starman

CONSOLIDATED ANNUAL REPORT
AS STARMAN

Beginning of financial year: 01.01.2005
End of financial year: 31.12.2005

Registry code: 10069659

Address:
Akadeemia tee 28
12618, Tallinn
Republic of Estonia

Telephone: +372 6 779 977
Fax: +372 6 779 907

E-mail: starman@starman.ee
Web page: www.starman.ee

Main activities: cable television and data communication services

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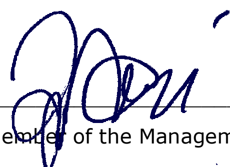


Member of the Management Board

CONSOLIDATED MANAGEMENT REPORT

General information

2005 was a successful year for Starman. The company maintained its strong position in cable television and internet services. The sales of telephone services, launched in February, produced quick and positive results. The positive impact of the provision of digital television services launched in September 2005 should be revealed in the longer term.

Similarly to previous years, quick development was accompanied by major organisational changes, such as the initial public offering of shares, and changes in the corporate symbolics. From 28 June 2005, Starman's shares have been listed on the main list of the Tallinn Stock Exchange. In August, Starman introduced a new corporate logo and symbolics, reflecting years of corporate development from a small cable operator into Estonia's biggest telecommunication company providing services through cable networks, taking a clear focus on private customers.

Starman renders services in cities, predominantly in densely populated areas. Starman is currently represented in all major Estonian cities (except for Narva), and in all county centres (except for Haapsalu, Võru and Kärdla). All three core services (cable television, internet and telephone) are now available to the majority of the company's customers. There is currently no other service provider in Estonia covering such a big part of the population with the above three integrated services.

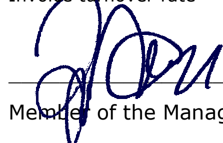
Starman's total revenue for 2005 amounted to 12.2 million euros—an increase of 26%, compared to last year. EBITDA for 2005 amounted to 12.2 million euros and net profit to 1.46 million euros—respectively 31% and 53% increase, compared to the last year. The annual results were as anticipated. Assessment of the figures should take into account that the results include one-off expenses in the amount of 0.28 million euros.

Financial ratios

A selection of ratios for evaluating the economic activities in 2005:

	2003	2004	2005
Sales increase	35%	44%	26%
EBITDA margin	38%	32%	33%
Gross margin	16%	12%	15%
Net margin	13%	10%	12%
Revenue/average assets	0,62	0,68	0,67
Equity ratio	70%	51%	54%
Debt to equity	0,34	0,73	0,69
Debt/EBITDA	1,05	2,08	1,76
Investments/EBITDA	0,78	2,15	1,16
Current ratio	0,66	0,82	0,67
Invoice turnover rate (annual)	23,5	18,5	20,2

Definitions:
EBITDA = operating profit + depreciation and amortisation
EBITDA margin = EBITDA / total revenue
Gross margin = operating profit / total revenue
Net margin: net profit / total revenue
Equity ratio = equity / total assets
Debt = borrowings + long-term borrowings
Current ratio = current assets / current liabilities
Invoice turnover rate = revenue for the period / accounts receivable at the end of the period



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Group structure

In addition to the parent company, Starman Group formally included full subsidiaries AS Levi Kaabel, Tallinna Kaabeltelevisiooni AS and AS Telset Telecommunications Group in 2005. These subsidiaries were incorporated under Starman Group in June 2004. The primary assets of subsidiaries were sold to the parent company immediately after their acquisition. In effect, these companies have performed no economic activities since they were acquired. Moreover, the subsidiaries have had no extra-group turnover since December 2004. Starman and its subsidiaries concluded a merger agreement on 31 May 2005, with Starman acquiring all of its subsidiaries. With the deletion of the subsidiaries from the Commercial Register, the merger process was brought to an end. From March 2006, the Group's activities involve, formally and legally, only the activities of AS Starman.

Revenue and expenses

Starman's total revenue neared the 13-million- threshold in 2005. While the year started off with 0.8-million-euro monthly turnovers, the figures exceeded 1 million euro by the end of 2005.

Traditionally, cable television and internet services were the main contributors to Starman revenue, accounting for 51% and 40% of total revenue, respectively.

Revenue from cable television services increased by 29%, compared to 2004. Organic growth at the market has mostly been achieved at the expense of price increase in recent years. However, cable television service prices are still relatively low, considering the living standard in Estonia. Starman's ARPU (average revenue per user) from cable television services increased by approximately 12% in 2005. The rest of the growth is due to the fact that the cable business acquired from TELE 2 was not fully recognised in the financial statements 2004. Although price increase played the most important role in ARPU growth, we should not forget the structural changes, incl. the new options added (e.g. digital television). At the end of December 2005, the company had 130 thousand cable television customers, 1.2% of which were digital television users. The small decrease (approximately 1.5%) in customer numbers, compared to 2004, was conditioned by the standardization of prices in the first half of the year, ending the exceptional and economically unreasonable price concessions arising from the acquisition of new networks (TELE 2).
Monthly fees made up nearly 99% of the total revenue from cable television.

Revenue from internet services increased by 15% during the year. Customer numbers grew by 5 thousand (i.e. 19%), compared to the end of 2004. Starman had a total of 31 thousand internet customers at the end of December 2005. With the competitive pressure on the margins having been continuing throughout the year, ARPU from internet services finally dropped in the 4th quarter. As the company predicted, competition on the internet market remained tight in 2005. As a result of high internet coverage in Estonia, the hitherto growth somewhat decelerated. With broadband internet speeds continuing to climb, the relative price decrease (price per unit) remains noticeable. Starman maintained its position as the market leader of broadband internet for private customers in its footprint.

Monthly fees for broadband generated 94% of total revenue from internet services. Revenue from monthly fees increased by 25% during the year—much faster than total revenue from internet. This was conditioned by the trends which began in 2004, when competition and market development significantly reduced the prices of the equipment required by the customers for use of the service (modems), resulting, in turn, in decrease in rental revenue. While the share of modem users dropped from 59% of total internet customers in 2003 to 24% in 2004, the respective indicator was only 9% by the end of 2005.

Backed by rapid expansion in customer numbers, telephone services showed a notable increase in sales month after month. By the end of December 2005, the company had a total of 17 thousand telephone customers. Excellent results were thus achieved with a little less than 12 months of sales promotion. It seems that, contrary to several other alternative players to the incumbent telephony operator (Elion), Starman has succeeded with its own network and aggressive pricing policy to secure a solid position in the market. Most of the revenue from telephone services is generated by call traffic; the share of fixed monthly fees contributed 29% in 2005. While telephone services contributed 6% to the total revenue for 2005, a substantial increase can be expected here in the near future.

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Starman views its cable television, internet and telephone services as a single integrated service. Since provision of the integrated service has remained a part of the corporate strategy for a long period of time, and the services are designed to support each other, separate analysis of the respective segments might not give the most accurate picture.

The share of the sales of goods and materials in total revenue decreased significantly in 2005, compared to previous year. Modem sales generated the majority of this noncore business.

Starman's operating expenses amounted to 8.14 million euros in 2005, having grown by 23% compared to the year 2004. Operating expenses include 287 thousands euros of one-off expenses, the most significant of which were the fringe benefit tax on stock options issued to the members of the Management Board, and the IPO (initial public offering) expenses.

