Ørsted
Q1 2025 earnings call
Transcription

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Rasmus Errboe

Hello, everyone, and thank you for joining today's presentation. During the first quarter of the year, we have focused on execution of the business plan that we presented in February. As part of the updated plan, we established four key business priorities for Ørsted, which will be the core focus as we execute on our strategy.

First, it is the strengthening of our capital structure. Secondly, it is the delivery of more than 8 GW offshore construction portfolio. And thirdly, it is a focused and disciplined approach towards capital allocation with value over volume. And finally, we will ensure that Ørsted is even more competitive in the future. We will continue to focus on progressing all four priorities to deliver on our plan. With that said, the offshore wind industry continues to be challenged in the short term, with headwinds relating to supply chain, regulatory uncertainty and macroeconomic developments. We follow the developments around further potential tariffs and other regulatory changes closely.

Despite the significant challenges across certain geographies, the long-term fundamentals for offshore wind are strong. Given the increase in global electricity demand, a strengthened focus on energy security and affordability through renewables, and improvements in framework conditions in several major markets.

With that, let me walk you through our progress on each of the four strategic priorities. During the first quarter, we have seen solid operational results with a reported group EBITDA increasing 18% compared to last year. In addition, we continue to deliver on our farm-down programme as we've closed two divestments since the start of the year. In the US, we completed the 50% farm-down of two of our solar farms, and just last week, we completed a divestment of a part of our West of Duddon Sands offshore wind farm in the UK. These transactions deliver total proceeds of around 7 billion and are supportive of our capital structure.

We continue our relentless focus on the delivery of our offshore construction portfolio. And during the first quarter, we continue to deliver on this with successful commissioning of Gode Wind 3. This also marks that we now have installed more than 10 GW of offshore wind capacity. On the back of the short-term challenged offshore wind industry and the adverse developments experienced in recent years, we will employ an even more focused approach to our capital allocation, and we do see that we have ample opportunities in our core offshore wind markets to leverage our distinct capabilities. With the opportunity set that we have, we will only select and progress the most attractive investment opportunities.

A key part of this is a very clear prioritisation of value over volume for our shareholders. This disciplined approach to capital allocation has led us to the decision to discontinue the development of our 2.4 GW Hornsea 4 project in the UK in its current form. Since the award, the business case has seen numerous adverse developments, especially cost increases across the supply chain and higher interest rates. In combination, these developments have deteriorated the potential value creation and increased the execution risk. Throughout the development phase we have been very diligent in our approach to capital commitments and followed our updated stage gate model. We are well below our internal commitment thresholds, and we are taking this decision well ahead of the planned FID.

I would like to emphasise that Ørsted continues to view the long-term fundamentals as strong and see attractive perspectives for offshore wind in the UK. We will evaluate options for future development of the Hornsea 4 project, as we continue to hold the seabed rights, the development consent order, as well as a grid connection agreement. The decision to discontinue the development of Hornsea 4 in its current form will not impact our mid- and long-term strategic ambitions and financial targets.

I am excited to have welcomed two new members to our Group Executive Team. Part of our journey to become increasingly competitive in the future will require our business to be more efficient and focused going forward. With the recent appointments of Amanda Dasch and Godson Njoku, the full offshore wind value chain from development to construction to generation, is now represented in our Group Executive Team. The changes to the Group Executive Team reflect our sharpened focus on our core business, project execution, and on improving our competitiveness. And I'm very pleased that we have been able to attract two such strong candidates to our team.

Let's turn to slide five, where I will walk through some of the operational highlights for the quarter. First, I am pleased with the operational earnings for the first quarter of the year, where our EBITDA, excluding new partnerships and cancellation fees, amounts to 8.6 billion. The 14% increase compared to last year puts us on track towards delivering our full-year guidance of 25 to 28 billion of EBITDA. One of the supporting elements of our solid operational performance was the availability within our offshore business. Compared to the same quarter last year, the availability increased with 9 percentage points and is as such a significant contributing element to the increase in our earnings, despite the lower wind speeds offshore in Europe that we have seen. Operating our 10 GW offshore wind fleet with a sharp focus on financial performance will remain a key priority for us.

During the quarter we also made progress on the renewable share of our generation. For several years, we have had a target that renewables should consist of 99% of our generation by '25. And during the first quarter of the year, this was, in fact, the case. The increased share of renewables was driven by the closing of our last coal-fuelled CHP plant in the second half of 2024, which marked another important milestone in our decarbonisation journey.

Lastly, our continued and relentless focus on safety have continued, and the total recordable injury rate for the first quarter of '25 has been reduced from 2.9 last year, compared to 1.9 this year. However, this positive development was overshadowed by the two tragic fatalities among our contractor employees at the Plum Creek onshore wind farm earlier this year. Our deepest condolences go to their families and friends. We are focusing on the current investigation that the relevant authorities are conducting, and we are in close coordination with GE, WindCom and the authorities.

Let's turn to slide six and an overview of our construction projects. As mentioned, as part of our release in February, we will, going forward, provide more insights into the execution of our construction portfolio. To keep this the most relevant for you, we will do so for the projects that are most advanced and active in their construction activities. Before I go into the detailed updates, let me put a few remarks to the remainder of our construction portfolio. During the first quarter, we successfully commissioned the Gode Wind 3 projects. This achievement increases our operational capacity and also marks that we now have installed more than 10 GW of offshore wind capacity. For Borkum Riffgrund 3, we have installed all foundations and turbines and are awaiting the grid connection from the German transmission system operator. First power is expected towards the end of this year, and the project is expected to be commissioned in the beginning of 2026. The delay of the connection will be compensated according to market regulation. Until the grid connection is ready and the project can be commissioned, we are ensuring that we maintain the integrity of the assets as part of our service and inspection campaigns.

For the Hornsea 3 project in the UK, the construction continues to progress as planned. The onshore works are on track, and the offshore scope started in Q1 2025, focusing on pre-construction activities such as removal of unexploded ordinances. We are working closely with suppliers to manage the ramp up and delivery of components to be installed offshore during '26, with fabrication and monopiles being a key focus. The construction work for the co-located battery storage solution is planned to start during the second quarter of this year.

