



Copenhagen Stock Exchange
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Market situation

Generally, Vestas continues to have positive expectations for the global market for wind power.

In October 2004, the Production Tax Credit (PTC) scheme in the US was retroactively extended for a two-year period ending December 2005. Based on the late extension of the PTC, the American market in 2004 will be considerably reduced compared with 2003, whereas the prospects for 2005 are positive.

Estimates from the industry indicate that 2,000 MWs of wind power plants may be added to the US grid before the end of 2005, which would result in a US market record breaking year. However, the weak USD exchange rate in combination with the increased steel prices put a high pressure on the profitability of these projects. Therefore, Vestas expects that some of the planned projects will not be built and consequently, the market will develop at a slower pace than indicated by estimates from the industry.

In Canada, the prospects are still positive. Canada's federal and provincial renewable energy initiatives continue to support stable growth. Vestas has secured several large orders in Canada during the second half-year 2004, cf. stock exchange announcements No. 31/2004 of 6 August, No. 36/2004 of 27 September, No. 39/2004 of 18 October and No. 43/2004 of 16 November, 2004. These orders totalling more than 350 MWs confirm Vestas' competitive position in the expanding Canadian market.

In order to minimize the dependency towards the USD exchange rate, Vestas is continuously working to balance its turnover and costs in USD and EUR. The principal decision of establishing own local manufacturing has now been made and it is expected that the establishment in North America will contribute significantly to the efforts being made also in the sourcing area, cf. the section below concerning production and sourcing.

The European markets are continuously dominated by Germany and Spain as the largest markets.

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In Germany, the changed interpretation of the Bundesimmissionsschutz-gesetz (Federal Emission Control Act) has led to a number of projects being postponed as authorisation procedures have become more complex and take longer time. The postponement of projects and pressure on the installation capacity during fourth quarter 2004 lead to an increasing risk of projects being postponed into first quarter 2005. Due to the yearly reductions in the feed-in tariffs according to the EEG (German Renewable Energy Sources Act), the profitability of projects being postponed into 2005 is decreasing and may lead to postponements or even cancellation of some projects.

Vestas expects Germany to continue as a large market in 2005, however, at the same or at a slightly lower level than 2004. In 2006-2007, the German market is expected to grow again when the planned offshore projects are expected to materialise.

In Spain and Portugal, the positive prospects have materialised for Vestas during second half-year 2004. Vestas' expectations for the competitiveness of especially the V90 wind turbine for high and low wind sites in the southern part of Europe have been confirmed by large orders for the V90-3.0 MW and the V90-2.0 MW wind turbines, cf. stock exchange announcements No. 27/2004 of 1 July and No. 38/2004 of 15 October 2004.

In Great Britain, a new planning policy statement on renewable energy (PPS22) was issued in August. The PPS22 instructs the planning authorities to "promote and encourage" rather than restrict the development of renewable energy sources. Combined with the inherent growth potential in the market due to the Renewable Obligation Certificate (ROC), which calls for 10% renewable energy by 2010 and 15% by 2015, the overall market outlook is still very positive.

Vestas has obtained a very attractive position in the UK offshore segment. Vestas has finalised the North Hoyle project and is close to finalising the second project, the Scroby Sands offshore wind power plant. Both projects include 30 units of V80-2.0 MW offshore turbines. In July 2004, Vestas also received an order for the Barrow offshore project, which consists of 30 units of V90-3.0 MW wind turbines. In September 2004, Vestas and Elsam agreed to install V90-3.0 MW turbines on the Kentish Flats offshore wind farm instead of the NM92 turbines originally planned.

The V90-3.0 MW turbine is the newest and largest turbine in series production within Vestas and optimised for offshore projects. Once erected on Kentish Flats, the 30 turbine project will be the largest offshore wind power plant in the UK, at 90 MW rated capacity. It is expected that the wind power plant will be fully commissioned by summer 2005.

In the offshore segment, the third quarter of 2004 has also been characterised by a high level of activity on the Horns Reef project off the west coast of Denmark. In July 2004, it was decided to bring all 80 V80-2.0 MW nacelles onshore in order to do the repair work. Subject to focused efforts and strong commitment by the Vestas team, all nacelles were back

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offshore on 10 November 2004 and Vestas still expects the work to be finalised in the fourth quarter of 2004.

Vestas and its employees have demonstrated trustworthiness and the power to act by taking the responsibility for the performance problems at Horns Reef very seriously. At the same time – despite the high level of pressure and the tight deadlines – the maxim of “safety first” was observed throughout the process and it is a great satisfaction that the project was completed without any major industrial injuries.

The lessons learned from Horns Reef are expensive, and the next milestone will be the commissioning of the turbines. Furthermore, the on-going negotiations with the sub-suppliers and the customer shall be completed. Vestas still evaluates that the reservations made for extra costs will cover the costs incurred.

The Danish government has decided that two new offshore wind power plants – each of 200 MW – shall be installed, and at the same time a new programme for repowering of 350 MW has been started up onshore. On the basis hereof, increased activity is expected in Denmark in 2005.

