2005 INTERIM REPORT

EWE – The Power of the North

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EWE Aktiengesellschaft

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2005 has so far seen a strong continuation of the EWE success story of the past 75 years – as evidenced by the fact that this year we are publishing our first-ever mid-year report. The report signals EWE's coming of age as a key market player who is well prepared for the current energy market reforms.

The two most significant energy sector reforms relate to EU-mandated structural and legal unbundling and the coming into force on July 13, 2005, of Germany's reformed New Energy Law (EnWG). The latter constitutes the legal basis for Germany's new Network Regulatory Authority (BNA), which has already commenced operations. The BNA's primary task is to monitor and regulate network fees in Germany. EWE is in a strong position going into this new regulatory environment, offering network fees below the national average.

The general trends and developments affecting the energy market include increases in wholesale energy costs. Like its competitors, EWE has passed these on to its customers in the form of higher power and natural gas prices, albeit only after a grace period, during which it was required to absorb the cost increases itself.

Despite all of these changes, the first six months of this year have seen a pleasing continuation of the positive earnings performance of the previous financial year. The Group's profit on ordinary activities (EBT) for the six months to June 30, 2005, was €249.2 million, up €26.8 million on the same period last year.

Several factors contributed to this growth, including the sales performance of Group's electricity and natural gas businesses and dynamic growth in its Telecommunication and Information Technology segment.

While energy market liberalization is a source of new challenges for EWE, it is also a source of exciting new opportunities – such as the natural gas storage services segment, now an increasingly strategically important part of EWE's business mix. EWE and VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig, which was consolidated for the first time on January 28, 2004 – already boast Germany's second-largest gas storage capability, and have plans to further expand their underground storage capacity. This is also an investment in long-term security of supply for our customers.

Security of supply is an enormous responsibility. Given our successfull track record over the last 75 years, our customers can rely on our ability to shoulder this responsibility in future.

Oldenburg, August 2005

The EWE Board of Management

Dr. Werner Brinker Heiko Harms Dr. Klaus-Ewald Holst Axel F. Waschmann

Report of the Board of Management

Earnings situation

The Group's earnings situation for the six months to June 30, 2005, is not fully comparable to that achieved during the same period of the prior year because VNG was not consolidated in the Group's accounts until January 28, 2004. The Group's consolidated external sales revenues increased 27.9 percent on the same period in the prior year to €3.7 billion. However, Group expenditure also increased – by 29.5 percent to €3.4 billion, due largely to an increase in wholesale energy costs.

The profit on ordinary activities (EBT) rose by €26.8 million to €249.2 million. The Group's tax expenditure was higher than for the same period in 2004, resulting in a net income figure for the six months to June 30, 2005, of €144 million – on a par with the figure for the same period in the prior year.

Balance Sheet

The balance sheet total is only slightly less than the total as at December 31, 2004. On the liabilities side, the equity ratio remains solid and well-balanced at 28 percent. Long-term assets are covered on the liabilities side by stockholders' equity and €3.4 billion in long-term debt.

Total capital

	Jun. 30, 2005		Dec. 31, 2004	
	€m	%	€m	%
Economic equity	1,886	28	1,921	28
Long-term debt	3,400	50	3,622	53
Short-term debt	1,479	22	1,266	19
	6,765	**100**	**6,809**	**100**

Cash flow situation

The inflow of funds from operating activities for the period totaled €320 million. The €92 million outflow of funds for investment activities relates to investments in property, plant and equipment. The €156 million outflow of funds for financing activities in the first half of 2005 relates predominantly to dividend payouts and the repayment of finance loans.

Consolidated Statement of Cash Flows

(+ = cash inflow; – = cash outflow)	Jun. 30, 2005 €m
Cash flow	+ 320
Investment activities	– 92
Financing activities	– 156
Change in liquid funds	**+ 72**

Investments

EWE Group investments in the first half of 2005 totaled €121.2 million, most of it attributable to property, plant and equipment. Of this figure, €71.8 million is attributable to the Group’s Energy segment, €29.7 million to the Telecommunication and Information Technology (I+C) segment, and €19.7 million to the Gas Transmission and Trade segment.