If we disregard these one-off expenses, it can be concluded that personnel expenses, marketing expenses, cost of network maintenance-related services and materials (mainly related to the upgrading of the outdated cable network acquired from TELE 2) as well as program costs increased at a growing rate in 2005 when compared to the year 2004. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue. Starman maintained its policy to impose much stricter monitoring to costs incurred in areas not directly related to customer satisfaction.

Personnel expenses increased by 46% compared to last year. In 2005, Starman employed an average of 187 people, with wages and salaries totalling 1.5 million euros. As regards to personnel expenses, we must take into consideration that the given indicator includes 88% of the total wage fund, since the remainder is capitalised under the corporate accounting rules. Members of the Management Board received a total of 250 725 euros in remuneration (incl. bonuses) in 2005, and members of the Supervisory Board 60 460 euros. As of 31 December 2005, the company employed 208 people – a 27% increase (44 persons) when compared to the end of 2004. Employee numbers rose due to the increased focus on improving customer service. In addition, the relative share of the company's own activities has been increased in many functions, and outsourced services have been reduced correspondingly.

Marketing expenses increased by 46%, compared to 2004. Increased share of marketing expenses resulted from the launch of new products (especially telephony, but also digital TV), as well as introduction of a new corporate logo and symbolics. We are certain that during 2005 Starman brand gained further prominence, but especially so in the telephony market.

As to expenses related to asset valuation, the provision for bad debts amounted to just 52 500 euros, i.e., 0.4% of the turnover for the period. In addition to credit risk management, these excellent results stem from the overall favourable economical situation. Loss of inventories and discounts totalled 71 581 euros in 2005.

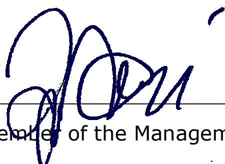
EBITDA—Starman's main performance indicator—amounted to 4.01 million euros in 2005, having grown by nearly a third during the year. The EBITDA margin was 35% after the elimination of one-off expenses.

With investments remaining extensive, depreciation costs increased by 20% during the year. Although having somewhat decreased compared to 2004, the effect of depreciation costs on profit figures remained high.

As to financial expenses, the negative effect of the significant appreciation of the US dollar on the company's financial results deserves to be separately mentioned. The results recorded under financial expenses make up less than one-third of the estimated total foreign exchange loss. With the continual improvement in the company's financial position, and a favourable credit market situation, the average cost of external funding continued to drop.

Unlike in 2004, the results for 2005 were not affected by dividend payment and the related income tax.

Net profit for 2005 amounted to 1.46 million euros, a total increase of more than 50% compared to previous year. Upon elimination of one-off expenses, the margin would amount to 14%, instead of the "official" margin of 12%.



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Balance sheet, investments and financing

In 2005, Starman succeeded in maintaining high capitalisation, a relatively low debt level and sufficient liquidity.

In the year 2005, Starman's investments in fixed assets amounted to 4.6 million euros. Although the respective indicator for 2004 was 6.6 million euros, investments related to everyday operations increased significantly in 2005, since in 2004 the company acquired 4.25 million euros of fixed assets (as a one-off investment) through the purchase of the TELE 2 cable business.

The company made the following investments in 2005: cable network renovation and construction – 1.6 million euros; telephone modems – 1.05 million euros; internet equipment – 0.5 million euros (incl. Head-Ends – 0.3 million euros); DIGI TV Head-End and equipment – 0.45 million euros (incl. Head-End – 0.43 million euros); analogue cable television Head-Ends and equipment – 0.3 million euros (incl. cable television Head-Ends – 0.26 million euros); telephone Head-End – 0.3 million euros; STBs – 0.14 million euros; other investments – 0.26 million euros.

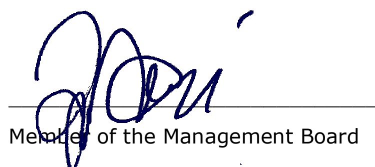
When compared to previous years, the investments made in 2005 include two new development projects – the DIGI TV Head-End and the extension of the telephone Head-End that enables interconnection. Both of these devices were approved for service in the third quarter and in both cases, the initial investment makes up a big bulk of the total investments that needs to be made in respective equipment. Interconnection of the telephone traffic allowed Starman to waive from intermediary services—a change which will have a positive effect on the company's profit margins.

Similarly to last year, upgrading and enhancement of the data communication capability of the existing network made up the majority of the investments in the cable network. While at the end of 2004 Starman covered 243 thousand households with 161 thousand – i.e. 66% – of the households being served by a network with data communication capabilities, the respective numbers as of 31 December 2005 were 247 thousand and 198 thousand (i.e. the data communication capability increased to 80%). Considering that the data communication capability indicator was 83% just before the acquisition of TELE 2 cable networks, the company has succeeded in modernising a big bulk of the acquired network which did not meet Starman's standards. The work is still in progress, and will continue in 2006. Despite extensive real estate development in recent years, the rate of network expansion through construction of a new network has remained modest. Although the network is expanded in accordance with the general market developments, we must take into consideration that the relative rate of growth is low—Starman already covers most of the areas where network construction proves economically feasible. Most of the network investments were made in Starman's most important target area—Tallinn and its vicinity. Major investments outside Tallinn include introduction of the data communication capability to several smaller networks. The company completed the relevant work in Rakvere, Kiviõli and Püssi, and for the majority of Kohtla-Järve. At the end of the year, Starman launched work in Pärnu.

Investments in telephone modems and STBs required for using telephone and digital television services are directly related to the growth in customer numbers. Investments in internet and cable television equipment support growth in both customer numbers and service quality. Future investments in telephone Head-Ends will be made according to similar logic.

Most of the investments were financed from own resources in 2005. Owner's equity, which as usual has been used for financing a majority of the company's assets, was increased through the profit to reach nearly 10.2 million euros by the end of the year. The company's relative debt level dropped, compared to both equity and cash flow from core business.

Although the year 2005 required extensive investments, Starman's operations still involved only a minor liquidity risk. Considering the specifics of Starman's balance sheet, concentration on single traditional liquidity indicators (e.g. current ratio) can, unfortunately, be misleading. Namely, customer receivables recorded under assets have been significantly undervalued as of the balance sheet date, since the deadlines of a majority of the group invoices have recently fallen due, and new invoices have not yet been accounted for (the situation is also characterised by a higher-than-average invoice turnover rate). Although the company's day-to-day liquidity position is always normal, Starman maintains an additional liquidity buffer (consisting of cash and short-term debt instruments) for possible short-term setbacks.



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Organisation

In the last five years, Starman's turnover has increased by more than seven times. Besides cable television, the company has introduced several other new products and the need for quality improvement has been constant. This has been a true challenge for Starman. Systematicity is the key for being successful in the present environment. The company was granted the ISO certificate in 2005. Starman's quality management system has been developed and implemented in accordance with the ISO 9001:2000 requirements. At the same time, in order to remain flexible and competitive in a changing environment, the company tries to conduct its daily operations by also using simple approaches, which are based on the experience gained as a small company.

With its shares listed on the stock exchange, Starman is obtaining new experience as a public company. Telephone and digital TV related development projects have also put the organisation to the test. In addition, Starman succeeded in solving a number of less ambitious tasks. For instance, the company focused even more on the call centre services, maintenance teams and quality systems. Improvements where made in preventive network monitoring, and to the functionality of customer management software.

