commission the projects late in the first half of 2022 and in the second half of 2022, respectively. The ramp-up will be partly offset by the 50% farm-down of Borssele 1 & 2 in May 2021.

We will have a full-year effect of the CFD contribution for the whole of Hornsea 1, and we expect a less negative impact from the energy crunch in 2022. However, we expect to see a continued negative impact from high balancing and intermittency costs, driven by expected, continued high volatility.

Furthermore, earnings from existing partnership will benefit from the contributions from Greater Changhua 1, which we farmed down in 2021. We also realised a negative impact in 2021 from the provision for the cable protection system issue.

During 2021, we took the necessary proactive measures to repair the cable protection systems, where we had found them to be damaged, and we have stabilised the CPS on several of our offshore wind farms. This stabilisation has been executed to prevent further movement of the cables across the scour protection by placing additional engineered rock berms around the CPS. We are continuing with this exercise and have plans for further rock stabilisation during 2022.

We are now analysing the long-term integrity of the cables impacted by the movement and the requirement to replace cables, including the impact in relation to suppliers, partners, and insurance. At present, our evaluation of the total financial impact of this issue remains unchanged, but it is more backend-loaded than what we had initially assumed.

In 2021, we made further provision regarding wake effects. This effect is not expected to be repeated for 2022.

And finally, we expect DKK 0.5 billion increase in costs relating to expense product development, costs related to hydrogen development, and general costs due to the increasing size of our business.

Earnings from our onshore business is expected to be significantly higher, driven by the ramp-up generation at Permian Energy Centre, Western Trail, Muscle Shoals, and Lincoln Land, which we commissioned during 2021, and the expected commissioning of Old 300 solar centre, Helena Energy Centre, in the second half of 2022, and Haystack in the first half. And furthermore, 2022 will account for a full-year earnings from Brookfield Energy Ireland, which we acquired in Q2 2021.

And finally, we expect a DKK 0.3 billion increase in expenses for project development and general costs.

The earnings from our 'Bioenergy and Other' business for 2022 is expected to be significantly lower than 2021, largely owing to the fact of the very strong performance in 2021.

In 2021, our CHP plants benefited from the large demand for ancillary services, as well as the very high-power prices and spreads in the last four months of the year, which also led to unusually high power generation. We do not expect this to be repeated to the same extent in 2020.

Furthermore, earnings in gas markets and infrastructure were positively impacted by a one-off effect in connection with a renegotiation of gas purchase contracts in 2021 and a strong underlying performance in very volatile and

bullish gas markets, where we were able to optimise purchase from our long-term gas contracts. In 2022, we expect earnings to be fairly limited, reflecting normal margins on these activities.

Despite 2021 being a soft year for our site earnings, I want to reiterate that we are fully on track to deliver on our long-term EBITDA CAGR of around 12% from 2020 to 2027, targeting DKK 35 billion to 40 billion EBITDA from offshore and onshore assets in operation by 2027. Our gross investments for 2022 are expected to amount to DKK 38 billion to 42 billion. The outlook reflects a high activity level in offshore and onshore. Our gross investment guidance is fully in line with our expectations and long-term plans.

And finally, let's turn to slide 13, which recaps our 2022 EBITDA and gross investment guidance, as well as our long-term financial estimates and policies. We are well on track on our capital investment programme in our green growth and maintain very comfortable with our long-term financial targets.

Mads Nipper

And before we open up for the Q&A session - thank you very much, Marianne - I would like to thank you, Marianne, for an outstanding career at Ørsted. As you all know, Marianne announced that she will pursue a career outside of Ørsted. And whilst I can support and understand why Marianne after more than 17 successful years at Ørsted has the appetite to try other challenges, I am certainly sad to see her leave as a great experienced and capable colleague to me and the rest of the Ørsted Executive Committee.

Luckily, we have the best of hands with our new Group CFO, Daniel Lerup, who I very much look forward to welcome in the executive committee. Daniel is currently Senior Vice President, Head of Commercial and EPC and Operation Finance at Ørsted, and has worked for the company since 2009. He has a strong strategic mindset and in-depth knowledge of the company and extensive experience of several corporate finance and business functions, including previously serving as a Head of Investor Relations, Tax and Financial Planning and Analysis. And I'm confident that Daniel will use his strong leadership skills to support our global growth while keeping financial discipline, and I am pleased that our recruitment process has confirmed our strong internal talent pipeline.

For now, Marianne will stay on until April 8 to support the transition. Marianne, apart from thanking you, I will leave it to you for your closing remarks.

Marianne Wiinholt

Thank you, Mads. I am very happy to have been part of this amazing journey over the past 17 years, of which the past eight years as CFO. And I have concluded that now was the right time for me to step down as CFO. Together with the entire Ørsted team, we have transformed the company to a global leader in renewable energy and creating significant value for all our stakeholders and driving a world-leading sustainability agenda.

I would very much like to thank the Board of Directors, Mads, and my colleagues in the Executive Committee and the entire Ørsted team for an exceptional collaboration in realising the profound results that we have achieved together. I will stay on as CFO for a few months to ensure a smooth transition, and I remain very committed to Ørsted until my final day. Thereafter, I will continue to follow Ørsted's exciting journey going forward.

And with that, we will now open up for questions. Operator, please.

Q&A

Operator

This concludes the presentation part of our call, and we are now happy to answer your questions. Please respect only one question per participant, and then you can go back in the queue for a second question. So, if you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered.

Our first question comes from Sam Arie with UBS. Please go ahead.

Sam Arie

Thank you very much. Good afternoon, everybody, and thank you, and congratulations on very good results today. Also, may I just add my thanks to you, Marianne, for everything, and congratulations to Daniel for his appointment.