Following the final investment decision on our Baltica 2 project in January, we are progressing the first phases of the construction work. At the current stage, this involves the preparation of the onshore substation, as well as the manufacturing activities related to the offshore substation. We are closely monitoring the fabrication progress of the key components for the project, as well as the progress on the installation harbour in Poland, which will be used for the load-out of the turbines. We will continue progressing the fabrication, cable route preparation, and also commence the offshore boulder removal campaign in the coming period.

Lastly, the construction of our onshore projects across Europe and the US continues to progress according to plan.

Turning to slide seven and a more detailed update on our Greater Changhua 2b and 4 project in Taiwan. The degree of completion for the project is around 35%. The degree of completion is one of our metrics measuring the progress of a construction project's installation schedule, and reflects a combination of schedule progress and financial spend. At this point, all the foundations and export cables have been fabricated. The vast majority of the array cables have been fabricated as well, and the manufacturing of the remaining turbines are progressing according to plan. Remaining array cables and majority of turbine components are being fabricated in Europe, and once complete, they will be transported to Taiwan for pre-assembly and installation. It is the first project in our portfolio where we are installing the 14 MW wind turbines from Siemens, and the installation is going really well.

During the first quarter, we have progressed the fabrication of key components and also achieved important milestones as we have started offshore construction activities with the installation of both foundations and turbines. Currently, we have installed around 30% of the foundations and the first few turbines. The vessels needed for the installations of array cables have also arrived in Taiwan and are ready to begin the installation in the coming period.

From a risk perspective, the project is focused on managing any potential schedule implications caused by the weather conditions. We have taken into consideration an expeditiously longer installation period during the winter season due to challenging weather conditions throughout the season. Likewise, the project continues the monitoring of the sea routes needed for transportation of the remaining equipment. In the coming period, the project will continue to progress the installation of foundations, turbines, export and array cables. First power is expected over the summer, and we expect to commission the project towards the very end of this year.

Now, turning to slide eight and an update on our Northeast programme, starting with Revolution Wind. The degree of completion for the project is around 75%, and we have continued making good progress on both the construction of the onshore substation in Davisville, Rhode Island, as well as the installation of monopiles and turbines offshore. We currently have installed nearly half of the 65 turbines and around 80% of the monopiles, as well as completed all installation of the export cable. The project's focus remains on a number of items that are critical to delivering the project on the updated schedule.

For the onshore substation, we are implementing the updated solution, and this work is reflected in the project schedule. We took over site management at the beginning of this year, and we have subsequently accelerated works, which means that all buildings have now been erected and made watertight. This was a key deliverable for the de-risking of the installation schedule for the onshore substation, which is on the critical path for the project. Next stage is the installation of the equipment and commissioning, where management of risk primarily are related to safety and quality.

Regarding the monopile installation for one of the project’s two offshore substation, work is also progressing well on the challenge that arose last year. We will conduct a new monopile installation for the offshore substation, and we expect this installation to take place later this year, utilising the already contracted installation vessels that are undertaking work at Sunrise and Revolution.

Lastly, turbine installation remains well underway and is progressing according to the updated plan. As you are aware, the turbine installation requires a different local setup in the US until US installation vessels are built and available. This means that the components are assembled on and states out of the New London port and transported to site on barges, where they are then installed using installation vessels. This scope has had the highest priority focus of the team and is on track to be completed later this year. The project remains on track for commissioning in the second half of 2026.

Now, turning to slide nine and our Sunrise Wind project. Sunrise Wind is being constructed together with Revolution Wind as one programme, including vessel arrangements and the broader offshore installation campaign. The degree of completion for Sunrise is around 35%, with almost half of the turbines fabricated, the onshore converter station being near complete, and the monopile fabrication progressing according to the updated plan. We commenced offshore construction during the quarter, beginning with boulder relocation and two horizontal drillings for the export cable. And we are implementing the learnings accumulated for Revolution Wind. These learnings are reflected in the installation schedule as Sunrise Wind undertakes monopile installations, followed by a turbine installation later this year as part of our US Northeast programme.

The project's focus remain on a number of items that are critical to delivering the project on the updated schedule. The fabrication of monopiles is progressing according to plan, and will continue throughout 2025. The installation of monopiles will continue over two seasons due to the time of year restrictions on when they can be installed. On the export cable, we have seen good progress, as one section of the cable has been manufactured now, and the remaining two are expected to be completed later this year, again according to plan. All sections of the cables have passed all critical tests, including the factory acceptance testing. On the jacket structures for the HVDC, it is in final phase of quality control before it is planned to be transported to the site over the summer. We remain on track for commissioning in the second half of 2027.

With this, let me hand over the word to you, Trond.

Trond Westlie

Thank you, Rasmus, and good afternoon, everyone. First, let me start with slide 11 and the EBITDA for the quarter. As always, unless I stayed otherwise, the numbers I referred to will be in Danish kroner. In first quarter, we realised an EBITDA, including new partnerships, of 8.9 billion, which is an increase, as Rasmus mentioned, of 18% compared to last year. Excluding new partnerships, EBITDA was 8.6 billion. Let me walk you through the main earnings developments for the quarter.

For our Offshore business, where the overall earnings came in 200 million higher than last year. The earnings from sites increased, driven by ramp-up generation, higher availability, as well as higher prices on the green certificate and inflation indexed assets. There was also a positive effect from our power trading activities. This was partly offset by wind speeds being significantly lower than the same period last year. Other costs, which include unallocated overhead and fixed costs, as well as expensed project development costs, increased compared to last year, but in line with our expectations. The increase is driven by a change in our cost allocation methodology and does not impact the total EBITDA expectations for offshore.

For Onshore, the EBITDA, excluding divestment gains, increased by approximately 400 million, primarily driven by ramp-up generation from new assets that have been commissioned during 2024. Within Bioenergy & Other, earnings from our combined heat and power plans were higher than last year, driven by higher power prices and spreads. Earnings in Gas business increased, driven by higher offtake volumes, and a negative impact from revaluation of gas at storages last year, which was not repeated to the same extent in the first quarter this year. Finally, we recognised an EBITDA gain of 300 million relating to the 50% divestment of our two US onshore projects, Eleven Mile and Sparta.