Starman's position as a major player on the local retail market was further strengthened in 2005. We already talked about the new corporate symbolics and the related brand campaign. Successful sales promotion increased awareness of the company's triple packages (cable television, internet and telephone integrated), which in accordance with their functionality are divided into DIGI triple, HOME triple, MINI triple and MICRO triple package.

The near future

In 2006, Starman will continue making efforts for becoming the best private customer-oriented telecommunication service provider in Estonia.

The Estonian economic growth will remain among the fastest in Europe. The telecommunication sector is bound to benefit from this growth through domestic consumption.

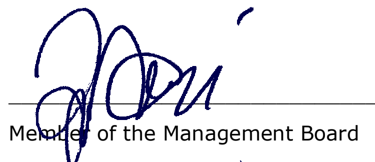
Income increase will help cable television prices to climb towards the level of other CEE countries where the standard of living is similar, but the prices, considering the purchasing power parities, are still higher than in Estonia. Organic market growth remains limited. Although additional options are provided by the digital television, which has a longer-term potential, we do not expect to make any short-term breakthroughs. Even though the plans made by Elion Ettevõtted AS to launch provision of television services over the ADSL network may have an effect on the market, it is too early to start discussing the actual effects. The technology is relatively new. The effect can therefore only be seen over a longer period of time.

As regards to internet services, the competition and the market, which is gradually nearing its saturation point, are creating an environment where, similarly to 2005, the quick growth of the past few years will be replaced by more modest tendencies. With constant pressures on internet price, we expect it to decrease – most certainly the price drop will take place on the relative scale (price per data communication unit).

In 2006, Starman will continue promoting itself as a telephone service provider. Although the company was successful in this area already in 2005, there is still further potential. 2006 will be a year when telephone services start having a significant effect on the company's financial indicators.

Starman's cable transmission network and customer base provide many further business opportunities. The company is constantly analysing the market and weighing its resources, thus the possibility of launching additional services/products should not be overlooked.

Starman expects reasonable growth in turnover in 2006. Unlike the previous two years, 2006 is not estimated to be affected by one-off expenses. In addition, development of the telephone service project should have a positive effect on the EBITDA margin. At the same time, Starman is affected, similarly to other Estonian companies, by the meagre situation on the local labour market. In addition, the claim filed by the company to the Estonian Competition Board and the Estonian National Communications Board in connection with the prices planned to be charged by Elion Ettevõtted AS for the use of the communication ducts is still pending. In worst case scenario for Starman, the biggest effect can be seen on investments, rather than short-term profitability.



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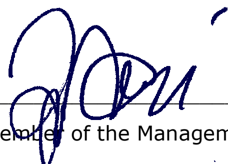
In 2006, the company plans to continue making extensive investments in its network. This concerns, above all, the ongoing modernisation process, which is nearing completion, but profitable projects can also be found in the field of network expansion. If we add to the network investments the forecasted customer growth, and the continuous efforts to improve service quality, we estimate no decrease in the volume of investments for 2006. Still, we estimate some decrease after the realisation of the above network investments—i.e. after 2006.

The grace period of the main external financing contracts is about to expire at the end of 2006. The current level of external financing is sufficient for covering the planned regular investments. Still, reduction of the current debt level might not prove economically feasible.

The owners can expect dividends in 2006—the company plans to pay 20% of the profit for 2005 in net dividends.

After years of hard work, Starman has gained a strong position on the Estonian highly competitive telecommunication market. This is the result of the efforts made by our employees. There is still enough room for improvement and Starman has excellent chances of meeting its growing objectives.



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CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

We hereby take responsibility for the preparation of the financial statements set out on pages 8 to 40, and confirm that:

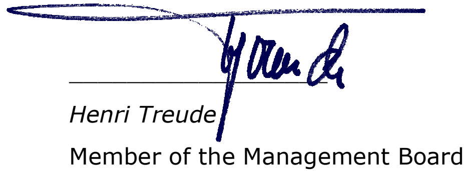
1. the accounting principles used in preparing the consolidated financial statements are in compliance with the IFRS, as adopted by the European Union;
2. the consolidated financial statements give a true and fair view of the financial position of the group, as well as the results of its operations and cash flows;
3. AS Starman is able to continue as a going concern.

Peeter Kern

Chairman of the Management Board

Rändy Hütsi

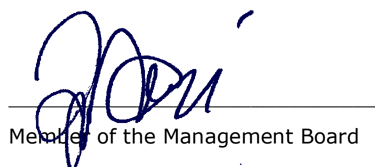
Member of the Management Board



Henri Treude

Member of the Management Board

30 March 2006



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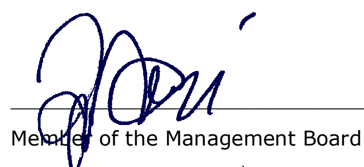
CONSOLIDATED INCOME STATEMENT

in thousands of euros, per annum

	2005	2004	Note
Revenue	12,031	9541	3
Other income	136	117	4
Goods, raw materials and services	-3869	-3307	4
Other operating expenses	-2076	-1876	4
Personnel expenses	-2024	-1388	4
Depreciation, amortisation and impairments	-2233	-1855	13, 14
Other expenses	-182	-28	4
Operating profit	**1783**	**1204**	
Net financial items	-324	-191	5
Profit before income tax	**1459**	**1013**	
Income tax	0	-59	6
Net profit	**1459**	**954**	
Basic EPS (in *EUR*)	0.11	0.07	23
Diluted EPS (in *EUR*)	0.11	0.07	23



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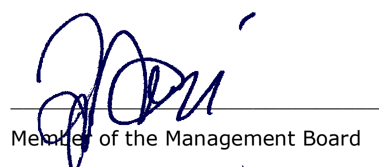
CONSOLIDATED BALANCE SHEET

in thousands of euros, as of December 31

	2005	2004	Note
ASSETS			
Current assets			
Cash	282	595	7
Short-term financial investments	0	205	8
Receivables	619	538	9
Prepayments	65	84	10
Inventories	760	576	11
Total current assets	**1726**	**1998**	
Non-current assets			
Other financial assets	9	20	12
Property, plant and equipment	17,210	14,924	13
Intangible assets	26	20	14
Total non-current assets	**17,245**	**14,964**	
TOTAL ASSETS	**18,971**	**16,962**	
LIABILITIES AND OWNER'S EQUITY			
Liabilities			
Current liabilities			
Borrowings	1071	694	15
Payables	1382	1618	16
Prepayments	129	117	17
Total current liabilities	**2582**	**2429**	
Non-current liabilities			
Long-term borrowings	5996	5670	15
Other long-term prepayments	203	132	17
Total non-current liabilities	**6199**	**5802**	
Total liabilities	**8781**	**8231**	
Owner's equity			
Share capital	8343	2781	
Share premium	0	4375	
Mandatory reserve	94	46	
Retained earnings	1753	1529	
Total owner's equity	**10,190**	**8731**	18
TOTAL LIABILITIES AND OWNER'S EQUITY	**18,971**	**16,962**	



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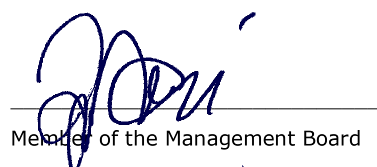
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of euros, per annum

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owner's equity
31.12.2003	**2781**	**4375**	**1**	**787**	**7944**
Announcement of dividends	0	0	0	-167	-167
Transfers to mandatory reserve	0	0	45	-45	0
Profit for the period	0	0	0	954	954
31.12.2004	**2781**	**4375**	**46**	**1529**	**8731**
Bonus issue	5562	-4375	0	-1187	0
Transfers to mandatory reserve	0	0	48	-48	0
Profit for the financial year	0	0	0	1459	1459
31.12.2005	**8343**	**0**	**94**	**1753**	**10,190**

Additional information on transfers to owner's equity has been disclosed in Note 18.