So, on to my question, which I think is the question, which is about inflation rates and cost of capital. I know that's always a difficult topic for us to discuss, but I thought I'd try and ask you a question in the following way. If you look back as a management team on the last year, and taking into account everything that's changed in the macro landscape, how do you see your Group cost of capital as having changed? And I'm asking that way, because I know you don't like to talk about the level of the cost of capital, but I'm hoping you can comment on whether you see any change versus this time last year.

And related to that, I looked in the annual report this morning to see what you did on your impairment tests, and I don't see any. So, I'm tempted to conclude from that you basically don't see any impact on the value of your portfolio from the things that the market is worried about at the moment: rising inflation in the cost of your projects, and a rising discount rate that you might apply for valuation.

So, that's my question, and I welcome any comments you could share with us on those points. Thank you.

Marianne Wiinholt

Yes. Thank you, Sam. I will try to answer that one. The way we look at inflation and increased interest rates is that we split our portfolio into what we have already built, what we are in the process of building, and then the future pipeline. And if I could start talking about what we have already built, the operating fleet, we are very blessed by having a large degree of our assets being inflation-indexed. So, all the UK projects are inflation-indexed. And we think that this gives us a good protection against increasing interest rates. I know there's not a one-to-one relationship, but I think we are in a good spot.

Then we have the projects with fixed nominal contracts, where we, to the extent possible, have secured those via the fixed nominal debt, meaning that for those where we do that, we keep the value creation intact.

Then, when you look at what we have not built, we have not built, for example, our Polish projects, where we also have inflation adjustment; our US projects, in a way, we have not built; and we have a fixed contract, some of which we have secured already through fixed nominal debt. But there, of course, we have an exposure, not an exposure that makes these projects not being value-creating, and that's why you cannot see impairment losses in our annual report.

Then, when you look at the projects that we have not won yet, we will not be in a different position than any of our competitors. So, we believe that higher interest rates, meaning higher WACCs, will be built into the bids, and we will, as I said, be in exactly the same position as the peers. And if this increased interest rates, in a way, continue and this is the new normal, then you will see subsidies increasing or prices increasing as a consequence of that.

So, we feel that we are actually quite well-protected. I know we are exposed, of course, to some extent, but compared to many of our competitors, and in a way, compared to what I think many investors think, I think we are in a good place.

Sam Arie

That's an excellent answer. Thank you very much for walking us through all the different pieces.

Operator

Our next question comes from Casper Blom with Danske Bank. Please go ahead.

Casper Blom

Thanks a lot. Let me start by also saying thanks for the ride, Marianne, and best of luck in the future to you and to Daniel, of course, also. Then, my question goes to your guidance of gross investments of DKK 38 billion to DKK 42 billion share in 2022. Mads mentioned that you are seeing some cost inflation, for example, on US vessels. Let's say, hypothetically, that you had given that same CapEx guidance a year ago, wanting to do the same things, as you do now, what would have been the number then? Can you give any guidance to that?

Mads Nipper

Thanks, Casper. It would have been roughly the same. This is driven by the fact that we are constructing very significant-sized assets. So, we are still building Hornsea 2, we are building Changhua, we took FID on our German programme. So, we are really constructing a lot of large-scale assets on top of the strong onshore investment plans as well. So, the inflation is nothing that significantly impacts our overall CapEx budget, I think is the short answer.

Casper Blom

OK. If I just may follow up. I think, Mads, you said last year that you were not that worried about the rising input costs of steel, plastics, et cetera because for example, on your US portfolio, we're not looking into anything being completed before 2025. We are getting closer and closer to that, and costs are still high. Are you starting to be a little bit more worried?

Mads Nipper

Yes, we are starting to be a little bit more worried. I will say that we are working very hard on it, because like we also mentioned just briefly now, is that we are seeing that whilst we had secured through pre-buy, for example, a very large share of the steel we're going to use in the US projects, there are other parts of our supply chain, such as installation vessels, where there is a scarcity of the Jones Act-compliant vessels that means that those prices are going up.

For those projects that are next in line, we have locked in a very large share of the CapEx, but there is still an exposure, and that is what we're working on. And also mentioning that to ensure that if this inflation continues as we near the project commencement and the construction phase, that is also why we underlined the need for the green parts of the 'build back better' and the approval processes of Bowman to continue to be very effective and support the sustained buildout.

No matter what, we remain committed to our portfolio, we want to be a driver of the US offshore portfolio, and lead that 30-by-30 ambition. But it is something that is putting pressure in general on the industry, and we, I think, have been working with all we got through securing both commodities and also the other parts of our CapEx. But it is impacting, and it is something that underlines the need for the support to ensure we keep traction.

Casper Blom

Excellent. Thanks a lot, Mads.

Operator

Our next question comes from Deepa Venkateswaran with Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you for my question. I also wanted to start off by thanking Marianne for her service to all of us, and all the best in your next endeavour. So, my question, and this is to Mads or Marianne, whoever wants to pick up. We've been talking a lot about inflation of raw materials, components, supply chain, but the other massive inflation that also happened, of course, has been wholesale power prices. We've also seen, of course, rising commitments from corporates towards reducing emissions, and so on.

So, in this backdrop, just wanted to see how your approach has shifted or not, moving away from just auctions to actually broadening it out more and including corporate PPAs. And I know you were the pioneers in Germany a few years back, but at that time, the power price environment and ESG commitments were completely different. So, I want to just poke on the other aspect of inflation, which I think a lot of investors are ignoring, is rising merchant power prices and increasing corporate appetite, and how that changes the value of your future opportunities? Thank you.

Marianne Wiinholt

Yeah. So, basically, Deepa, what you are really asking about, in a way, has this changed our appetite for merchant projects and taking on board more merchant risk? Isn't that what you're really asking about?

Deepa Venkateswaran

In one way, yes, but perhaps it's also opened up another avenue of demand from corporate. So, not completely keeping it merchant for yourself, but another avenue of off-take?