Let's turn to slide 12. Our net profit totalled 4.9 billion, which was a significant increase compared to last year. Net profit benefited from higher EBITDA and lower tax expenses, as a result of the reversal of previously expensed deferred tax liability. In the first quarter, we had a net impairment reversal of 300 million. The main contributor to this reversal was a decrease in long-dated US interest rates, which was partly offset by the impact of the imposed tariffs in the US. In March this year, the United States imposed a 25% tariff on imports of steel, aluminium and certain products containing steel and aluminium. These new tariffs have resulted in increased costs and contingencies on our Sunrise Wind and Revolution Wind projects, leading to an additional impairment of 1.2 billion.

In addition, an executive order was signed in April 2025, imposing a 20% tariff on imports to the United States from the European Union, of which 10% is effective, and the last 10% is postponed. We have not included the potential adverse impact from such additional 10 plus 10% tariffs, due to the ongoing uncertainties. In a scenario of an additional 20% import tariff, we assess this would have less than half of the impact from the steel and aluminium tariff. On the effective tax rate, that was as low as 5%. However, adjusting for the reversal of the unrecognised deferred tax assets, the underlying tax rate was 23%.

Adjusted for impairments and cancellation fees on Return on Capital Employed, came in at 10.2%, which was a decrease compared to last year, driven by the higher capital employed. The reported Return on Capital Employed came in at 4.6% and was impacted by the impairment recognised over the last 12 months. Our scope 1, 2, and 3 greenhouse gas intensity, excluding gas cells, decreased by 7% in first quarter this year compared to last year. The decrease was mainly due to lower scope 1 and 2 emissions, resulting from reduced fossil-based generation, partly offset by higher scope 3 emissions from capital goods.

Moving then to slide 13 and our net interest-bearing debt and credit metrics. At the end of the first quarter this year, our net debt amounted to 68.4 billion, an increase of approximately 10 billion during the quarter. Our cash flow from operating activities contributed with around 600 million. Our operational earnings were partly offset by costs related to construction of transmission assets in the UK, as well as seasonality in other working capital items. Compared to last year, we did not receive any material milestone payments related to our construction projects, nor any tax equity contributions. For the quarter, our gross investments totalled 13.8 billion, driven by our investments into the construction of our renewable project portfolio. The cash flow from divestments of 3 billion, primarily related to the farm-down of the 50% stake in our Eleven Mile and Sparta onshore projects. The divestment of a stake in West of Duddon Sands, which was announced last week, is not included here, as it closed after the end of the first quarter, and will accordingly be reflected in our accounts for the second quarter.

Our key credit metrics, FFO to adjusted net debt, stood approximately at 14% at the end of the first quarter, which is a slight increase compared to the end of last year, primarily driven by higher funds from operation in the 12-month rolling period. Throughout '25, the cancellation fee payments incurred over the last 12 months will be rolling off the metric and thus benefit the FFO number.

Finally, let's turn to slide 14 and our outlook for '25. With a solid operational performance for the first quarter, we reiterate our full-year EBITDA guidance, excluding new partnerships and cancellation fees, of 25 to 28 billion. As the offshore wind speeds have been below the norm, we are expecting our offshore sites' EBITDA to come in lower than anticipated in the beginning of the year. However, we still expect our offshore segment EBITDA to be higher than last year.

Adjusting the future for our Hornsea 4 project will have financial implications, which will be reflected in our accounts for the second quarter of this year. For Hornsea 4, it was our plan to use the export cables from Ocean Wind 1. We will now evaluate the value of these cables going forward. The book value of the export cables is approximately 1.5 billion. In addition, we have so far spent approximately half a billion on the offshore transmission assets and have an estimated additional spend of around 1 to 1.5 billion related to a combination of expected contract cancellation costs, and committed project spend. In total, this can potentially lead to a negative impact on our EBITDA of approximately 3 to 3.5 billion in next quarter or this quarter, Q2, in 2025. The capitalised construction cost for Hornsea 4 is around 700 million and will be written off below EBITDA in our accounts for the second quarter.

As an additional information, as the result of closing out the outstanding Ocean Wind cancellation contracts, we will also review the remaining provision level during the second quarter. On CAPEX, we also maintain our gross investment guidance for 2025 of 50 to 54 billion. And with that, we will now open for questions. Operator, please.

Operator

Thank you very much. Anyone who wishes to ask a question may press star one on the telephone. If you wish to remove yourself from the question queue, you may press star and two. Our first question comes from Peter Bisztyga with Bank of America. Please go ahead.

Peter Bisztyga

Good afternoon. Thanks for taking my questions. Peter Bisztyga. I've got a question on the stop work order for Equinor's Empire Wind project, and I'm just wondering what reasons might exist, or are you aware of as to why your Sunrise Wind or Revolution Wind projects might be able to avoid similar stop work orders in the coming months? Thank you.

Rasmus Errboe

Thank you very much, Peter. I think, first of all, I'm not going to speculate about potential regulatory changes in the US, that is outside of our control. Our two projects have completed multi-year reviews and have also followed all state and federal procedures. And we are constructing them under one programme in the Northeast, which is in a very active construction phase right now, with a degree of completion of around 75% for Revolution Wind and around 35% for Sunrise Wind, as I mentioned before. And you can say specifically for Revolution Wind, we have installed almost half of the turbines, 80% of the monopiles, installed one of the monopiles for the project's offshore substation, fabricated all components and so on. And for Sunrise Wind, we have nearly completed the onshore converter station and also the array cables. And then we have also fabricated more than half of the nacelles for the project, and also started offshore construction activities during this quarter.

And also, if I might add, both projects ensure that hundreds of millions of US dollars are invested into the domestic supply chain, supporting shipbuilding and port investments, and are also creating jobs across more than 40 states. That's our perspective on our own projects in the US.

Peter Bisztyga

Have you had any interactions with the Department of Interior or BOEM about the potential risk?

Rasmus Errboe

And as is always the case in the markets where we operate with our projects, and also with projects under construction like these, we, of course, have an ongoing dialogue with the regulator. And that is also the case as of now in the US, where we have an ongoing constructive dialogue with BOEM on the progress of the projects.