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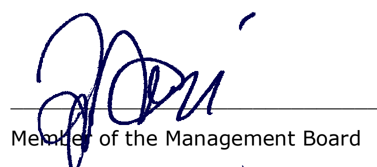
CONSOLIDATED CASH FLOW STATEMENT

in thousands of euros, per annum

	2005	2004	Note
Cash flow from operating activities			
Net profit	1459	954	
Adjustments of operating profit	2465	2068	21
Change in current assets related to operating activities:			
Short-term receivables, except for loans and interest	-38	7	
Long-term receivables, except for loans and interest	0	-17	
Change in inventories	-76	-167	
Change in liabilities and prepayments related to operating			
Accounts payable	177	198	
Prepayments	83	136	
Total cash flow from operating activities	**4070**	**3179**	
Cash flow from investing activities			
Purchase of property, plant and equipment, and intangible	-4178	-1850	21
Proceeds from disposals of property, plant and equipment,	54	6	
Investments into subsidiaries	-414	-3717	
Purchase of other financial investments	0	-64	
Proceeds from disposals of other financial investments	209	0	8
Interest received	10	7	
Total cash flow from investing activities	**-4319**	**-5618**	
Cash flow from financing activities			
Loan repayments	-48	-48	15
Repayment of finance lease principal	-1195	-1587	
Interest paid	-285	-230	
Proceeds from sales and leaseback transactions	1464	4795	
Dividends paid	0	-167	
Paid income tax on dividends	0	-59	
Total cash flow from financing activities	**-64**	**2704**	
TOTAL CASH FLOW	**-313**	**265**	
Cash and cash equivalents at the beginning of the period	595	330	
Change in cash and cash equivalents	-313	265	
Cash and cash equivalents at the end of the period	**282**	**595**	7



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of preparation

General information

The financial statements of AS Starman for the year ended 31 December 2005 were approved with the Resolution of the Management Board on 31 March 2006. Pursuant to the Commercial Code of the Republic of Estonia, the Annual Report, which has been prepared by the Management Board and approved by the Supervisory Board and which also includes the financial statements, shall be approved by the General Shareholders' Meeting. The shareholders shall have the right not to approve the Annual Report prepared and approved by the Management Board, and demand from the Management Board preparation of a new Annual Report.

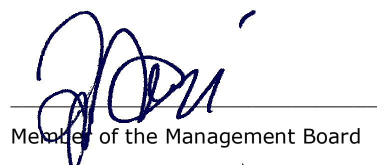
AS Starman has been registered and is operating in Estonia. The company and its subsidiaries employed an average of 187 people in 2005 (2004: 146). The group's main activity is the provision of cable television and data communication services.

The consolidated financial statements have been prepared in accordance with the international financial reporting standards, as adopted by the European Union, on a historical cost basis, unless otherwise indicated in the accounting principles brought out below. The financial statements have been prepared in thousands of euros (EUR).

From January 1, 2005, several new and revised IFRS standards became effective. In the preparation of the current financial statements, the Group has adopted the following new / revised standards:

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 8 Accounting policies, changes in accounting estimates and errors
- IAS 10 Events after the balance sheet date
- IAS 16 Property, plant and equipment
- IAS 17 Leases
- IAS 21 The effects of changes in foreign exchange rates
- IAS 24 Related party disclosures
- IAS 27 Consolidated and separate financial statements
- IAS 32 Financial instruments disclosures and presentation
- IAS 33 Earnings per share
- IAS 36 Impairment of assets
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IFRS 3 Business combinations
- IFRS 5 Non-current assets held for sale and discontinued operations

The implementation of these standards had no effect on the group’s owner’s equity as of 1 January 2004. However, the new IAS 27 (revised) requirements concerning recognition of subsidiaries had an effect on the parent company's unconsolidated financial statements (the parent company's balance sheet, income statement, cash flow statement and statement of changes in owner’ equity has been brought out in Notes 27-30). While in 2004, investments in subsidiaries were recorded in the parent company’s unconsolidated financial statements based on the equity method, the historical cost method was used in the unconsolidated financial statements in 2005. Consequently, the parent company’s retained earnings as of 1 January 2004 decreased by 517 thousand euros,



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the profit for 2004 by 517 thousand euros and investments in subsidiaries as of 31 December 2004 by 517 thousand euros.

New or revised standards and interpretations, which have been adopted by the European Union by the balance sheet date, but which will enter into force after the balance sheet date have no effect on the accounting principles applied by the group. These standards include revisions of IAS 19 "Employee benefits: actuarial gains and losses, group plans and disclosures", IFRIC 4 "Determining whether an arrangement contains a lease"; IFRS 6 "Exploration for and evaluation of mineral resources"; IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

AS Starman and its subsidiaries were incorporated into a single legal entity on 01.06.2005, with the subsidiaries' assets and liabilities transferred to AS Starman, who continued as their legal successor.

The merger has no effect on the financial indicators of the group (i.e. the company and its subsidiaries)—the consolidated figures already gave an overview of the activities of the group companies, as if they were a single business unit. The merger had the following effect on the unconsolidated financial indicators of the company: rather than accounting for the investment in the subsidiary, the assets and liabilities of the subsidiary were included under the assets and liabilities of the company—i.e. after consolidation, the unconsolidated balance sheet of the parent company equals to the balance sheet of the group.

In these consolidated financial statements, comparative data includes the data on the parent company for 2005 and data on the group for 2004. In addition, the financial statements 2004 (i.e. income statement, balance sheet, cash flow statement and statement of changes in equity) of the company (as the parent company) have been compares with the company's financial statements 2005 (see Notes 27-30).

Although leagally the merger was carried out as of June 1, 2005, the financial statements of the parent company have been presented as the merger has been completed as of January 1, 2005 as the factual merger took place already at the beginning of the year (business of subsidiaries was transferred to parent company).

The main accounting principles and basis of estimations have been laid out below.

A. Basis of consolidation

The consolidated financial statements comprise the financial indicators of AS Starman and its subsidiaries, consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which significant influence is transferred to the group, and cease to be consolidated from the date on which the significant influence is transferred out of the group.

Subsidiaries are companies controlled by the parent company. Control is presumed to exist, if the parent company directly or indirectly holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary.

For consolidation purposes, the financial statements of subsidiaries are restated, if necessary, to bring them into line with the accounting principles used by the parent company. All intra-group transactions, receivables and liabilities, including unrealised profits and losses arising from intercompany transactions, have been eliminated in full. Unrealised losses are not eliminated, if these losses essentially represent impairment in the value of assets.

New subsidiaries are recognised in the consolidated financial statements based on the purchase method. The acquisition cost of subsidiaries is allocated to the fair values of assets, liabilities and contingent liabilities on the acquisition date. The portion of the acquisition cost which exceeds the fair value of the acquired assets, liabilities and contingent liabilities is recognised as goodwill (see accounting principle I). If the fair value exceeds the cost, the difference will immediately be fully charged to the income of the period (under "Other income" in the income statement).