Marianne Wiinholt

Yes, to both questions. The thing is that, for now, in a way, we don't have any merchant exposure on any of our projects where we can go out and market the corporate PPAs. So, we don't have anything to sell basically for our offshore portfolio. For onshore, we are continuing, and yes, you are right; we see demand being very, very strong, stronger than ever, first of all, in a way, driven by green requirements from the corporates but also, I think it has been a wake-up call, this energy crunch, that energy prices, in a way, are much more volatile. And in this transition, we are in the middle of - in a way, you would probably see more volatility.

And that also then, leaves the question: do we have more appetite on merchant risk if we should win a merchant project? And there will be auctions in 2022, where we will have merchant projects, like, for example, in the Netherlands. And one thing is, it's an eye opener, you can say, from this energy crunch, that being merchant, probably, in a way, could also give a very significant upside, while the downside from being fully-hedged or not being hedged, in a way, is not at the same level. So, yes, we are looking at our appetite and the way we hedge, whether we should leave some more room for having a higher merchant exposure. But that's something we will be working on, and we will come back to you as we progress with this work.

Mads Nipper

And Deepa, if I can just support or supplement Marianne's answer. We are starting to see that the PPA terms and prices are going slightly off for onshore business, and those are shorter-term. So, that also means that that could well be a lead indicator, generally, for the market allowing this to happen. So, that would also mean that part of that inflation, that is a real risk as the input factors as we go along. We are relatively confident at least part of that can settle into the power prices as well, at least on the PPAs.

Deepa Venkateswaran

All right. Thank you so much, both.

Operator

Our next question comes from Alberto Gandolfi with Goldman Sachs. Please go ahead.

Alberto Gandolfi

Afternoon, and thanks for taking my question, and Marianne, all the best in your future endeavour, and thank you so much for all the help over the years.

A quick one - well, not quick one at all, sorry, actually. There's a question here about putting together what we talked about so far: we talked about cost inflation, and we started to talk about top-line inflation protection, and I really appreciate your slide 42 for sharing with us that about two-thirds of your basically top line is inflation hedge one way or another over the years. So, what I was trying to understand here is: there's a lot of moving pieces, steel prices started to come down, freight rates probably have peaked. So, things are beginning to look a little bit better. But as you just discussed, you're playing against the clock. So, we know that you need to take FID and order equipment at some stage.

So, if you put together that slide 42 power prices, inflation updates, and the timing of when you have to take an FID, what is the actual IRR impact versus your 150-basis point, 300-basis point spread, vis-à-vis what you thought about a year ago? Because the world really looks different versus the beginning of last year. And if you don't have 25 bps, 50 bps IRR, can you tell us: are the DKK 35 billion, DKK 40 billion EBITDA, if steel prices freight stayed here and inflation stayed here, would the impact be negligible? Would the impact be meaningful? And it would be great if you could help us out.

And just in case, as you're talking about the 2027 EBITDA, am I right in thinking that you just need to win a few GWs this year to be 100% done on the operating side of the target? And thank you so much. Apologies, because this is one-and-a-half questions.

Mads Nipper

Yeah, it is a quite complex question there, for sure, Alberto. Thank you. I can kick it off, and Marianne can supplement. You are right. If I start backwards, in order to hit the 27 guided EBITDA, it is relatively few things we need to win apart from what we have already secured. That is the nature of that business. So, that we would be quite close to. And we cannot quantify in terms of basis points impact of what has happened since then. This would be too sensitive information. But I can say that we are, as we mentioned for the German programme, that was one where despite that we saw CapEx increase there, we could actually get the PPAs correspondingly attractive, so, the value creation from that was fully intact. We are not done with the work in Poland, we have not locked those final CFD levels. So, there are still things that can be worked on.

So, we also mentioned in what we talked about in the beginning of this call, we still have levers to work on, to work against those inflationary elements that we are seeing. I actually think, as we mentioned, it is not - you're right - that steel and commodities are starting to come down, and we have not locked everything. So, we have, for example, for our near-term US projects, where I think the exposure we face is the biggest because that's also where we are building an entirely new supply chain and a new set up, there we still have quite a lot of levers, but it is also - sorry for repeating that - that is also why, in order to protect the strong value-creation, it is very important that those 'build back better' elements actually come through and do keep momentum from the regulators.

So, I can't exactly build that bridge - maybe Marianne can supplement - but it is impacting primarily in the US. We are still - even with what we currently have - it's still value-creating projects. We are working on our levers, and it is something where, with the regulatory levers and tax levers that could come in place, that we would be in a comfortable place. But we are choosing here, with the examples of vessels as being the most impactful one, due to the fact that we have locked a lot already. Vessels is an example of a cost category that has gone up significantly.

Marianne Wiinholt

And just a small supplement: we will not need to win more offshore capacity to deliver the 2027 because what we will win going forward will, in a way, be in operation after 2027. But the onshore will contribute with quite a lot of new capacity, which, in a way, is needed to deliver our sites' EBITDA, but which we all, on the other hand, are very confident that we will deliver.

Alberto Gandolfi

Thank you.

Operator

Our next question comes from Kristian Johansen with SEB. Please go ahead.

Kristian Johansen

Yes, thank you. My question is around this impact of the energy crunch we're seeing in Q4, which is obviously pretty material. I understand that this is unprecedented territory, but can you maybe reflect on the learning curve from this and whether this will make you reconsider how to structure contracts or hedges anyway so you would potentially avoid significant impact in the future?

Marianne Wiinholt

There is two different parts of this impact of the energy crunch which I'd like to touch on. One of them cannot be avoided. That is the balancing cost part. And that is one hitting everybody in the industry. Because with this very,

very high volatility we have seen, you will see more costs for balancing. And this relates to the whole portfolio we have. Even if we have the CFD, the subsidies, we get the CFDs on the day ahead, and then we sell the day ahead into the market. And there is where we have seen this significant increase.