Peter Bisztyga

Thank you.

Operator

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

Alberto Gandolfi

Hi, good afternoon. It's Alberto Gandolfi, Goldman Sachs. And thank you for taking my question. I wanted to ask if you can pause a bit on a reflection on slide six and slide 12. On the left-hand side of slide six, you're talking about the 8.2 GW of offshore projects, and thank you for going through project by project and completion rate. But can I ask you, on that page, how many of these projects, all in all, have an IRR over WACC since inception? Because Changhua was divested partly at book. We know the situation in the United States, PGE talking up cost in Baltica. My question is, are we going to see further dilution in the Return on Capital Employed that went down from 12.5 to 10% in one year? And if the IRRs on these projects are not to your original benchmark, where are we going to see Return on Capital Employed on a three-year basis, in your opinion? Thank you so much.

Rasmus Errboe

Thank you, Alberto. I can kick that off. As I'm sure you might appreciate, I'm not going to be very detailed about current spread over our cost of capital for each of our construction projects in our portfolio. But what I can say is that we remain confident with the value creation that we see in our committed offshore construction portfolio. The projects where we have taken FID and where we are moving forward, we will have locked in, obviously, the contracts ahead of FID and so on. We remain confident in the value creation on our construction portfolio for offshore wind.

And then as for the ROCE, also the same there. We stand by the guidance that we gave as part of our updated plan on 6 February, where we guided a ROCE of around 13% for the period of 2024 to 2030.

Trond Westlie

And just to add on to that, Alberto, we had an increase on capital employed for 32 billion the last year. Much of that is, of course, not generating assets due to the fact that we're in a growth period, and we will be in a growth period for that element. Coming into the next couple of years, you will, of course, see slightly more pressure on the ROCE. But on the '24 to '30, on the average that we gave, on the overall plan, on the average ROCE for those years, we will stick with that as a result of then having a growth period now for the next two to three years.

Operator

Our next question comes from Casper Blom with Danske Bank. Please go ahead. Mr Blom, your line is open.

Casper Blom

A question from my side regarding the decision to discontinue the development of Hornsea 4. I, at least, was surprised to see this, given that the allocation was given no later than September last year. I understand your explanation about higher cost, higher interest rates, and risk of delays, but is there also an element of you guys wanting to take a more cautious approach to construction in general, i.e. is this also an expression of your new value focus, where you maybe pull the plug on something a bit earlier to make sure that you don't get into the same kind of problems that you've previously seen in the US? If you can reflect a little bit on that. Thank you.

Rasmus Errboe

Absolutely. Thank you for the question, Casper. As you also allude to, I was clear before about the more specific drivers in terms of the project case on Hornsea 4, and I can build a little bit on that as well. But just to go directly to the core of your question, first of all, this is obviously not a decision we are taking lightly, that goes without saying. But we came out with a plan on 6 February with four key strategic priorities. One of them was to have a razor-sharp focus on value over volume. And as for the project here, we simply did not see sufficient value to meet our hurdle rate for a project of this kind.

On top of that, as you also partly allude to, you should also see this decision as part of us being even more sharp on our stage gate model and our approach to risk management. We have taken this decision early, while obviously, on the other side of the bid, we have taken it early relative to a planned FID, that was expected to be by the end of this year. And therefore, also significantly limiting the financial implications of discontinuing the project in its current form. Also worth noting that we still have the lease rights, we still have the development consent order, we still have the grid connection agreement. And we will now work towards bringing the project forward again in a new configuration. We basically take it back to development, if you will, and then we plan and expect that we would move the project forward in a different configuration and on a different timeline.

Operator

Our next question comes from Harry Wyburd with BNP Paribas. Please go ahead.

Harry Wyburd

Hi. Thanks. Another one on the US, I know we're flip-flopping back and forth between Hornsea 4 and the US. But on Sunrise and Revolution, it's a really specific one. And given, I think with Hornsea 4 you're showing that you're trying to think a bit further forward and make decisions a bit earlier. I'm sure you would have considered the risk of Sunrise being cancelled. And if it is cancelled, what would that mean for Revolution? It seems like Revolution is sufficiently well progressed, so that it's less likely that one gets cancelled. But if Sunrise is cancelled, could you continue with Revolution? And would it meet your return hurdles if you did? Or would it be a case of if Sunrise is cancelled, it starts to put the whole US projects into a difficult position, and maybe it's the end of your major operations in the US? Just wondered if you could help us think about what might happen in that case. Thank you.

Rasmus Errboe

Hi, Harry. Thank you very much. Harry, I'm not going to speculate on the implications of a cancellation, as you allude to here, for neither Sunrise nor Revolution Wind. We remain 100% committed to bringing both projects forward as part of our Northeast construction programme. And as I said before, we are talking about projects with degree of completions of 75% for Revolution Wind and 35% for Sunrise Wind. I'm not going to entertain hypothetical scenarios about cancellation of projects. In this case, we are fully committed to moving forward.

Operator

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

Ahmed Farman

Thank you for taking my question. I just wanted to come back to Hornsea 4. Can I just ask you to give us a little bit more granularity on the cost inflation that you have seen on this project since you said, over the last year, you secured a CFD contract, and talk a little bit about where exactly within the supply chain has that cost inflation come through?

Then sort of related to it, is this cost inflation specific to Hornsea 4? Or is there a read across for Hornsea 3 and Baltica 2 that we should also be thinking about? Thank you.

Rasmus Errboe

Thank you, Ahmed. Starting with Hornsea 4, as I have said, and as you have also picked up, there are three drivers, if you will, behind the deterioration of the business case to a level where we have decided not to move forward in its current form. One of them is increases in the supply chain.

Another one is the increase in the long-dated interest rates in the UK of around 50 basis points since we participated in the auction. Specifically on the supply chain, I'm not going to single out individual scopes or individual contracts or suppliers, that would not be right. But what I can say is that when we prepare for a bid like this, we, of course, base our bid on price quotes and so on across the scope of the construction. And what we have simply seen, once we after bid go into detailed contract negotiations with suppliers leading up to a potential FID, is that both the risk balance between the developer and the supplier has been moved relative to what we had assumed in certain cases. But more importantly, the initial price quotes have simply been increased. I'm not going to give specific numbers about the magnitude of the increase, which is simply too commercially sensitive for us.