B. Accounting for investments in subsidiaries in the parent company's unconsolidated balance sheet

In the parent company's unconsolidated balance sheet, investments in subsidiaries have been accounted for on a historical cost basis. This means that the investment is initially recognised at

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acquisition cost, consisting of the fair value of the the consideration given, adjusted thereafter by the impairment losses arising from the impairment in the value of the investment. The carrying values of investments will be reviewed when certain events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, the group makes an estimate of the asset's recoverable amount. If the estimated recoverable amount is smaller than the carrying amount, the investment will be written down to its recoverable amount (the higher of the value-in-use and fair value, less sales expenses). The amount of write-down is charged to the financial expenses of the period.

See accounting principle F for additional information on investments recorded at acquisition cost.

C. Foreign currency transactions

The Estonian kroon is the functional currency of the parent company, and the reporting currency of the consolidated financial statements of the group and the unconsolidated financial statements of the parent company. All other currencies are considered foreign currencies. The current financial statements have been prepared in euros according to the requirements of the Tallinn Stock Exchange. As the Estonian kroon is pegged to euro with fixed exchange rate 1 euro = 15,6466 kroons, no foreign exchange differences arise from translation.

Transactions denominated in foreign currency are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Assets and liabilities denominated in foreign currency have been translated into Estonian kroons on the basis of the currency exchange rates of the Bank of Estonia officially valid on the balance sheet date.

Foreign exchange gains and losses resulting from revaluation are recorded in the income statement of the reporting period as net financial items.

D. Revenue recognition

Revenue is recognised at the fair value of the received/receivable income. In case of extraordinary payment conditions, revenue is recognised at the net present value of the receivable income.

Revenue from the sales of goods (i.e. hire-purchase of goods) is recognised when all material risks related to the ownership of the asset have been transferred to the purchaser, and the amount of revenue and expenses related to the transaction can be reliably measured. Revenue from the sales of services is recorded upon rendering of the service.

Interest income is recorded on accrual basis, based on the effective interest rate of the asset item.

Recognising revenue from connection fees

Connection fees are recognised as the revenue, based on the useful life of the fixed assets related to the connection and on the management's estimates on the consistency of new clients. Revenue from connection fees is recorded under revenue within 7 years.

E. Cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are short-term (with a term of up to three months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value. Cash and cash equivalents include cash in hand and at bank, cash in transit, short-term deposits with an original maturity of three months or less and money market fund units and units of other funds with equally high liquidity and low interest risk.

F. Financial assets

Financial assets are initially recognised at cost, being the fair value of the consideration given. The acquisition cost includes all expenditures directly related to the purchase of the financial asset, including service charges payable to brokers and advisors, non-refundable taxes and other similar expenditures, except for expenses related to the acquisition of financial assets recognised at fair value in the income statement.

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All regular way purchases and sales of financial assets are recognised on the trade date—i.e. the day that the group commits (e.g. concludes a contract) to purchase or sell the particular financial asset item. Regular way transactions are purchases and sales transactions that require delivery of the financial asset to be purchased or sold by the seller to the buyer within the time frame generally established by regulation or convention in the market.

Following initial recognition, financial assets are divided into the following groups:

- Financial assets measured at fair value in the income statement (shares held for trade and bonds which are not intended to be held to maturity, as well as other securities and derivative instruments with a positive value);
- investments intended to be held to maturity (bonds which have a fixed maturity date and are intended to be held to maturity);
- loans and receivables (loans granted, accounts receivable and other receivables);available for sale financial assets (all other financial assets not specified above).Subsequent to initial recognition, financial assets are measured at their fair value, except for:

a) receivables, which the group has not purchased for resale, or financial assets intended to be held to maturity by the group are measured at amortised cost;

b) investments in shares and other equity instruments the fair value of which cannot be reliably measured (incl. derivative instruments related to such assets) are recognised at cost.

Financial assets measured at fair value

Financial assets that are measured at fair value are revaluated on each balance sheet date into their fair value, which includes the possible transaction costs related to the disposal of the asset. The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the Bank of Estonia on the balance sheet date. Unlisted securities are measured at their fair value on the basis of the information available to the group on the value of the investment.

Gains and losses from changes in fair value, change in the fair value of financial assets held for trading, proceeds and losses from disposals of financial assets measured at fair value, as well as interests and dividends on the respective securities, are recognised under "Net financial items" in the income statement.

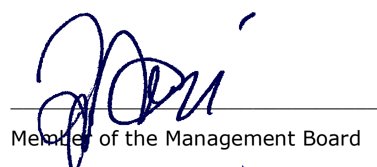
Receivables and financial assets intended to be held to maturity

Receivables, which the group has not purchased for resale, including financial assets that are intended to be held-to-maturity are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the year to maturity.

Financial assets measured at amortised cost will be written down, if it is probable that their recoverable amount is lower than their carrying amount. The recoverable amount of a financial asset measured at amortised cost is the net present value of future cash flows from the financial asset, discounted, upon its initial recognition, with the effective interest rate. The write-down of financial assets related to operating activities is charged to expenses in the income statement (under "Other operating expenses") while the write-down of financial assets related to investing activities is charged to financial expenses in the income statement.

Impairment of financial assets will be presented separately for each item, if the item is material. If evaluation of receivables on individual basis proves impossible, only the material receivables will be evaluated. Other receivables are evaluated as a set of receivables, considering the information available regarding the customer's previous debts. Accounts receivable, whose collection proves impossible or financially unreasonable, are deemed bad debts and are written off from the balance sheet. The allowance will be established for doubtful receivables earlier, if certain events indicate that the recoverable amount of the receivable has fallen below its carrying amount.

In case of collection of receivables previously written down, or other events indicating that the write-down is no longer justifiable, the previous write-down will be reversed in the income statement as a reduction of the expense item to which the write-down was initially charged.



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Financial assets measured at acquisition cost

Financial assets measured at acquisition cost will be written down to their recoverable amount, if the recoverable amount has fallen below the carrying amount. The recoverable amount of financial assets measured at cost consists of the estimated future cash flows from the financial asset, discounted with the average rate of return from similar financial assets on the market. The amount of write-down is charged to the financial expenses of the period.

Available for sale financial assets are measured at fair value, except for investments in shares and other equity instruments the fair value of which cannot be reliably measured, and which are measured at cost. Any gains and losses arising from changes in fair value are recorded under "Net financial items" in the income statement, except for available-for-sale financial assets. Any gains and losses arising from changes in the fair value of available-for-sale financial assets are recorded under "Revaluation reserve" in owner's equity. The revaluation reserve is charged to the income statement upon disposal of assets or drop in the value of assets. The impairment loss reclassified from owner's equity to the income statement is the difference between the acquisition cost (less any principal repaid, and amortisation) and the current fair value of the financial asset, less any impairment losses of the financial assets previously measured in the income statement.

The derecognition of financial assets will take place when the group no longer controls the right over the cash flows attributable to the financial asset, or when the cash flows attributable to the asset, and a majority of the risks and benefits related to the financial asset are transferred to a third party.

G. Inventories

Inventories are recorded at acquisition cost, consisting of the purchase price, customs duties, other non-refundable taxes and direct transportation costs related to the purchase, less possible discounts. The acquisition cost of inventories is calculated by using the weighed average acquisition cost method.

Inventories are measured in the balance sheet according to the lower of the acquisition cost or net realisable value. The amount of write-down of inventories to their net realisable value is recorded as expenses of the reporting period, under "Goods, raw materials and services".