Segment report

Overview of segments for the period from January 1 to June 30, 2005 (€m)

	Energy		Gas Transmission and Trade		I+C		Consolidated		Group	
	2005	2004	**2005**	2004[1]	**2005**	2004	**2005**	2004[2]	**2005**	2004
Revenue										
External sales	**1,824.1**	1,565.4	**1,760.6**	1,226.3	**150.2**	128.4			**3,734.9**	2,920.1
Inter-segment sales	**14.6**	12.7	**105.8**	72.9	**32.9**	31.8	**– 153.3**	– 117.4		
Total revenue	**1,838.7**	1,578.1	**1,866.4**	1,299.2	**183.1**	160.2	**– 153.3**	– 117.4	**3,734.9**	2,920.1
Segment result [3]	**194.8**	**157.7**	**56.8**	**68.0**	**8.6**	**– 2.1**	**– 8.9**	**– 6.0**	**251.3**	**217.6**

[1] First-time consolidation of VNG as from January 28, 2004

[2] Revenue from renewable energy generated by third-party assets has been attributed to the Energy segment

[3] Corresponds to EBT excluding financial earnings and interest income

Energy segment

In the first six months of 2005, electricity sales volumes dropped by 1.4 percent to around 6.9 billion kWh. The drop was caused mainly by increased competition in the special-rate customer and distribution company sectors.

As at June 30, 2005, EWE had a total of 1,041,000 electricity customers, 13,800 more than at the same time last year. In the first half of 2005, the company won 3,700 new and returning customers.

Electricity sales revenues increased year on year by 7.9 percent to €642 million. The figure includes the effect of the February 1, 2005, price rise occasioned by the increase in wholesale energy costs. Overall, EWE recorded an improvement in electricity earnings as compared with the first half of the 2004 year.

Electricity sales volumes by customer category for the period from January 1 to June 30, 2005

	2005 Million kWh	2004 Million kWh	Change on prior year %
Standard-rate customers	2,431	2,424	+ 0.3
Special-rate customers	3,111	3,150	– 1.2
Distribution companies [1]	1,313	1,376	– 4.6
Total	**6,855**	**6,950**	**– 1.4**

[1] Incl. substitute deliveries

At around 23.7 billion kWh, the total gas sales volume for the first six months of 2005 was 1.7 percent higher than for the first half of the preceding year. This pleasing performance was to a large extent due to the increase in the volume of gas sold to special-rate customers.

In the first six months of 2005, EWE gained 5,100 new natural gas customers, taking the half-yearly figure to just on 759,000, a year-on-year increase of 18,200.

In the first half of 2005, total gas sales revenues grew 16.2 percent to €755 million on the back of increased sales volumes and the September 1, 2004, price increase occasioned by the increase in wholesale costs. By making optimal use of its gas storage capability, the company was able to keep its gas earnings steady in the face of the rising wholesale market.

The Energy segment's sales revenues for the six months to June 30, 2005, totaled €1.8 billion, up €261 million or 16.5 percent on the prior year. The Energy segment's half-year result totaled €194.8 million.

Gas sales volumes by customer category for the period from January 1 to June 30, 2005

	2005 Million kWh	2004 Million kWh	Change on prior year %
Standard-rate customers	13,674	13,651	+ 0.2
Special-rate customers	7,373	6,987	+ 5.5
Distribution companies	2,698	2,720	– 0.8
Total	**23,745**	**23,358**	**+ 1.7**