As per the other part of your question, how can we see this outside of the UK? Does it have implications within the UK on Hornsea 3, as I heard you, does it have implications on Baltica 2, and so on? A few points. First of all, it's important to differentiate between assets under construction and assets under development. Obviously, a fundamentally different situation. And for Hornsea 3, and for Baltica 2, we have obviously locked in the entire supply ahead of taking FID. Therefore, the cost increases and risk increases that we have seen on Hornsea 4 and on the development, you will not see on those projects. Of course, we see changes in the underlying interest rate environment, that is the way it is. Of course, it's outside of our control. But the part that we can control, you should not expect to see that.

And then the second element to your question, is this something that that is outside of the UK? Just a few facts. While the LCOE for offshore wind has been going down from 2015 to 2020, with around 70%, we have seen an increase in Europe from 2020 to 2025 of around 50%, so in the other direction of LCOE, partly driven by increased CAPEX, partly driven by increased interest rates. And of course, it is that increase that we have continued to see in Hornsea 4 as part of locking in the contracts. And it is also an increase that one can expect to see on other projects in in Europe that are not yet locked in. No doubt we have a short-term challenging environment for offshore wind, but we remain 100% confident and committed to offshore wind in the long term, also for Europe, where we believe in the fundamentals.

Operator

The next question comes from Kristian Tornøe with SEB. Please go ahead.

Kristian Tornøe

Thank you. My question goes to your guidance on divestment proceeds of the 70 to 80 billion. And just if you can elaborate whether Hornsea 4 was expected to be part of this programme, and if so, what it does to the expected proceeds.

Trond Westlie

The plan on the number of the proceeds is, of course, the period between 24 and until the end of 26. And the timing of Hornsea 4 is further out. It has never been a part of that element.

Operator

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

Dominic Nash

Hi, there. Thank you very much for taking my questions. I've got a follow-up from that one there, which is, I think you're reiterating your medium-term guidance of 210 to 230 billion of gross investment. Hornsea 4 is going to be a large chunk of that. The first question is, does that mean that your medium-term guidance either will probably need to come down? Or does it follow on from that Hornsea 4 is likely to be able to rebid into upcoming CFD rounds? And if so, can you give us some colour as to, I believe it has to jump one or when do you think it will be back in the position to go back into a CFD round? Thank you.

Rasmus Errboe

Thank you very much, Dominic. First of all, on the investment programme that you are alluding to, you are right in saying that we have, as part of the plan that we presented on 6 February, we have communicated a gross investment programme towards 2030 of 210 to 230 billion. And as part of that, as we have also said, roughly 40 to 60 billion Danish is what we call uncommitted capital for projects where we have not yet taken FID, such as Hornsea 4. Now, when we do not move forward Hornsea 4 in its current form and on the current timeline, then we will have some more flexibility in terms of how we intend to deploy those 40 to 60 billion Danish towards the most value accretive opportunities that we can find in our portfolio, likely with a strategic emphasis on offshore wind in Europe.

Specifically to your point on the timing of a potential rebid, it's a bit too early for me to be very explicit about that. What I can say is that it's not going to be AR7 or AR8. And then we would have to see what is going to be the best way forward for the project, also for us in terms of delivering the needed value creation for our shareholders. And we will continue to have a good dialogue with the British government in this regard. It is important for me to just stress that we fully believe that the framework that we are seeing in the UK, as well as the general support from everywhere we go, from a regulatory perspective for offshore wind is really, truly there. Therefore, we will continue to have a good dialogue on the back of this decision, I'm sure.

Operator

The next question comes from Lars Heindorff at Nordea. Please, go ahead.

Lars Heindorff

Good afternoon. Thank you for taking my question. It's more to Trond, perhaps. You mentioned in the presentation that you will conduct a more thorough review of provisions here during the second quarter. Can you give us a bit more insight? Is there anything that you feel is in danger? What is the reason for this?

Trond Westlie

Thank you, Lars. No, there's nothing in danger. It's just that we're closing out the last contracts. We're closing down the Ocean Wind provisions. And as a result of that, there's more elements of what is the provision all needed, really? It's more the other way than a concern.

Operator

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

Jenny Ping

Thank you very much. If I can just check on what is actually cash and what's non-cash, that's expected to go out in both regards of tariffs as well as for Hornsea 4, please. On tariffs, the 1.2 billion, this is obviously an accounting item for now, but when does the cash actually go out? Is it just part of the CAPEX? And then similarly, for Hornsea 4, the 3 to 4 billion EBITDA impact, I presume all of that is not cash, and some of it is, so clarification on that. And then just a quick one on Hornsea 4. Have you thought about or explored the option of selling the asset, as Vattenfall have done before, with a CFD? Is that something you've explored and didn't progress forward? Thank you.

Trond Westlie

To start on the first question on the cash impact of Hornsea 4, as I said, of the amount, it's approximately 1 to 1.5 billion. That will be the cash effects from now on. And then Ocean Wind is, of course, just the internal pricing and literally paid for in the Ocean Wind project, as such.

When it comes to the tariffs, the book value of the 1.2 that you see taken in this quarter, that is the net present value effect of tariffs in the projects on Sunrise and Revolution. The tariff, the gross number of tariffs is going to be paid when the goods enter the United States. That comes as a result of the pure logistics in the project. And that payment is just a payment, and as such, just a negative cash flow element in the NPV calculation.

Rasmus Errboe

And for the third part of your question, Jenny, on Hornsea 4, we have no plans to divest our lease. We see it as a strategic asset, and we see the Hornsea zone very much at our core in the UK as well. We have no plans to sell the lease.

Operator

Our next question comes from Olly Jeffery with Deutsche Bank. Please go ahead.