H. Property, plant and equipment

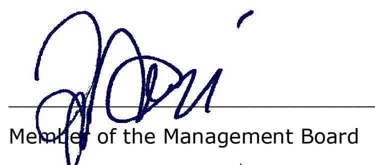
Assets with a useful life of over 1 year and an acquisition cost of over 319 euros are considered to be PPE. Low-value asset items (with a useful life of less than 1 year, and an acquisition cost of less than 319 euros) are fully expensed upon acquisition.

PPE are recorded at cost, consisting of the purchase price and expenditures directly related to the acquisition.

Following initial recognition, an item of PPE is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses. If the recoverable amount of the non-current asset item drops below its carrying amount, the asset will be written down to its recoverable amount (the higher of the fair value, less sales expenses, or the value-in-use). Impairment tests will be conducted, if there is any indication that the carrying amount may not be recoverable. The write-down is charged to the expenses of the period, under "Other expenses" in the income statement.

On each balance sheet, the group assesses whether there is any indication that the previous impairment is no longer justified. If there is any such indication, the group will assess the recoverable amount and, if necessary, reverse the previous write-down. The reversal of the write-down is recorded as a reduction of the expenses during the period when the reversal occurred.

Expenses incurred on PPE after their recognition (e.g. replacement of a part of the asset item) are added to the book value of the item, provided it meets the following criteria: (a) the asset item is likely to generate economic benefits for the group in the future; and (b) the acquisition cost can be reliably measured. Replaced parts are written off from the balance sheet. All other costs are charged to the expenses of the period when incurred.



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If the PPE item consists of distinguishable components with different useful lives, these components are separately recorded under assets, and their depreciation rates specified separately thereof in accordance with their useful lives.

Depreciation of PPE is calculated on a straight-line basis. Depreciation rates are determined for each PPE item individually, depending on its useful life. The following annual depreciation rates apply for PPE groups:

- Buildings and facilities 2.5%
- Cable transmission networks 8%
- Head-Ends 12.5-14.29%
- Modems 20-25%
- Machinery and equipment 20-25%
- Other equipment; fixtures, fittings and tools 20-40%
- Equipment used for service provision 16.67-50%

Land is not depreciated.

PPE will no longer be depreciated if its residual value (i.e. the amount the group would currently receive, if the PPE were as old as and in the same condition as it is estimated to be at the end of its useful life) exceeds its carrying amount.

The depreciation methods, depreciation rates and residual values of PPE are reviewed at least at the end of each financial year. If the new figures differ from previous figures, the changes will be recorded as changes in accounting estimates (proactively).

PPE is derecognised upon disposal of the asset, or if the company can expect no financial benefits from use or disposal of the asset. Any profits and losses arising from derecognition of PPE are charged to "Other income" or "Other expenses" in the income statement of the period when the PPE were derecognised.

PPE items which are likely to be sold within 12 months are reclassified into available-for-sale non-current assets, and recorded on a separate entry under current assets in the balance sheet. Available-for-sale assets will no longer be depreciated, and will be recorded at the lower of the net book value or fair value (less sales expenses).

I. Intangible assets

Intangible assets acquired separately from a business combination will be recognised only if the following conditions are met:

a) the asset item can be tested by the group;
b) generation of future economic benefits from the object is likely;
c) the acquisition cost of the item can be reliably measured.

Intangible assets acquired from a business combination will be recognised separately from goodwill, if the asset items are distinguishable or arise from contractual or other legal rights, and their fair value can be reliably measured on the date of acquisition.

Intangible assets are initially recorded at acquisition cost, consisting of purchase price and expenses directly related to the acquisition. Following initial recognition, an item of intangible assets is carried in the balance sheet at its cost, less accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either infinite or definite. Amortisation of intangible assets with a definite useful life is calculated on a straight-line basis. The following annual amortisation rates are used:

- Purchased licenses, trade marks and similar items 20-33%

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Amortisation of intangible assets with a definite useful life is recorded under "Depreciation, amortisation and impairments" in the income statement. The amortisation period and amortisation methods of definite intangible assets are reviewed at the end of each financial year. Changes in estimated useful life or future economic benefits over time are recorded as changes in the amortisation period and amortisation methods (i.e. as changes in accounting estimates).

If there is any indication that the recoverable amount of definite intangible assets has fallen below its carrying amount, the asset will be tested for impairment and, if necessary, written down to its recoverable amount (see accounting principle H).

Infinite intangible assets are tested for impairment annually either individually or at the cash generating unit level. These intangible assets are not amortised. The useful life of infinite intangible assets is reviewed on an annual basis to make sure the useful life has remained infinite. Adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Intangible assets from development projects are recognised as assets only if the group is able to validate (1) its technical capacities for making the assets available for use or sale; (2) its intent to complete the development project and the ability to use or dispose of the asset; (3) availability of future economic benefits from the asset; (4) availability of financial resources for completing the development project; and (5) that the costs related to the development project can be reliably measured.

Following initial recognition, development projects are measured at cost, less accumulated amortisation and any accumulated impairment losses. Any expenditure carried forward is amortised over the year of expected future sales from the related project.

The assets related to the development projects will be tested for impairment on an annual basis, until the development project is available for use or sales. The assets will be tested for impairment more frequently, if there is any indication of a drop in their value.

Goodwill

Goodwill is initially measured at cost, being the excess of the cost of acquisition over the fair value of the acquired net assets, liabilities and contingent liabilities on the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

In order to determine the impairment, any goodwill acquired is allocated to each cash-generating units expected to benefit from the combination's synergies, or groups of such units. Allocation of goodwill between cash-generating units is based on intra-group reporting—goodwill is allocated to the lowest level, where it is monitored by the management within the framework of internal accounting.

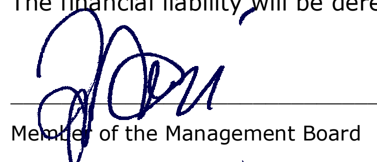
Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses are recorded as expenses under "Depreciation, amortisation and impairments" in the income statement. Impairment losses will not be reversed, if the recoverable amount of goodwill rises above its carrying amount (see accounting principle H).

J. Financial liabilities

Financial liabilities are initially recognised at their acquisition cost, consisting of the fair value of the amounts received thereof. Following initial recognition, financial liabilities are measured at their amortised cost by using the effective interest rate method.

Interest expenses related to the financial liability are charged to the expenses of the period on accrual basis under "Net financial items" in the income statement.

The financial liability will be derecognised when the liability is paid, cancelled or expired.



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K. Provisions and contingent liabilities

Provisions are recognised in the balance sheet when the group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The management's judgements and experience as well as evaluations of independent experts (if necessary) are taken as basis for evaluating the provisions. The provisions are recorded in the balance sheet in the amount required to settle the obligation as at the balance sheet date.

Promises, guarantees and other commitments that in certain circumstances may become liabilities, but only have a lower than 50% probability of becoming liabilities (according to the management of the company), are disclosed as contingent liabilities in the notes to the financial statements.

L. Corporate income tax

Pursuant to the Income Tax Act, Estonian companies are not subjected to pay income tax on the profit. Rather, they are subjected to income tax on the paid dividends. The established tax rate was 24/76 on the net dividend paid until 31 December 2005 and 23/77 from 1 January 2006 onwards. Pursuant to the valid Income Tax Act, the income tax rate will be lowered by 1% a year to 20/80 on the net dividend paid after 1 January 2009. Since income tax is paid on the dividends rather than profit, all temporary differences between the tax bases and carrying values of assets and liabilities cease to exist.