The other part where we have a lot of learning is that we also have had to buy back some hedges due to this delay of the ramp-up of Hornsea 2. And this has made us rethink the way we hedge. So, we will, going forward, hedge a significantly lower share than what we do today. Previously, and not that I'm saying we have been over-hedged before, but with normal power prices, if we were over-hedged, we will just buy back the volumes at the same price as hedged, and then there will not be a material impact.

With these unprecedented high power prices we have seen in this energy crunch, it has been costly to be over-hedged, and that is what we have been hit by. But a big part of it is these balancing costs, which we believe will normalise as we come on the other side of this energy crunch.

Mads Nipper

And maybe just briefly supplementing, Kristian, like Marianne says, we are confident it will normalise. But for our 2022 expectations, we have still built in a quite sizeable share of that because betting that the volatility is going to go away very near-term, we think might be too optimistic. So, for the comfort of also you knowing that we have been probably relatively conservative in assuming a reasonably high volatility this year as well to cover those balancing and intermittency costs.

Marianne Wiinholt

You probably need to be on the other side of this geopolitical uncertainty around Ukraine before you see things normalising. And who knows when that will happen. So, volatility will probably continue for a while.

Kristian Johansen

Understood. Thank you so much for your answers.

Operator

Our next question comes from Jenny Ping with Citi. Please go ahead.

Jenny Ping

Hi. Thanks very much. Just a follow-up around the CapEx. I guess, given we don't really have a lot of transparency around the phasing of the CapEx programme, and I think one of the debates in the market today is the higher CapEx guidance, whether that's inflationary or phasing, are you able to give us some feel of where you're going to be broadly sitting in terms of 2023 and 2024 CapEx? Just to give us a sense of, holistically, for the projects that

you're building, are we seeing the phasing issue coming through, or is it more inflationary? And linked to that, and I guess, Mads, you talked about the IRR being impacted in the US, are you able to quantify that a bit more? Thanks.

Mads Nipper

I can start backwards, and then leave the first question to Marianne. No, we can't quantify that, Jenny. It is something that is impacting, but it is not something that means we don't have value-creating projects. That is as close as we can get it.

Marianne Wiinholt

And on the CapEx, the CapEx is exactly as expected when we made our plan we presented at the CMD. We already then said that there will be a big deviation between CapEx from year to year. This year is a heavy year because we have both Hornsea 2, we have Changhua, and Germany, and we are starting to spend significant CapEx also in the US.

But also, if you look at the average of this DKK 350 billion that we guided at the CMD, that corresponds to a 44-ish, 45-ish average per year. So, there's nothing, in a way, unexpected and this number is not impacted by cost inflation. So, I would really emphasise that that's not what you're seeing.

Jenny Ping

Thank you very much.

Operator

Our next question comes from Peter Bisztyga with Bank of America Securities. Please go ahead.

Peter Bisztyga

Hi. Thanks for taking my question. My one is on development costs, please. You're guiding to around an DKK 800 million krone increase in development costs across offshore and onshore in 2022, it seems. Is that a new normal that we can expect going forwards? Or can we expect development costs to continue to rise as you continue to ramp-up your ambitions? And linked to that, do we need to start worrying about wage inflation, both in your development team and across your whole business?

Mads Nipper

Thanks a lot, Peter. I can kick it off. There's no doubt that the continued geographic expansion building our pipeline, new markets, but also don't forget that we are now starting to spend real money on maturing our hydrogen projects and greenfield projects. This also adds to this. So, I don't think we will see increases like this every year. But

onshore, it was a very small team, where we were really working on low budgets, we were gearing that for the very substantial growth we announced at the Capital Markets Day. So, that is something where we are still ramping up. And with the new markets and hydrogen ramping up, I think the 500 million is something that we are, again, not every year, but certainly it is something that we continue to see increase in DEVEX.

Marianne Wiinholt

And to the last part of the question on the salary, wage inflation, it's not something we are really seeing yet. But of course, there is a pressure out there, but it's not something that is significant.

And just this 800 million that we show, it is four things: it's hydrogen costs, it's onshore, and it's more offshore, and it's also a general cost increase due to the increasing size of the business.

Peter Bisztyga

Got it. OK. Thank you very much.

Operator

Our next question comes from Robert Pulleyn with Morgan Stanley. Please go ahead.

Robert Pulleyn

Hi, good afternoon. Thank you for taking the question. I hate to stay on the same theme, but may I ask on inflation again? And could you give an approximate idea of where leading-edge inflation is on your CapEx projects, say, versus a year ago?

And as a second part to that, I'd be very interested, given the answer to the first part, is what cost base are you bidding at the moment, or bid in the second half of last year? Was it the leading edge that you saw at the time? Was it assuming some normalisation? Was it assuming continued inflation in your input costs, as we try and think about where the risks or potential opportunities are on the IRR side as the auction calendar in 2022 rolls through? Thank you.

Marianne Wiinholt

I will start with your last question because I cannot really answer the first one. We are not able to give a percentage range for the inflation because we are constantly working on maturing our projects, and it will be a different number from project to project, and I cannot really give you that detail.

But it's a very good question, the last one, in a way, what are we assuming when we are bidding in to the auctions. And now we have some very big upcoming auctions in front of us, for example, the UK auction. And what we are doing is, of course, we have people who follow each part of the supply chain, follow the installation vessels, the

turbines, the cables, the foundations, and make their best estimates, based on all the knowledge that we have on where pricing will be when we need to commit.

So, there's no other thing I can say than that. But I think with the huge experience we have, and the close relationship we have with the suppliers, I think we, in a way, at least, have a good chance of taking into account all the knowledge out there and doing it as best as it is possible both to do.

Robert Pulleyn

Fair enough, Marianne. It's worth a try. I'll turn it over.

Operator

Our next question comes from Mark Freshney with Credit Suisse. Please go ahead.