Olly Jeffery

Thanks very much. Two questions for me. The first is on potential further impairments in Europe. I'm mindful of the fact that Baltica 3, I believe that's the most obvious candidate, where if you don't go ahead with that project, you could incur further write-downs. Could you give an update on what's happening with that? And could you also say, if you were to cancel it today, what size of impairment might we see?

And then the second question is much simpler. Could you please give an update on the sales process for Hornsea 3, that's still progressing as planned for this year? Thank you very much.

Rasmus Errboe

I start with Baltica 3, and then I leave the Hornsea 3 sales process to Trond. Hi, Olly. We have decided a while back, to which you are probably also alluding to with your question, we have decided a while back to keep Baltica 3 under reconfiguration, as we call it, together with our partner, PGE. And the reason we have we have done so is simply because we have not and are not seeing the value being good enough as of now to meet our investment requirements. Therefore, that is still the case on Baltica 3. And we are working on finding a way forward together with our partner, PGE. And just stating as well here that we are continuously very pleased with that partnership and we are moving forward really well together on Baltica 2.

I'm not going to give you a specific number in terms of potential financial implications, should we decide not to move that project forward, but there will be cancellation costs. But they will be lower, obviously, than the ones that we have now talked about today for Hornsea 4. It's a significantly smaller project, we are in it with a partner and so on. But should we decide finally, one day, to not move it forward? Yes, there will be financial implications, but they are clearly going to be manageable.

Trond Westlie

On the farm-down sales processes that we're going on. We're, of course, not commenting on each one of them. But what I can say is that all of them are progressing and moving along. As we said, the timing of the different elements, since we have mentioned, I think it now is two years ago that we mentioned the Hornsea 3, that is also moving along according to the previous plans. Not really more to say than what we said before. Basically, we're moving along according to the plan and we will come back when we literally have more qualified and basically have blue ink on the paper on those elements.

Operator

Dear analysts, in the interest of time, please limit yourself to one question only, and then you can go back to the queue for a second question. Our next question comes from Rob Pulleyn and Morgan Stanley. Please go ahead.

Rob Pulleyn

Hey, thank you. There's always more questions. May I just explore something on Hornsea 4? Is this decision, and you've talked about value over volume and obviously the balance sheet's resilience, is this a function of being unable to find a farm-down CAPEX partner for the project, when, of course, you're looking for one on Hornsea 3 as well? And a part B, if you will, also, should we be thinking that within the UK there has been indications that the AR7 and 8 auctions, and appreciating it's probably more AR8 that you're looking at, terms could be substantially better than AR6? And from a value perspective, it's better to cancel and rebid into a better auction. I'd love to hear some thoughts around those two angles. Thank you.

Rasmus Errboe

Thank you, Rob. I will take both part A and part B of your question. If we take your comment on the farm-down of Hornsea 4 first, the way we think about it is that we have seen, as I've said before, the business case deteriorate due to supply chain, interest rates, and also this increased pressure on the float in the project, as we saw it. I said a part of that was also the increase in the interest rate. The way we think about it is that we believe that the prudent thing for us to do when deciding on whether or not to move forward with an FID on a project of this size and scale of Hornsea 4, is also to take the value implications of a farm-down, down the line into consideration already now. We think that is the prudent thing to do. In that sense, it has been part of our decision making, but there is absolutely no read across whatsoever to ongoing farm-downs, as for instance on Hornsea 3, that you are alluding to.

Then part B of your question on our thoughts on moving forward with the project in a different form and rebidding at a later point in time, we would not be able to bid for AR7 and AR8. That is not part of our thinking. It will likely be at a later point in time. But the thinking is now that we would move the project forward, we will take it back into development. And then we will do whatever we can to be competitive again in a future auction round in the UK. As I said, we remain fully committed to the UK and the Hornsea zone.

Operator

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

Deepa Venkateswaran

Thank you for taking my question. Apologies, I'm going to stick to Hornsea 4. We've have heard from one of your other peers with an active contract in the same that they are still going ahead. They see value creation, and they talk about a CAPEX of 3.5 billion per gigawatt ex-OFTO. Are you able to comment what kind of CAPEX you were assuming when you decided to discontinue?

And secondly, just note that spokesperson for the UK government has said that they intend working with you to get Hornsea 4 back on track. I wonder how that dovetails with the previous comment that you think you can't really participate in AR7 or 8? Could you maybe elaborate on what the UK government might want to do? Thank you.

Rasmus Errboe

Hi, Deepa. Thank you very much. I'm not going to give away CAPEX multiples for Hornsea 4 as it stands right now. It is a project we have decided not to move forward with. And also, it's not for me to compare or speculate in how our good colleagues in the industry approach their projects in terms of communication and so on. I prefer to focus on our own, and I cannot give that multiple away, Deepa. But I'm sure you have a view on what you might think CAPEX is for a project of this size. And of course, a starting point is Hornsea 3 and then adjusting for the fact that CAPEX has gone up since then.

And specifically to the second part of your question on the comments that has come out today from DESNZ and so on. We, of course, very much appreciate that and we see it the same way. We will continue to do our absolute best to be the best possible partner for the British government. And as part of that is also that it's not right for me to speculate in terms of when and how we would be able to come back with Hornsea 4, in terms of which rounds and so on. But what I can say is that we would obviously follow the frameworks, which are, as I said before, I believe is the right one. And then we will continue to do our absolute best to move the project forward in a way that is sufficiently value creating for our shareholders.

Operator

The next question comes from Åsne Holsen with ABG. Please, go ahead.

Åsne Holsen

Hi. Thanks for taking my question. I have a question about the impairments on US tariffs. Do they only cover the steel, aluminium components, or do they extend to other components?

Trond Westlie

On the tariff side, the impairments of the 1.2 only relates to the steel and aluminium. In the introduction, we also said that we have not included the other tariffs of the 20%, which is now ten plus ten. The ten is effective, and the last ten is not. Having said that, the 1.2 is not including the other tariffs. In the scenario that we will get a tariff of 20% from the EU to the US, in our preliminary estimates, because we don't know what it will contain, but if it's a point blank, basically, all goods going into US of 20%, that will result in a bit less than half of the 1.2 billion of impairments. It's sort of short of the 600 million of impairment that needs to be added to Sunrise and Revolution.