The company's potential income tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum possible tax liability related to the payment of the company's retained earnings as dividends is disclosed in Note 18.

Income tax from payment of dividends is recorded under expenses in the income statement at the moment of announcing the dividends.

The payable income tax is recorded under current liabilities.

M. Mandatory reserve

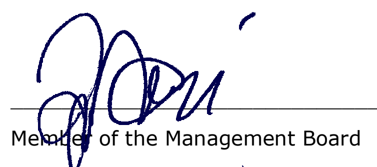
Pursuant to the Commercial Code of the Republic of Estonia, at least 5% of the net profit must be transferred to the reserve capital each financial year, until the reserve capital amounts to at least 10% of the share capital. The mandatory reserve cannot be paid out as dividends. Still, it can be used for covering the loss, if loss cannot be covered from the available shareholder's equity. Mandatory reserve can also be used for increasing the share capital of the company.

N. Accounting for lease

Lease transactions, where all material risks and benefits from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

Assets leased under finance lease are recorded in the lessee's balance sheet at the lower of acquisition cost or the net present value of minimum lease payments. The depreciation period of assets acquired under finance lease is the useful life of the asset item. Assets leased out under finance lease are recorded in the balance sheet as a receivable in the amount of the net investment in the finance lease. Rental payments are divided into financial expenses and income, and rental payable/receivable so that the interest rate would be the same at any given moment.

In case of operating lease, the assets are recorded in the lessor's balance sheet. Operating lease payments are recorded during the lease period as income (by lessor) and expenses (by lessee) based on the straight-line method.



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O. Derivative instruments

Derivatives (forward, future, swap or option contracts) are measured in the balance sheet at fair value. Derivative instruments will be recorded under assets, if their value is positive, and under liabilities, if value is negative. Gains and losses arising from the revaluation are recorded under "Net financial items" in the income statement.

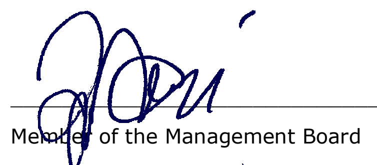
P. Segment reporting

Starman views the services rendered by the company as an integral whole. The corporate strategy and investment policy has been developed on the basis of the established cable transmission network so as to render as many combined services as possible. Since operating expenses and investments have been recognised based on the above factors, their division into separate services with the purpose of getting an accurate overview of segment profitability or an accurate balance sheet proves impossible. The company operates only in the Republic of Estonia. Considering Starman's turnover and the total market volume, the management believes it would prove unreasonable to view different geographical areas as different segments.

R. Events after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Subsequent events that have not been taken into consideration when valuating the assets and liabilities but have a material effect on the result of the next financial year, are disclosed in the financial statements.



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Note 2 Changes in the presentation

The group has introduced additional changes in the presentation (incl. restatement of comparative data), which have no effect on the group's profit for 2004 or owner's equity as of 31.12.2004. According to the group's management, the changes in the presentation allow to give a better view of the group's financial position and results.

Note 3 Revenue

in thousands of euros, per annum

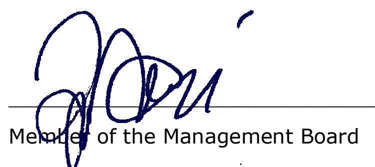
In 2005 and 2004, AS Starman's revenue was fully based on the Estonian market, and was divided into the following fields of activity:

Fields of activity	2005.	2004
Cable television services	6211	4800
Internet services	4817	4205
Sales of goods and materials	282	463
Telephone service	721	73
Total	**12,031**	**9541**

Note 4 Other revenue and expenses

in thousands of euros, per annum

	2005	2004
Other income		
Proceeds from disposals of non-current assets	15	5
Revenue from fines for delay	78	67
Revenue from revaluation of liabilities	24	13
Other income	19	32
Total other income	**136**	**117**
Goods, raw materials and services		
Purchased services	-3291	-2529
Materials	-66	-46
Goods purchased for resale	-233	-478
Maintenance expenses	-207	-158
Other expenses	-72	-96
Total goods, raw materials and services	**-3869**	**-3307**



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Other operating expenses	2005	2004
Consulting and advisory expenses	-343	-482
Marketing expenses	-624	-426
Customer information expenses	-340	-299
Office expenses	-269	-237
Allowance for doubtful receivables (see Note 9)	-54	-49
Transportation expenses	-174	-150
Other expenses	-272	-233
Total other operating expenses	**-2076**	**-1876**

Personnel expenses		
Wages and salaries	-1511	-1031
Social tax	-513	-357
Total personnel expenses	**-2024**	**-1388**

Other expenses		
Fringe benefit tax on options	-115	0
Expenses on revaluation of liabilities	-29	0
Other expenses	-38	-28
Total other expenses	**-182**	**-28**

Note 5 Net financial items

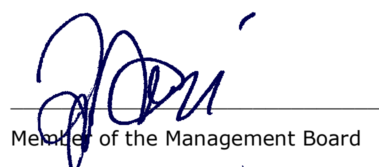
in thousands of euros, per annum

	2005	2004
Interest expense	-275	-223
Foreign exchange gains/losses	-44	29
Other financial income and expenses	-5	3
Total net financial items	**-324**	**-191**

Note 6 Income tax

in thousands of euros

The group's income tax expense for 2004 in the amount of 59 thousand euros (2005: zero euros) is made up of income tax calculated on dividends (see Note 18).



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Note 7 Cash

in thousands of euros, as of December 31

	2005	2004
Cash in hand and at bank	263	593
Cash in transit	19	2
Total cash and cash equivalents	**282**	**595**

Note 8 Short-term financial investments

in thousands of euros, as of December 31

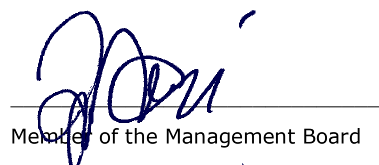
	Bond fund units (at fair value)
Net book value 31.12.2003	**131**
Acquisitions in 2004	64
Profit from change in fair value	10
Net book value 31.12.2004	**205**
Profit from change in fair value	4
Disposals in 2005	-209
Net book value 31.12.2005	**0**

Note 9 Receivables

in thousands of euros, as of December 31

	2005	2004
Accounts receivable	686	581
Allowance for doubtful receivables[1]	-89	-65
Other short-term receivables	22	22
Total receivables	**619**	**538**

[1] The following changes occurred in the allowance for doubtful receivables (per annum):



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	2005	2004
Balance at the beginning of the period	**-65**	**-60**
Additional write-down (see Note 4)	-54	-49
Uncollectible receivables written off from the balance sheet	30	44
Balance at the end of the period	**-89**	**-65**

Note 10 Prepayments

	2005	2004
Prepaid taxes	0	5
Prepaid services	65	79
Total prepayments	**65**	**84**

Note 11 Inventories

in thousands of euros, as of December 31

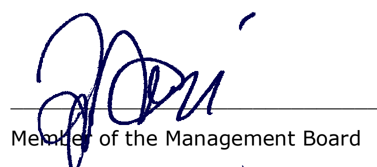
	2005	2004
Raw materials	465	343
Goods purchased for resale	294	229
Prepayments for inventories	1	4
Total inventories	**760**	**576**

A total of 51 thousand euros of inventories were written down in 2005 (2004: 8 thousand euros) in connection with the drop of the acquisition cost of goods purchased for resale below their net realisable value (sales price, less expenses incurred for the purpose of making the products available for sale, and selling the products).