Mark Freshney

Hello, thank you for taking my question. If I could ask on the US onshore business, and you've got the bridge of projects there. But just beyond that bridge, my understanding is that returns are actually quite good as they are US onshore, even with 20% higher turbine prices, at least, because the PPAs have gone up by more. But as I understand it, the entire industry is laying off FID because they're waiting for even better returns and 'build back better'. So, my question is: is that something that you have? Have you got a lot of very advanced projects ready to go that are just waiting for 'build back better'?

And given I was some way down the queue, I have a question on costs. There were several parts of costs when people are very focused on near-term cost inflation, price inflation, for existing equipment, but there is also the underlying efficiency as you modernise, industrialise, and you continually take cost out of projects, right? And that, to my understanding hasn't gone away, it's still there. So, can you also confirm that? Thank you.

Mads Nipper

If we start with the latter, if I understand your question correctly, Mark, then, yes, we are continuously working on all those levers, and many of them we've already materialised in our offshore projects. But we still have lots of things that we can actually continue to, apart from locking in and working with our suppliers like Marianne talked about. But we are leveraging, we are looking every time at what is it that we can do to take out additional cost, to use our scale, to use our experience. And for every single project we have, even the near-term and the longer-term ones, we have a list of continued upside levers that we continue to work on. I hope I'm answering your question on that.

And for onshore, to my best knowledge, we don't have a parking lot of things that we are working on right now that we are holding back on. Honestly, I think that the only place where we could say we are holding back is not

something we want to do, that's on the solar projects, where we are still waiting to get those panels ready. But we are not having something which is just waiting for better terms.

Marianne Wiinholt

But on the other hand, our pipeline will increase in value with these components of 'build back better' on the renewable side. If those go through, we don't believe necessarily that the 'build back better' goes through, but we believe or hope that the parts related to renewables could go through, and that will significantly increase both the offshore and the onshore portfolio.

Mads Nipper

And the reason why, if they go through, we are well-positioned, because we are living up to most of the proposed criteria for when to be eligible for those tax benefits.

Mark Freshney

OK, thank you very much.

Operator

Our next question comes from Vincent Ayrat with JP Morgan. Please go ahead.

Vincent Ayrat

Yes, thank you for taking the question. We talked a lot of value inflation, so I'd like to come back on the commodity spike, the balancing, the hedge buyback, and the offset you've seen there with CHP and gas contracts? Could you give a bit more colour on the hedge buyback, the level of hedging you had – one or two were slightly over-hedged? What was your answer going forward for 2022? Is it that you can get some upside there? Could you explain us a bit the inner workings there?

And structurally, CHP and then the gas portfolio maybe was not seen really core maybe. Maybe it is a slightly different view today, when we see this spike actually act as a physical hedge for your activity. Could you comment on that, give us a bit of an idea of how you're looking at that? And that will be my questions.

Mads Nipper

Thanks, Vincent. Marianne can speak to the first part. But I can say there's nothing in what has happened this past that changes our direction of travel. Our investments, the core of our strategy is in offshore wind, onshore renewables and hydrogen and green fuels. So, there is nothing. We are thankful that, especially our CHPs, but also

the gas market has helped us in a year that primarily, due to wind, was challenging, but our strategic journey remains intact and absolutely no rebalancing of that.

Marianne Wiinholt

And just to add to the last question before I answer number one, this year has really proven the value of the CHPs because what we have benefited from is that the increasing gas prices, but also coal prices, has not been repeated when it comes to biomass. So, we have been buying quite cheap biomass, and therefore, in a way, had a very, very, very good margin on our CHPs which, of course, has been an offset to the low wind. And the low wind, of course, again gives higher power prices. So, this diversification effect has proven to be extremely useful.

When you then talk about the hedging, yes, we were, when we went into the year, approximately 90% hedged, and that has proven to be too high. And especially now, because of the delayed ramp-up on Hornsea 2. And therefore, we have had to buy back some hedges not to have that risk. We will, as I said, going forward, re-evaluate the way we do this, but one thing is for certain, that this volatility that we have seen here, and these extremely high prices will mean that we will lower the hedging level and not to sit on that volume risk. But we will come back, as I said, with something new when that becomes implemented.

Vincent Ayrat

Thank you very much.

Operator

Our next question comes from Ahmed Farman with Jefferies. Please go ahead.

Ahmed Farman

Yes, hi. Thank you for taking my question. And sorry to go back to the topic of the US pipeline and potential inflation. I think, Mads, in your comments, you mentioned that there are still levers that you have on the table that you can pull to mitigate some of the facts. Could you elaborate on that? I would like to get a bit more context.

And then, related to that, are you able to give us any sense of how much of the CapEx for your mature US pipeline still needs to be contracted? Sounds like, there's an element of logistics that still needs to be contracted, but some more context there would be very helpful. Thank you.

Mads Nipper

Yeah, I can put a little bit more colour to that. It's impossible to give an answer to what share of the CapEx still needs to be contracted because it's very different on how mature the projects are. For example, our South Fork is quite close to FID. So, that obviously is very highly-contracted, whereas some of the next-in-line projects are also,

but we are looking at a relatively small share of the most mature projects that still need to be contracted. But obviously, the ones that come a little bit further out still have a bigger share to be contracted. And there are technical levers. Obviously, the biggest lever is regulatory, that is tax elements. But also on the technical levers, there is still a range available for these, such as optimising the HVDC, and still some contracting to be done. But we are very far, for example, with the vessels on the most mature project.

So, we are locking in, as we speak, but it's impossible to give you a full range of the potential upsides because some of them are very material, some of them are less hard to do, but also with a small upside. But we are still working, and the team is, even for some of the more mature projects, still ploughing ahead to materialise those on the technical side.

Ahmed Farman

OK, thank you.

Operator

Our next question comes from John Musk with RBC. Please go ahead.