Other European markets are progressing satisfactorily and according to Vestas' expectations. Most recently, Vestas announced an order for 36 units of V80 wind turbines for a wind power plant in Sardinia in Italy, cf. stock exchange announcement no. 41/2004 of 28 October 2004, and with this third larger order for V80 turbines to Italy in 2004, Vestas continues to be the market leader in the Italian market. The development in other European markets also tends towards MW sized turbines where Vestas' product programme is very competitive.

In Asia and the Pacific area, the outlook remains positive with a continued strong focus on renewable energy in Australia, China and India.

In Australia, Vestas has been awarded large projects, which clearly demonstrates Vestas' strong position in the market, cf. stock exchange announcements No. 28/2004 and No. 34/2004 of 7 July and 30 August 2004, respectively. In the short term, the expectations for the Australian market are positive, but there is still an uncertainty in the long term as the target for renewable energy in the Mandatory Renewable Energy Target (MRET) has not been extended and increased. However, Vestas expects political initiatives to be taken on the federal and state level that will secure Australia as a good market also in the long term.

On this background Vestas has started up the establishment of a factory in Portland in the Victoria region for the manufacture of blades for megawatt size wind turbines. The blade factory is expected to be put into operation in the summer of 2005 and will have a yearly capacity of approximately 100 blade sets for megawatt wind turbines. It is expected that the factory will employ more than 50 employees. The total investment in equipment is expected to be approximately mEUR 5, cf. stock exchange announcement No. 28/2004 of 7 July 2004.

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The Chinese Government is drafting a new law aimed at promoting the use of renewable energy in the country. The goal is to lift the country's installed renewable energy generating capacity to 60,000 MW by 2010 and 121,000 MW by 2020. The drafted law, which is now being circulated amongst local ministries for review, is expected to be put in place by May 2005. The proposed new law demands that the end users share the costs of procuring renewable energy sources, while power grid firms will need to buy electricity generated by renewable energies on mandatory basis. The target of 121,000 MW is equivalent to 12 per cent renewable power sources by 2020. Vestas expects that wind power will represent a considerable share of this growth.

In India, the expectations to market growth are still high. India is the fastest growing market in 2004. The market is transforming from a tax driven market to an energy driven market with main investors being independent power producers and utilities. In addition a subsidy covering 50 per cent of the financing cost has been implemented for textile mills investing in wind turbines.

In general, the long-term development of the markets is positive. Several new markets are developing and in the third quarter of 2004, Vestas has delivered some small projects to Lithuania, Croatia, the United Arab Emirates and Cuba.

In summary, the order intake in the third quarter has been satisfactory, however, the lower order intake in the first half of 2004 has still not been recovered. The total backlog of firm and unconditional orders corresponds to approximately four months' average production at Vestas, which is at the level of third quarter 2003.

Products

The actions taken at Horns Reef clearly demonstrate that Vestas takes a possible non-satisfactory operation of its turbines seriously. The fact that Vestas was selected to supply turbines for among others the Barrow offshore project is regarded as a sign that new customers who are looking at offshore projects have discovered and are confident that Vestas will live up to its obligations if problems arise. This is yet another aspect of Vestas' proven performance in the wind power segment.

Furthermore, the continued high interest for the V80 turbine onshore clearly demonstrates the competitiveness of this product.

The lessons learned at Horns Reef have been gathered and taken into consideration in the implementation of ongoing offshore projects and the development of new products, including the design, manufacture, installation and service methods and procedures.

As mentioned in Vestas' Offering Circular of 12 May 2004, a decision has been taken as regards Vestas' future product programme and a number of choices have been made as regards future technology.

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The further development of the V90-3.0 MW turbine into a V100-3.0 MW turbine is progressing according to plans. A V100-3.0 MW prototype is now installed at the test site at Høvsøre, Denmark. In 2005, other V100-3.0 MW prototypes will be installed. These prototypes will be equipped with blades based on a further development of the wood/carbon-fibre/epoxy concept. The V100-3.0 MW turbine is still expected to be ready for delivery at the end of 2005.

Likewise, the further development of the NM110-4.2 MW into a V120-4.5 MW turbine is progressing according to plans. This turbine is expected to be ready for delivery in late 2006.

Sourcing and production

In connection with the combination of Vestas and NEG Micon, a combined roadmap for global sourcing has been established as the basis for future development. Increasing need to lower the dependency on the USD and AUD exchange rates and the increasing steel prices have led to intensified activities concerning sourcing and manufacture in non-EUR currencies. Especially in the US and China, evaluation of possibilities for local sourcing has been intensified by the establishment of local sourcing teams within the global production units for nacelles and towers.