Gas Transmission and Trade segment

This segment recorded natural gas sales amounting to almost 81 billion kWh since the start of the year – 5.1 billion kWh less than in the first half of 2004. The decline is the result of a reduction in forward gas sales to customers for which VNG stores the gas under contract in its facilities on an on-call basis. The segment nonetheless succeeded in growing its sales revenues by 43.7 percent to €1.9 billion. This is due primarily to an upward adjustment in retail rates, in line with the rising oil prices. The overall segment result fell €11.2 million to €56.8 million, due mainly to a temporal deviation in the development of gas sales revenues as compared with gas procurement costs in the first half of 2004. The differential trend in sales revenues and procurement costs is caused by the different contractual arrangements in place for EWE's suppliers and its customers. These delayed EWE's ability to pass on the higher procurement costs resulting from rising oil prices to its customers as well as a temporary reduction in gas volumes, as compared with the same period in the preceding year.

Telecommunication and Information Technology (I+C) segment

DSL broadband Internet continues to be the main growth driver in the telecommunications market. The DSL segment is currently characterized by strong prize competition, which is why EWE's telecoms subsidiaries have allocated a sizeable portion of their marketing budgets to this mainstay part of their business. In the first six months of 2005, EWE's telecoms group (TK) succeeded in increasing its total number of DSL customer accounts by around 26,200 to 76,200. During the same period, it increased its overall telecommunications customer base by 19,000 to over 321,000. Because the group's materials and outside services costs increased less steeply than its sales revenues, it was able to leverage a further year-on-year increase in its gross profit.

EWE's information technology (IT) subsidiaries did very well on the market despite the continued general economic slump and the sluggish pace of the IT sector's current recovery cycle. The segment was able to win a number of big-name customers, in addition to which the overall segment result was buoyed by the expansion of the SAP licensing business of BTC Business Technology Consulting AG, Oldenburg.

The I+C segment's sales revenues continued last year's upward trend, totaling €183 million for the six months to June 30, 2005, up 14.3 percent on the first half of 2004. And at €8.6 million, the overall segment result made a sizeable contribution to the Group's bottom line.

Investor relations

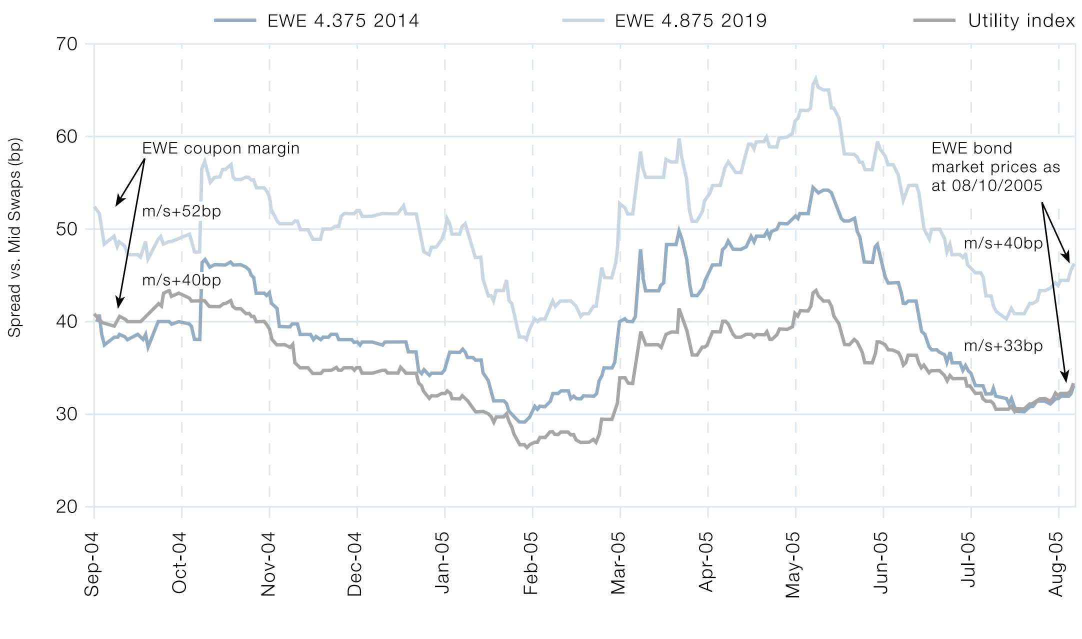
EWE AG carried out its debut bond issue for €1.5 billion in two tranches on the Frankfurt Securities Exchange in October 2004. The coupon margin for the ten-year tranche was set at 40 basis points above mid-swaps, and for the 15-year tranche at 52 basis points above mid-swaps.