John Musk

Yes, afternoon, everyone. Maybe just returning to a question that was asked briefly earlier around wage inflation, and we have seen a few departures announced in the team, I guess, below Marianne and yourself, Mads. Have you done any exercise on peer-group comparisons to understand how you rank versus peers in terms of competitiveness, salaries, et cetera? And is there a risk of more people leaving if others are trying to ramp-up their teams?

Mads Nipper

Thanks, John. The risk is always there. But I think even though we've had quite a few quite visible departures from the company, I would say that that very few of those - and this is a genuine and honest answer - I think very few of those are due to the fact that somebody is paying significantly higher. And if we look at the voluntary churn rate of our employees, it is still well below 10%, 7-ish percent. And this is at all levels, even at director-plus level. So, we are not seeing an unusually high churn, even though obviously, the capabilities we are building are high in demand.

Surely, there are people that pay higher, and surely it's become visible with a handful of quite visible departures over the last year or so. But it is not something that we are gravely concerned about, John, also because we can see that not only is it great to see our ability to recruit internally, and it's not only Daniel who we appointed today to be Marianne's successor, but also, just with the fact that Neil O'Donovan could very successfully step up into the shoes of Declan, heading up our onshore business. And we can still attract very strong people, including people from competitors, where Troy, our COO, and our North American business came from a direct competitor. So yes,

there will be people leaving us. Yes, for some, there will be a pay element, but we don't think that is a root cause and that we are a competitive disadvantage that will mean that we have a significantly higher flight risk.

John Musk

OK, thank you.

Operator

Our next question comes from Dominic Nash with Barclays. Please go ahead.

Dominic Nash

Good afternoon. Thank you for the question. You'll be pleased to know that I'm not going to ask about revenue or cost inflation; I'll ask something completely different, which is the upcoming offshore seabed competitions, please. You were first movers into this industry, and you had big market shares in seabed leases to start off with, but if we look at the UK seabed leases over the last 12 months - I think it's 33 GWs or so out there - I think you won a share of 1 GW of that - and I think that's 30%, if you can just clarify that one. And when I go to your slide 23 and look at the upcoming seabed leases out there, and there are some pretty punchy numbers, Poland and the US, is it possible to give us some scale of what you think your opportunities are for the total market and your eligibility and ambitions? But also, is there a risk that something similar will happen in the US and in Poland and Norway and wherever, that happened in the UK, essentially, you're being crowded out by other offshore wind farm developers? And what can you do to defend your market share in offshore seabed leases, please?

Mads Nipper

Thanks a lot, Dominic. I'll start by saying that our inventory of seabed is still strong. With just under 5 GWs in the UK, and we're still with options around the Isle of Man and the one additional GW and floating in Scotland. So that's still very healthy. We still have 3 GWs in North America secured. And then, in some of the markets where it's not auctioned away, we have some very attractive opportunities there, like, for example, the 1.6 GWs of Incheon, which is not proprietary, but in Korea, but it's something we are quite confident can materialise.

I think that we need to split the UK example into two because, lease round four, we had absolutely no regrets that we didn't win there because we don't think that those prices are sustainable. And as a matter of fact, the fact that ScotWind chose to allocate 25 GWs, we think is actually a really good thing because that will mean that other people are also filling up their inventories. Obviously, for the very long-term, this is very important. And for ScotWind, most of this would also be post-2030. But with our current inventory, combined with where we plan to bid in, we are working with a new partner in Poland for the Polish auction. We have qualified to participate in New York Bight. We have partners in Norwegian. So, I definitely think that our ticket to play, and don't forget that we will probably still be the one both on CFD auctions, but also on seabed, that we will be one of those leaning into most of these auctions, and that will also mean that in totality, we are not concerned that this is something that will fundamentally threaten our long-term offshore leadership. But especially when there is no ceiling bits, we are

not going to get so carried away that we are going to pay amounts of money that will not allow us to do investable, meaningful value-creating projects. That's not a route we're going to go down.

Dominic Nash

Thank you.

Operator

Our next question comes from Dan Togo with Carnegie. Please go ahead.

Dan Togo

Yes, thank you. Not so many questions left here, but still trying to get my head around the farm-downs. You have flex, always significant farm-downs here for 2022, but I am trying to get my head around '23, what we should think there. You still have some projects where you own 100%, but they're still not facing a commission any time soon here. Should we wait of the timing of these remaining projects like Gode Wind, et cetera on G3, Greater Changhua, the last two licenses there, projects there. Is it, when they are commissioned, we should think that they will be farm-down, or could they potentially come earlier, impacting '23?

Marianne Wiinholt

It's not something we have decided yet. We actually would like to keep the flexibility on the timing. And I cannot rule out that it will be a farm-down during construction. So, we will give news as soon as we have it. But for now, we haven't decided yet, so therefore I can't share it.

Dan Togo

OK. Fair enough.

Operator

Our next question comes from Louis Boujard with Oddo. Please go ahead.

Louis Boujard

Yes. Hi, good afternoon, everyone. Thank you for taking my question. It's maybe time to go a bit in some detail now in terms of questions that have been asked on inflation or the topics on the core market prices. Maybe come back to the array cable issue since you provided a bit more light on it during your presentation. In particular, you mentioned that the EBITDA impact was confirmed that there is still some investigation on it, and that it could be

a bit more backend loaded than previously expected. Could you please let us know when investigations are going to be finished? And what could be the maximum value at risk according to you after this investigation? What could be the magnitude of the provision revision if it had to happen? Thank you very much.

Mads Nipper

Yes, I can comment on that, Louis. You're right, it is more backend loaded. We are relatively far, but we cannot say exactly when those technical investments will be concluded, and therefore that we will have a final number. But I would say that all the work that has happened so far has gone exactly as planned and hoped, and that means that any further exposure to the total of 3 billion impact and the 800 million provision we already made, we see as highly unlikely. So, things are going to plan, but not with the possibility to say exactly when we will have concluded and therefore be able to finally confirm exactly, but unlikely that it will be worse.