Rasmus Errboe

Fully agree. And just in terms of the underlying drivers, just very simple terms, the key drivers behind the tariffs on steel and aluminium are the monopiles and the turbines, obviously mostly steel. And then the key driver behind a potential additional tariff on more broadly outside of steel and aluminium, the vast majority of that would be related to cables and blades. But, again, the financial implications are exactly as laid out by Trond.

Operator

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

Mark Freshney

Hello. Thank you for taking my question. Cancelling Hornsea 4, given everything that's going on in the UK with Clean Power 2030, some might say it makes a very ambitious target for the UK even more difficult to achieve. My question is, presumably you would have had to have spoken to the energy minister or the secretary of state last night or early this morning. My question is, what do they say about this? And further to Deepa's question, how confident are you the government can find a solution to this and get Clean Power 2030 done?

Rasmus Errboe

Thank you for the question, Mark. I'm afraid my answer is probably going to be a little bit disappointing to you, but I'm not going to entertain, I'm not really going to go into this from that perspective in terms of the political targets in the UK and so on. That is not for me to do. I would like to focus on our projects and how we can continue to assist the British government in the best possible way. And as I said before, when asked on another matter, in all of the markets we are in, in our core markets, we continue to have dialogues with all the relevant stakeholders. But I will not go into details about specific conversations with anybody.

Operator

Our next question comes from Helene Brøndbo with DNB. Please go ahead.

Helene Brøndbo

Hi. Thank you for taking my question. I was just wondering if you could shed some more light on how you assess the possibility of doing new offshore wind projects that are profitable in the current markets in Europe? And what do you think it will take for this industry to become competitive against some current subsidy regimes, as well as on a subsidy-free basis?

Rasmus Errboe

Thank you very much, Helene. First of all, just to be clear, while we do see challenges in the short term for offshore wind, also in Europe, we fundamentally believe in the long-term perspective for the market, driven by the fact that the demand for electricity is obviously going up quite significantly in Europe. And also right now, and for a while now, we see a significantly strengthened focus on energy security and also affordability. And then, finally, we are seeing a significant improvement in framework conditions in several of the major markets that we see.

For the long term, what is what is needed, in our view, for the industry, is predictability for the developers and the supply chain, and also frameworks that are centred around CFDs, exactly like we see in the UK. The uncertainties that we would have to address as an industry here is obviously on the size of the electricity demand, it is on the price side. It is also on the supply chain that we've talked about before. And then obviously, also turning the targets into FID. And then finally, on the bankability of the projects. But we firmly believe that there is a way forward. And as we have also recently put out, as part of an industry piece called European Offshore Wind At a Crossroads, we are very focussed on the need for predictability, and we believe the right way is for the European Government more broadly in the coming period of time, tender out offshore wind in a coordinated manner, country for country, preferably with a guaranteed build out of offshore wind of around 10

GW from 2031 towards 2040 of CFDs. And then top-on for merchant projects with PPAs.

If that happens, then we are convinced that the industry will answer. We will. And we also then expect LCOE to again start going down a significantly for offshore wind. Europe need offshore wind. We don't see a relevant scenario where we will not see a significant increase in volumes for offshore wind for the next decades, but we need to break the curve together.

Operator

We continue with a set of follow-up questions, starting with Harry Wyburd with BNP Paribas. Please go ahead. Mr Wyburd, your line is open.

Harry Wyburd

Hi. Sorry, my question was already answered, so I'll just hand it on to the next person. Thank you.

Operator

Thank you. The next follow up comes from Alberto Gandolfi with Goldman Sachs. Please go ahead.

Alberto Gandolfi

Thank you. I'll keep it very brief. Thank you for taking my follow-up. My question is the following. Do you have a view on the potential implementation of zonal pricing in the UK, on the probability of it being implemented? What timeline, and how would it affect the profitability of the existing portfolio? Thank you so much.

Rasmus Errboe

Thank you, Alberto. Obviously, the conversation around zonal pricing in the UK is obviously something that we are following very closely. And our engagement with both DESNZ and REMA remains a priority for us. For us, what is really the key point here is that we see a need, obviously, for significant or the commitment to grandfathering of existing projects, which is also very much what we discussed with the senior officials, as well as also the public comments that we have seen coming out. We fully appreciate that the zonal pricing is still under consideration. And as such, I will not put out a firm view on one model or the other. But it is an uncertainty, should you go there, on the cost of capital for existing projects because of the increased uncertainty on the revenue line and the risk of the project, which is also why we believe that the grandfathering of existing projects is absolutely essential.

Alberto Gandolfi

Thank you.

Operator

Our next question comes from David Paz with Wolfe Research. Please go ahead.

David Paz

Hello. Thank you. Just on the Revolution Wind, can you help me understand, you say you're on track to complete the highest priority by the end of this year, which I believe is the installation vessels. What then has to be completed to get you COD? Think you still have second half 2026. Can you remind me what's the lag there?

Rasmus Errboe

Absolutely, David. The critical path for Revolution Wind is the onshore substation. What we are doing now, as we've talked about, is we are continuing the offshore construction that I mentioned before, where we have installed around 50% of the 65 turbines and around 80% of the monopiles. You can say all the components for Revolution Wind have also been constructed and prepared. And the critical path, what we will be doing for the remainder of '25 and '26, is the offshore construction, but also the finalisation of the onshore substation.

Operator

Our next follow up comes from Peter Bisztyga with Bank of America. Please go ahead.

Peter Bisztyga

Hi. Actually, just another one on zonal pricing in the UK. Just wondering whether the uncertainty associated with that is a tool into your decision to cancel Hornsea 4? And has it caused any issues or disruptions with the Hornsea 3 on-land process?

Rasmus Errboe

Thank you, Peter. The answer is no and no. The zonal pricing debate in the UK has not in any way been part of our decision to discontinue Hornsea 4 in its current form. It is driven by the three things I mentioned before, and then also the comments I made relating to a potential farm-down. And as per our ongoing process with the farm-down of Hornsea 3, as Trond said before, we're not going to go into details about an ongoing process, but I can say that the debate about zonal pricing is not part of the conversations we have.