The EWE bonds' spreads performed well on the secondary market, benefiting from strong buying interest from a broad range of investor types, and were at 37 and 48 basis points respectively above the relevant mid-swaps on June 30, 2005. The spreads continued to narrow after the end of the reporting quarter, and on August 10 were at 33 and 40 basis points respectively above the relevant mid-swaps. Since issuance, the EWE bonds have followed the secondary market trend of other utility bonds. Thanks to the stability of the utility sector, the secondary market spread of the EWE bonds remained largely unaffected by the general market volatility in April and May this year.

The EWE bonds' secondary market trading volumes testify to an international investor base, with a strong showing from Germany, the UK, Benelux, and Scandinavia. EWE has therefore successfully established itself as one of Europe's trusted and proven bond issuers in the utilities sector.

EWE bonds – trend since issuance

(EWE 4.375 2014: ISIN DE000A0DLU51 / EWE 4.875 2019: ISIN DE000A0DLU69)



Source: Barclays Capital, iBoxx indices, August 10, 2005

Workforce

As at June 30, 2005, the EWE Group had a combined staff of 5,337 employees, up 125 since the end of the 2004 calendar year. The bulk of this increase is attributable to the dynamic growth enjoyed by the Group's I+C segment.

During the 6-month reporting period, EWE AG downsized its workforce slightly to 2,319 as part of its ongoing efficiency program in the Energy segment.

Outlook

Market

All major economics institutes are predicting moderate growth for the German economy in 2005. While the positive influence of economic growth on energy demand is increasingly being undermined by energy efficiency measures and the steadily growing share of services in Germany's total GDP, there is still a general correlation between economic activity and energy consumption. It is therefore reasonable to assume that the country's economic situation will not cause any noteworthy reductions in power and natural gas sales volumes. According to the EWI/Prognos study on the long-term trend of Germany's energy markets that was commissioned by Germany's Federal Ministry of Economics and Labour (BMWA) natural gas will constitute an increasingly large percentage of the country's total energy mix. The study also predicts a slight increase in electricity demand.

By contrast, EWE anticipates major growth potential in the energy services market, where the company has been an active player for several years.

The spot market price for electricity has risen almost constantly since the start of the year. This is due partly to the general upward trend of the international commodity markets caused by strong economic growth in the emerging industrial economies and the associated growth in their energy requirements. The other factor is the upward pressure on prices occasioned by the recent introduction of trading in CO_2 certificates. Gas prices on Europe's natural gas trading hubs have also been rising steadily, a fact that is reflected in the cross-border price statistics for German gas imports that are compiled by the Federal Ministry of Economics and Export Control (BAFA). This trend is driven by international oil prices, which are rising on the back of increasing global demand.

The outlook for the Telecommunications segment is very positive. Few other industry sectors enjoy such buoyant growth. The broadband Internet business recorded particularly strong gains, and there is every reason to believe this will continue. In fact, DSL broadband is already the EWE telecoms group's top marketing priority for 2005. EWE's Voice over IP and mobile telecommunications businesses are also very promising. The key to the Group's success in these areas is the targeted expansion and rollout of services on the basis of its own high-performance telecommunications infrastructure.

German companies' increasing IT budgets are also expected to the ongoing positive performance of our information technology business. Our IT subsidiary BTC Business Technology Consulting AG is ideally positioned to meet increasing demand in this area.

EWE anticipates that the Telecommunication and Information Technology (I+C) segment will continue to grow its customer base, increase its sales revenue, and further improve its overall result.