Marianne Wiinholt

And just one addition, we have very limited cost in the 2022 guidance for this because, as we said, it is backend loaded. So, we will more do investigation work in 2022, and not something that will impact the P&L to a significant extent.

Mads Nipper

Only investigation and rock dumping.

Marianne Wiinholt

Yeah.

Louis Boujard

OK, thank you very much.

Operator

Our next question comes from Klaus Kehl with Nykredit. Please go ahead.

Klaus Kehl

Hello. A question related to your CapEx plan. Marianne, you said a couple of times that you are on track to reach this target of DKK 35 billion to 40 billion in 2027. And you've also stated that you stick to this ROCE investment target of DKK 350 towards 2027. But these DKK 35 billion to 40 billion in EBITDA in 2027, they assume 50%

divestments of the upcoming offshore plans. So, I want to get the numbers right. Could you remind me what you have said about your net investments towards 2027?

Marianne Wiinholt

It's DKK 200 million. That's unchanged. 350 million is the gross and DKK 200 million is the net.

Klaus Kehl

DKK 200 million is the net? OK, excellent. And have you stated anything about what the cash flow from operations, what they could refinance towards 2027?

Marianne Wiinholt

No, that's not part of our guidance.

Klaus Kehl

That's not part of the guidance. Excellent. Thank you very much.

Operator

Our next question comes from Tancrede Fulop with Morningstar. Please go ahead.

Tancrede Fulop

Good afternoon. Thank you for taking my question. I have a couple of questions regarding the slide 34. I don't think you showed this slide before on hedging. And so, for offshore, if you could confirm that this is the hedging level for the merchant side of your production, and also give us maybe terawatt hour exposure, for instance, 100% in year one, which is the amount in terawatt hour. Also, your graphic breakdown, if it is the same as the breakdown of your offshore wind farms, and maybe the average achieved hedged price for year one?

And second question is still on the slide for bioenergy. I see that for year one, which I assume is 2022, there's only 31% hedged. So, given the current level of market prices, that means that you will benefit from very high-power prices, which in your guidance, you assume a significant decrease in the profitability in the EBITDA of bioenergy. So, does this guidance assume is based on current power prices? These are my two questions. Thank you.

Marianne Wiinholt

Yes. The first question, yes, you are right, it is the merchant part that we were indicating here. So, we are 100% hedged in year one. And that is too much, compared to where we would like to be. So, we will work on that.

On bioenergy, I don't have the volumes, sorry, on the top of my head. So, sorry for that. And I don't even think we would like to give that level of transparency. So, sorry for that.

And then on bioenergy, yes, you are right. The policy we have on bioenergy hedging is that we only hedge the part that is the heat bound part of the production. And that's also why we, in very strong years with high power prices, and then that follows with high production, we typically will see a very high upside. And that's also what these numbers reflect.

Mads Nipper

And maybe just you had the very last question, why is it significantly lower? It's that it was a very extraordinary year last year, both in terms of the heat production and in terms of the power production because we had very high prices and very good earnings from that, and then also was an extraordinarily attractive year from ancillary services. We still expect a strong year from bioenergy this year, but compared to last year, it will expectedly be significantly lower.

Tancrede Fulop

OK, thank you.

Operator

Our next question is a follow-up question from Sam Arie with UBS. Please go ahead.

Sam Arie

Hi, thanks for coming back to me, and I apologise because I know this is a long session already. But a couple of things. First, just a quick one. Marianne, I realised in your excellent answer to my first question, I don't think you'd actually commented on whether you think Group cost of capital has moved since a year ago in a material way, and I don't want to put words in your mouth, but I think if it was your view, for example, that your Group cost of capital hasn't really changed in the last year, that would be interesting thing for us to know.

And then, if I may, and if you can bear it, and this is probably a question for Mads, but lots of people touching here on the discussion on the current situation in energy markets, the high prices, the gas shortages, the obvious impact for bills and the politicisation of all that, I think it would be really interesting if you can just share a few thoughts, Mads, on what you think is the answer in the long-term to these problems? What are the implications for long-term energy market policy? And how is the world going to change to prevent us getting into this situation again, or for the long term? So, thank you. That's it from me.

Marianne Wiinholt

I'll answer the first one on the cost of capital. Yes, you are right. Of course, with increasing interest rates, we will see the WACC increasing. And that's, in a way, in our methodology, where we use the forward curve, the market-based interest rates, that that is a consequence. But as you can see from our annual report, this is not anything that is so significant that it has an impact on, for example, impairments. And neither does it have any impact on our guidance on value creation.

Mads Nipper

And if I'm to comment, it's obviously a very big question, Sam, on what do we do to avoid a situation like this. I think, even though as Marianne said, there's no doubt that lower winds, for example, they do impact the power prices. But we are convinced that the root cause of what has happened is a combination of so many things, especially driven by gas prices, that really is that the shortage, the cold winter, the shortage of gas supplies from East to Europe, the low winds, the low production, the maintenance of the nuclear power plants in France, the burned interconnect in between France and UK. So, many factors happening at the same time.

We fundamentally don't think that a change to the energy market dynamics in Europe is something that would be good, nor avoid this. And we don't think the solution is to keep a much higher share of nuclear, of fossil fuels in the energy mix. So, essentially, we think the headline is to accelerate the buildout of renewable energy, therefore also reducing the dependency on energy imports. And then, obviously, to retain the baseload sources like biomass-fired power plants, like our own, like existing nuclear capacity, and so on. We think that is the best way. And then, we will hopefully also not see a complete spike in global demand leading to an excessive demand like the post-COVID stimulus packages has meant that gas and energy in general has been in extreme demand at the same time as supplies have actually gone down.

So, we don't think there's a silver bullet. But that's what we also hear when we interact with regulators, both in EU and US. There's a strong recognition that accelerated buildout of renewable energy is actually at the centre of what we need to do to avoid a similar situation.