Currently, important materials such as steel, castings and fibre glass are predominantly sourced in EUR. Likewise, important components such as gearboxes and generators are predominantly sourced in EUR. Vestas anticipates that its own establishment of local manufacture in future growth markets such as North America and China will enhance the outcome of current partnership negotiations with sub-suppliers on sourcing in non-EUR currencies. Vestas has made a principal decision to establish own production in North America and China during 2005. The extent of the local production set-up and level of investments is yet to be finally determined and Vestas expects to inform further in connection with the announcement of the Annual Report 2004 on 30 March 2005.

Status of the combination of Vestas and NEG Micon

The process of combining Vestas and NEG Micon was initiated in March 2004 and in general the combination follows the plans and targets set by the management. In third quarter 2004, the activities have among other things included the implementation of improved purchasing procedures and the decisions taken as regards technology as well as integration of administrative systems.

The expected synergies within purchase and production primarily relate to improved purchasing procedures. Based on the larger volume, important sub-supplier agreements have been renegotiated resulting in a number of improvements in the agreements for Vestas, which will have full effect from 2006. In third quarter 2004, the second phase of the purchasing program has been started up. This phase is focused on balance of plant, i.e. the turnkey part of sales projects.

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Based on the decision to focus on further development of NEG Micon's wood/carbon-fibre/epoxy concept using Vestas' geometric profiles, a transfer of technology and know-how from the blade factory on the Isle of Wight, England to the blade factory in Lem, Denmark has been started up and the first results are very positive.

The integration of administrative systems is ongoing. The implementation of Vestas' production management system within the former NEG Micon production units is well under the way and the integration of financial systems is in progress. The full integration of administrative systems is expected to be in place within 1-2 years.

The white collar workers affected by the staff reductions in spring 2004 have successively resigned during the period from May to September as planned.

In general, Vestas still expects to gain cost synergies of at least mEUR 67 per year and the synergies will be gained successively between 2004 and 2006.

Expectations for the Vestas Group for the full year 2004

Based on deliveries until the end of the third quarter of 2004, a good backlog of firm and unconditional orders and a number of conditional orders, which are expected to become firm and unconditional before year-end, the expected turnover for the full year is continuously bnEUR 2.6, cf. Stock Exchange announcement no. 33/2004 of 18 August 2004.

It is still the target that the net working capital at the end of the year will be below 35 per cent of the net turnover for the full year. The pressure on the transportation and installation capacity in Germany during the fourth quarter carries, however, an increased risk for some of the projects to be postponed into 2005. Such postponements may influence the net working capital.

The margin for profit before financial income and expenses (EBIT) is still expected to be approximately 6 per cent, including the effect of expected cost synergies of mEUR 14, but before integration and restructuring costs and before goodwill amortization arising from the combination with NEG Micon. The EBIT margin after integration and restructuring costs but before goodwill amortisation arising from the combination is expected to be approximately 4 per cent.

In general, it must be noted that the fourth quarter of 2004 is characterised by a significantly higher level of activity compared to previous years. A major part of the MW supplies will be delivered and a number of large projects shall be completed, including the Horns Reef offshore project. The negotiations with the customer and the sub-suppliers on the Horns Reef project are expected to be concluded during first quarter of 2005. All these circumstances may have an affect on the turnover and result.

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Market expectations for 2005

The Vestas Group's long-term expectations continue to be positive.

Based on the extension of the Production Tax Credit (PTC) scheme in the US, the American market will show growth in 2005. However, the growth is expected to be reduced by the low USD exchange rate and high steel prices.

In general, the markets in Europe are developing positively and Vestas expects Germany, Spain and UK to continue as strong markets also in 2005. Outside Europe, markets such as India, China and Australia are expected to grow.

As a consequence of the declining USD exchange rate in combination with the increasing steel prices, price competition especially in the USD related currency countries in China, India and North America is very fierce. The overall impact on the expected EBIT ratio in 2005 is estimated to approximately 2-3 percentage points.

Consequently, the forecast turnover for 2005 is bnEUR 2.6 to 2.9. The EBIT-margin is expected at a level of 4 per cent in 2005. Vestas' goal for EBIT-margin is unchanged at a level of minimum 10 per cent.

The Vestas Group will publish its Annual Report 2004 on 30 March 2005.

Telephone conference on Friday, 26 November 2004, at 3 p.m. (CET)

In connection with the publication of the 3rd Quarterly information, Vestas will host a telephone conference today, Friday, 26 November 2004 at 3 p.m. (CET). The telephone conference will be held in English. It will be possible to attend the conference via Vestas' website www.vestas.com and Copenhagen Stock Exchange A/S' website www.cse.dk.

Interested parties from Denmark, who wish to ask questions during the telephone conference, may call ph. +45 7026 5040, interested parties from the rest of Europe may call ph. +44 20 7769 6432, and interested parties from the US may call ph. +1 877 204 0753. After the meeting, a replay will be available on Vestas' web site www.vestas.com.

Any questions may be addressed to the Board of Management at Vestas Wind Systems A/S, phone +45 9730 0000.

Yours sincerely
Vestas Wind Systems A/S

Svend Sigaard
President and CEO