Operator

Our next follow up comes from Rob Pulleyn. Please go ahead.

Rob Pulleyn

Hi. Thank you. Maybe this is a little bit obscure, but relates to the US projects. There was a technical ruling, I believe we'll call it, on 2 May by the Interior Department regarding permitting for offshore wind. And this removed a Biden opinion and inserted a Trump one. And the language says that the department action taken on the basis of this previous opinion, would have to be re-evaluated. Sorry, this is all rather clunky. But the question is, I don't know whether you'd seen that 2 May ruling, I'm sure you have. And does that open the door to retrospective removal of the permits on Sunrise and Revolution, which obviously is post-date what happened to Equinor's Empire Project? I hope that was a clear question.

Rasmus Errboe

Thanks, Rob, for the question. I'm not going to go into speculation about the regulatory framework around Revolution Wind and Sunrise, as I said before. We have all the permits we need. We have completed multi-year reviews. And we have also followed all state and federal procedures. Therefore, I'm not going to go into specifics about technical rulings.

Operator

The next follow up comes from Ahmed Farman. Please go ahead. Mr Farman, your line is open. We cannot hear you.

Ahmed Farman

Two quick questions. Sorry about that. Could I get your perspective on the UK government's proposed reforms to the CFD? Just if you think that makes a material difference to the options or the overall attractiveness of the market? Then you talked about earlier that both Sunrise and Revolution Wind are part of the single programme. And as I understand it, probably some learnings from Revolution will go to Sunrise. But could you elaborate on that? What are the critical parts there in terms of the learnings from Revolution that would then expect to benefit the Sunrise Wind project? Thank you.

Rasmus Errboe

Absolutely. Thanks, Ahmed. In terms of AR7 and the debate that is currently ongoing, since we are not going to participate, I don't think it is right for me to go far into that discussion. But we note very much the dialogue that is ongoing right now as part of the framework for AR7. And we also know that, as an example, the proposal that is being discussed on potentially having a CFD that is 20 years instead of 15 years, and so on. And, as I also said before, in a more general comment about what is needed for the long term for offshore wind in Europe, any increased predictability for the developers, including on the revenue line, in our view, will be attractive, as an example.

With respect to your question on Revolution Wind and Sunrise being executed as one programme, and you asked about the learnings. As an example of that, is the installation rate for the turbines. And one of the challenges that I also partly alluded to before, that we have had also when we rebased the schedule for the projects, was the installation rate for the turbine, where we had to use a US set up with a jack-up and a barge, where you basically sail out one turbine on a barge, the blades and the monopile and so on, and then you install the full turbine with a jack-up vessel. That is a process that is not one that we would normally go with. Therefore, that's an example where that would be the same approach that we're also going to use for Sunrise. Therefore, the learnings in terms of installation rates for the turbines will travel from one project to the other.

Specifically for Sunrise, we will have two installation seasons over winter, so therefore, also obviously complying with all pile banning requirements and so on. That will also mean that that the learnings as an example on installation rates for the turbine will be important for Sunrise Wind as well. That's an example of how learnings travel from one project to the other as part of being constructed as one programme.

Operator

The next follow up comes from Helene Brøndbo with DNB. Please go ahead.

Helene Brøndbo

Hi. I had follow-up here on the recent UK ruling related to wake effects. And I was wondering how you see that impacting your Hornsea 1 to 3 projects.

Rasmus Errboe

Thank you, Helene. Yes, we are following closely the ruling and also the debate in the UK with respect to with respect to wakes. I'm not going to give specific numbers away in terms of implications on projects and so on. I think it is still very early days in this regard. And as I also understand, everything that is out there now, the wake effects mentioned are calculated by independent experts. And the estimates are based on assumptions known at the time and so on. It's not for me, as of now, to comment on the implications of that ongoing process on our existing projects in the west and in the east of the UK.

Operator

The next follow up comes from Dominic Nash and Barclays. Please go ahead.

Dominic Nash

Hi, there. Thank you. I think a little while ago, we might have talked about the ability and willingness of Ørsted to raise debt via SPVs within projects, rather than raising it all at balance sheet, at group level. I just wanted to know whether or not you're evolved in your debt raising ideas going forward as to whether the SPV route is something that you might consider more of and/ or implement. Thank you.

Trond Westlie

We are in specific instances or in countries that we see as beneficial, we are doing that and looking into that. In the likes of Taiwan, we have been looking at it due to the fact of both the projects themselves, but also the country risk element of it. We are looking into that, but more in specific instances.

Operator

And our last follow up comes from Deepa Venkateswaran with Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. I think my question is going to be on your Greater Changhua project. It's 35% complete as of now, but you do still expect COD to happen this year. Just wondering, is that a stretch goal, or is there any risk of this spilling into '26, as you had previously flagged? And maybe you can just explain to us why the Taiwanese project can be constructed so quickly, even, say, compared to other European projects? Thank you.

Rasmus Errboe

Thank you very much, Deepa. Two questions. I think, first of all, on the timeline, you are right, as we have also said, that we expect the COD from this project towards the very end of 2025. There is a risk, I would say, that a turbine or two could slip into '26. But again, it doesn't really have any implications from a business case perspective, because we would obviously get the power as we ramp up the wind farm. It's a very different situation than, for instance, a project like Revolution Wind, where it is the onshore operation that is on the critical part.

And then in terms of your comment, which is very right, on the construction progress for Changhua 2b and 4, it is going quite well as of now. We are managing to install both the suction bucket jackets, which it is here, and also the turbines at a pretty good pace. Better than we had expected, I might add. But also right now, as an example, we are seeing close to perfect weather conditions in Taiwan as of now. That's obviously also one of the uncertainties that we have is that the weather, we don't expect that to just continue. But right now, everything lines up very nicely. And we are, as you rightly point out, installing at a very good pace on these projects.

Operator

Ladies and gentlemen, this was our last question. Back over to the management for any closing remarks.

Rasmus Errboe

Thank you all very much for joining. As always, we very much appreciate the interaction and we appreciate the interest. And also, as always, if you have any further questions, please never hesitate to reach out to our IR teams, who will be here to answer them. Thank you all very much. Stay safe and have a great day.