Sam Arie

Fascinating. I'm glad we squeezed that question in. Thank you very much for coming back to me.

Operator

Next up, we have a follow-up question from Jenny Ping with Citi. Please go ahead.

Jenny Ping

Hi. Thanks. A quick one. On page 24 of the appendix, where you have the 3-plus GWs of hydrogen and green fuel project pipelines, can you just tell us at what stage of development you're going to give us a bit more around these

projects in terms of economics, remunerations, returns because I think that's one area where I'm very keen to get my head around.

And then, just also a follow-up around the numbers. When we look at the 2022 EBITDA guidance range, can I just ask a straight question in terms of the offshore wind business? Your consensus is around DKK 16 billion. Are you comfortable with that as it stands? Thanks.

Mads Nipper

I can comment on the hydrogen pipeline, Jenny. It is still too early to give specific financial guidance, but I can say that we are actually very keen on moving along with this project pipeline. And I can say that 2022 is clearly a year where we do expect to take more tangible, also, investment decisions on our portfolio.

And I'll just mention an example of the recently-acquired share in the FlagshipONE e-methanol project, this 50,000 annual tons of e-methanol. We are expecting to take FID this year. And likewise, for the first phase of the German Westküste 100, we are also expecting at the backend of this year to take FID. And then, on a couple of other projects, it is likely that we could take pre-FID, depending on where we end these IPCEIs, International Project of Common European Interest. Those are some of the dependencies we're looking at. I won't promise you we'll share a lot of details around that because that would be competitively sensitive. But I can promise you that you will hear more tangible news about this portfolio during this year.

Marianne Wiinholt

Yes, and then, on your question on offshore guidance, I will not answer that, Jenny, because if we had wanted to give you that guidance, we would have put it into the report, and we have not. But we believe you have everything you need to make the calculations.

Jenny Ping

OK. Thanks.

Operator

And for our final question, we have a follow-up from Alberto Gandolfi with Goldman Sachs. Please go ahead.

Alberto Gandolfi

Thank you for taking the follow-up. I'll be quite brief, just because there's a little bit of a debate going on as we speak. Mads, would you mind clarifying what you meant about measures to support IRR? I think that some people that have interpreted that you are saying there's no returns over WACC in the US offshore investments as things stand. So, perhaps we can broaden the question a bit and say, in previous calls, you talked about procuring securing

steel for the US class. Can you maybe remind us what percentage of that CapEx on the projects that are yet to be developed, what percentage of that CapEx is still to be locked in? Essentially, I'm talking about slide seven. So, on the right-hand side, what percentage of debt CapEx has not been priced in? And perhaps, on the left-hand side, what could be the risks here, because you're still reiterating broadly the same CapEx for 2022 as for a year ago. You're reiterating the 200 billion, broadly. So, I was wondering just because you're waiting to see where really raw material settle at, or is there any incremental visibility, and maybe some tangible granular data points you can give us to convince us that actually, X percent of what you have to spend is somehow in the bag? Thank you.

Mads Nipper

There is not one simple answer to it, Alberto. I'll say this is exactly what is because these projects are at very different maturity level. But I can say at some of the more advanced projects, we have locked in – I'll just give rough numbers -around 80% of the CapEx, which of course, gives us a high degree of certainty for those that are coming up next.

And please don't interpret that when we say that this is something where we're still working on levers, that means that there is no spread. That is an overinterpretation. What we are saying is that, compared to where we came from, given this inflation, there has come an additional pressure which means that the tax incentives and the permitting processes are even more important, because this is not, again, not just for us, but for the entire industry, in order to keep high pace, which we will take our FIDs, clearly expected to do that, we will, then this is something where these projects would significantly benefit from that, which is also why we have signed a pledge that these green elements of 'build back better' need to come back.

But the fact that we continue to work on the levers, it's not an expression that there is no value creation of a WACC at all. But for the projects, it is not a secret that some of the more advanced projects, we are getting visibility that the IRRs are coming under pressure compared to where we came from due to – and sorry to mention that example, again - due to the fact that vessel costs have gone up since then.

But on raw materials, on steel, which is the biggest cost component, as we talked about, we had pre-bought a large share of that, and that still remains to be the fact. So, our exposure, compared to those building something where nothing was locked in, is smaller. That, I guess, is as close as we can get it.

Alberto Gandolfi

Mads, this is super helpful. So, if you allow me, if 20% of advanced, I guess, is the next two, three years. So, if 20% of CapEx is not locked in, and we probably saw all in, probably with less than 20% increase - I know some of the freight rates have gone up to 10 times - but you pre-hedged steel in some cases. So, are we safe in assuming that all in, on the advanced projects, worst-case scenario, we're going to see a 20% increase and 20% unhedged, call it, a 4% increase in CapEx, and we call it quits? Probably that's a little bit of an oversimplification, but would that be reasonable?

Mads Nipper

I think it is an oversimplification, Alberto. We would actually rather not say yes, you can definitely do that also. No, absolutely not. Because we might not have that full certainty. But clearly, with a relatively high share lock-in in the most mature projects, then obviously, the exposure is, we believe it's manageable. But it's not something that takes away the fact that our sustained pressure to ensure that we get these policy levers in place is important for us and for the industry.

Alberto Gandolfi

Got it. Thank you.

Operator

There are no further questions. I will now hand over to CEO, Mads Nipper, for a final remark.

Mads Nipper

Yes. And thank you very much for very good and challenging questions, and thanks for your time. We really look forward to hosting you again in a month's time, where we would like to have our very first Annual ESG Investor Call, and we will provide you with more details. But let me just, once again, thank Marianne for all her contributions to Ørsted. And as I'm sure you can tell that her role in our journey has been fantastic. And next time, we look forward to welcoming Daniel in her chair. So, have a great day.