Regulatory environment

Germany's reformed New Energy Law (EnWG) came into force on July 13 this year. The new legislation vests authority for regulating Germany's electricity and natural gas industry in the newly created Network Regulatory Authority (BNA). The BNA's main functions are to approve, monitor, and regulate network fees. After the new legislation has been in force for a year, the BNA will prepare and submit a blueprint for incentive regulation. Regulations will then be enacted to replace the current cost-based ex ante approach to issuing permits for network fees with a non cost-oriented benchmark approach. Given that the network fees charged by EWE are already lower than Germany's national average, we do not anticipate any significant impacts on results for the current financial year.

Revenue and profit expectations

The Group's revenue and profit performance is subject to economic fluctuations, weather conditions, and international oil prices – all of which are beyond its sphere of influence. However, in view of the latest energy price hikes and the ongoing, buoyant development of the I+C segment, EWE expects a solid revenue and profit performance for the 2005 financial year.

2005 Mid-Term Finances

Consolidated Income Statement (€m)

	Jan. 1 – Jun. 30, 2005		Jan. 1 – Jun. 30, 2004 [1]	
Sales	3,734.9		2,920.1	
Electricity tax	82.1		82.0	
Changes in inventories	– 1.0		– 0.1	
Other capitalized work on own account	1.7		0.6	
Other operating income	32.8		32.2	
		3,686.3		2,870.8
Cost of materials	2,943.4		2,196.4	
Personnel expenses	160.1		149.1	
Depreciation and amortization	161.9		152.1	
License fees	41.5		41.0	
Other operating expenses	128.1		114.6	
		3,435.0		2,653.2
		251.3		217.6
Results from financial investments	36.6		31.7	
Net interest income	– 38.7		– 26.9	
		– 2.1		4.8
Profit on ordinary activities		249.2		222.4
Taxes		105.5		77.9
Net income for the period		**143.7**		**144.5**
Income attributable to minority interests		27.4		34.2

[1] First-time consolidation of VNG as from January 28, 2004

Consolidated Balance Sheet (€m)

Assets	Jun. 30, 2005		Dec. 31, 2004	
Fixed assets				
Intangible assets	393.1		403.7	
Property, plant and equipment	4,330.9		4,345.1	
Financial assets	909.0		907.2	
		5,633.0		5,656.0
Current assets				
Inventories	325.1		248.0	
Accounts receivable and other assets	668.1		845.5	
Securities	1.1		1.1	
Liquid funds	117.3		45.0	
		1,111.6		1,139.6
Prepaid expenses		20.5		13.4
		6,765.1		**6,809.0**

Liabilities and stockholders' equity	Jun. 30, 2005		Dec. 31, 2004	
Stockholders' equity				
Capital stock	200.0		200.0	
Capital reserves	282.1		282.1	
Retained earnings	310.0		321.8	
Equity differences due to currency translation	10.4		9.4	
Net income available for distribution	127.3		60.3	
Minority stockholders' interests	817.1		827.9	
		1,746.9		1,701.5
Special items		4.7		4.8
Construction subsidies		394.3		414.8
Provisions		1,850.2		1,867.6
Liabilities		2,759.5		2,808.1
Deferred income		9.5		12.2
		6,765.1		**6,809.0**

Statement of Changes in Stockholders' Equity (€m)

	EWE AG			
	Capital stock Common stock	Capital reserves	Consolidated stockholders' equity earned	Accumulated other comprehensive income Currency translation differences
As at Dec. 31, 2003	200.0	282.1	156.0	
Contributions to reserves				
Dividend payments			– 46.0	
Changes in the scope of consolidation				
Other changes		1.9		
Comprehensive income				
Consolidated net income, period			110.3	
Other comprehensive income				2.4
As at Jun. 30, 2004	200.0	284.0	220.3	2.4
As at Dec. 31, 2004	200.0	282.1	255.4	9.4
Contributions to reserves				
Dividend payments			– 60.0	
Changes in the scope of consolidation				
Other changes				
Comprehensive income				
Consolidated net income, period			116.3	
Other comprehensive income				1.0
As at Jun. 30, 2005	**200.0**	**282.1**	**311.7**	**10.4**

		Minority stockholders			Consolidated stockholders' equity
Other transactions not recognized in net income	**Stockholders' equity as per consolidated balance sheet**	Minority stockholders' capital	Accumulated other comprehensive income Currency translation differences	**Stockholders' equity**	
121.6	759.7	10.3		10.3	770.0
	– 46.0	– 47.4		– 47.4	– 93.4
		825.4		825.4	825.4
2.7	4.6	– 0.2		– 0.2	4.4
	110.3	34.2		34.2	144.5
	2.4		0.3	0.3	2.7
124.3	831.0	822.3	0.3	822.6	1,653.6
126.7	873.6	826.6	1.3	827.9	1,701.5
	– 60.0	– 47.4		– 47.4	– 107.4
		9.4	– 0.1	9.3	9.3
– 1.1	– 1.1	– 0.2		– 0.2	– 1.3
	116.3	27.4		27.4	143.7
	1.0		0.1	0.1	1.1
125.6	**929.8**	**815.8**	**1.3**	**817.1**	**1,746.9**

Additional information

Organization and basis of presentation

The Consolidated Interim Report of EWE Aktiengesellschaft, Oldenburg, (EWE AG) for the six-month period to June 30, 2005, has been prepared in accordance with the requirements of the German Commercial Code (HGB).

For increased transparency, we have presented certain items in the Balance Sheet and Income Statement in summary form. However, to reflect factors specific to the energy supply sector, the Balance Sheet separately itemizes “Special items” and “Construction subsidies”; and the Income Statement, which was prepared using the total-cost method, separately itemizes “Electricity tax” and “License fees”. All figures are rounded to the nearest million euros (€).

Scope of consolidation

In addition to EWE AG, 22 domestic and foreign subsidiaries in which EWE AG directly or indirectly holds a controlling interest are fully consolidated in the Interim Financial Statements, while 16 associated companies are accounted for using the equity method.

In the current financial year, trac-x Transport Capacity Exchange GmbH, Leipzig, and Havelländische Stadtwerke GmbH, Werder (Havel), previously accounted for as associated companies, were fully consolidated for the first time. The number of companies accounted for using the equity method has decreased by one.

In view of their limited significance for the Group’s net worth, financial position and results, the remaining subsidiary companies in which EWE AG directly or indirectly holds a controlling interest have not been included in the Consolidated Financial Statements pursuant to Sec. 296 Para. 2 HGB.

Pursuant to Sec. 311 Para. 2 HGB, the equity valuation method was not applied to the remaining associated companies in view of their limited significance, both individually and collectively, for the Group’s net worth, financial position, and results.

Principles of consolidation

Consolidation was based on the balance sheets and income statements of EWE AG and the consolidated subsidiaries that were prepared using the same accounting and valuation principles.

Intercompany receivables, payables, expenses, and income between consolidated companies have been consolidated. No elimination of intercompany results was required.

Accounting and valuation principles

The accounting and valuation methods applied to the Interim Report for the six-month period to June 30, 2005, are the same as those applied to the Consolidated Financial Statements of EWE AG for the financial year ended December 31, 2004.

Foreign currency translation

The exchange rates used for converting the foreign currency figures given in individual financial statements into euros were as follows:

	Rate on reporting date, Jun. 30, 2005	Average rate Jan. 1 – Jun. 30, 2005
	€	€
10 Polish Złoty (PLN)	2.48	2.45
100 Czech Koruna (CZK)	3.33	3.32
100 Slovak Koruna (SKK)	2.60	2.59

Comparability

The figures in the Consolidated Income Statement for the six-month period to June 30, 2005, are not fully comparable to the prior year figures because VNG AG was not consolidated in the Group's accounts until January 28, 2004.

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