Note 12 Other financial assets

in thousands of euros; as of December 31

As of 31.12.2005, other financial assets include long-term portion of the long-term loan granted to unrelated parties in 2004 in the amount of 9 thousand euros (2004: 20 thousand euros) with an interest rate of 8%. The loan is due for repayment in 2007. The current portion of the loan amounts to 5 thousand euros as of 31.12.2005 (2004: 2 thousand euros).



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Note 13 Property, plant and equipment

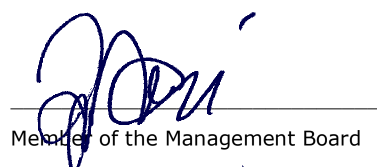
in thousands of euros

	Land and buildings	Machinery and equipment	Other non-current assets	Total PPE
Net book value 31.12.2003	**8893**	**1240**	**89**	**10,222**
Purchases and additions	5768	743	70	6581
incl. from business combinations (see Note 22)	*4218*	*27*	*18*	*4263*
Sales	0	-1	0	-1
Reclassification[1]	0	-28	0	-28
Depreciation charge	-1215	-596	-39	-1850
Net book value 31.12.2004	**13,446**	**1358**	**120**	**14,924**
Purchases and additions	2437	2138	72	**4647**
Reclassification	0	-100	-10	**-110**
Sales	-31	-3	0	**-34**
Depreciation charge	-1516	-657	-44	**-2217**
Net book value 31.12.2005	**14,336**	**2736**	**138**	**17,210**
As of 31.12.2004				
Acquisition cost	17,429	2923	357	20,709
Accumulated depreciation, amortisation and impairments	-3983	-1565	-237	-5785
As of 31.12.2005				
Acquisition cost	19,833	4388	362	24,583
Accumulated depreciation, amortisation and impairments	-5497	-1652	-224	-7373

[1] Reclassification involves the transfer of machinery and equipment and other non-current assets to assets, under "Goods, raw materials and services".

As of 31.12.2005, the acquisition cost of fully amortised non-current assets still used by the company amounted to 582 thousand euros (2004:457 thousand euros). The acquisition cost of non-current assets written off in 2005 amounted to 535 thousand euros and net book value to 0 euros (2004: 0 euros).

Information on PPE items established as collateral to borrowings has been disclosed in Note 15.



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Note 14 Intangible assets

in thousands of euros

	Goodwill	Other intangible assets	Total intangible assets
Net book value 31.12.2003	**0**	**1**	**1**
Purchases and additions	0	24	24
Amortisation charge	0	-5	-5
Net book value 31.12.2004	**0**	**20**	**20**
Purchases and additions	0	16	16
Reclassification	0	6	6
Amortisation charge	0	-16	-16
Net book value 31.12.2005	**0**	**26**	**26**

As of 31.12.2004

Acquisition cost	13	27	40
Accumulated depreciation, amortisation and impairments	-13	-7	-20

As of 31.12.2005

Acquisition cost	0	57	57
Accumulated depreciation, amortisation and impairments	0	-31	-31

Note 15 Borrowings

in thousands of euros, as of December 31

2005	Current portion	Non-current portion		Total borrowings
		1-5 years	over 5 years	
Long-term bank loans[1]	48	239	0	287
Finance lease liability[2] (Note 19)	1023	5754	3	6780
Total borrowings	**1071**	**5993**	**3**	**7067**

2004	Current portion	Non-current portion		Total borrowings
		1-5 years	over 5 years	
Unsecured debt	3	0	0	3
Long-term bank loans[1]	48	287	0	335
Finance lease liability[2] (Note 19)	643	4889	494	6026
Total borrowings	**694**	**5176**	**494**	**6364**

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[1] In 2002, the company concluded with Nordea Bank Finland Plc Estonia Branch a new loan agreement to replace the previous overdraft agreement. The loan, in the initial amount of 415 thousand euros, has been denominated in euros and has an interest rate of 6-month Euribor+2%. The loan will be repaid in equal monthly instalments, with the consideration that, upon maturity of the loan term in 2009, the last instalment would amount to 131 euros.

AS Starman has established a 1st-rank mortgage in the amount of 287 thousand euro on the company's real estate located at Akadeemia tee 28 in Tallinn as a collateral to the long-term loan from Nordea Bank Finland Plc. Estonia Branch. As of 31.12.2005, the net book value of the real estate amounted to 450 thousand euros (31.12.2004: 430 thousand euros). In addition, the company has established a 1st-rank commercial pledge on AS Starman's immovables in the amount of 141 thousand euros as a collateral to the above loan.

[2] Finance lease transactions are secured by the leased assets, except for one transaction, where the company has established for the benefit of SEB Ühisliising AS a 2nd-rank commercial pledge on AS Starman's immovables in the amount of 767 thousands euros.

Note 16 Payables

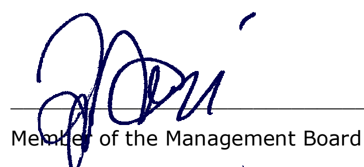
in thousands of euros, as of December 31

	2005	2004
Accounts payable	662	651
Employee-related liabilities	189	165
Taxes payable[1]	272	204
Other payables[2]	259	598
Total payables	**1382**	**1618**

[1] Taxes payable are divided as follows:

	2005	2004
VAT	99	84
Social tax	89	68
Withheld income tax	76	44
Other taxes	8	8
Total taxes payable	**272**	**204**

[2] Other payables consist of other accrued expenses (program fees and other outstanding payables of the reporting year) in the amount of 258 thousand euros and derivative instruments (forwards) in the amount of 703 euros (2004: 184 thousand euros and 0 euros, respectively). On 27 May 2005, Starman paid Tele 2 OÜ the second instalment arising from the contract of purchase and sale of shares concluded in May 2004 in the amount of 414 thousand euros (10% of the transaction value). This amount was additionally reported under "Other payables" in 2004. The company thus acquired in the Estonian Central Register of Securities 12% of the shares of AS Levi Kaabel and Tallinna Kaabeltelevisiooni AS, which were set as collateral to the instalment.



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Note 17 Prepayments

	2005	2004
Prepayments received[1]	95	95
Deferred income[2]	34	22
Total prepayments	**129**	**117**

[1] Prepayments received consist of prepayments received from customers for goods and services in the course of daily business operations.

[2] Deferred income consists of subscription fees, which are to be charged to expenses over a term of 7 years. As of 31.12.2005, the long-term portion of the liability is 203 thousand euros (2004: 132 thousand euros) which has been recorded as other long-term prepayments on the balance sheet.

Additional information on payables to related parties has been disclosed in Note 20.

Note 18 Owner's equity

The company's share capital amounts to 8,3 million euros, divided into 13,053,570 registered shares with a nominal value of 10 kroons (0,64 euros) per share. The shares have been paid for in full. According to the Articles of Association, the maximum allowed number of shares is 21,052,800 and the minimum number of shares 5,263,200.

With the share split in 2005, the nominal value of the shares was reduced from the hitherto 6,4 euros to 0,64 euros. Together with the split, the company's share capital was increased via bonus issue at the expense of share premium (4,375 thousand euros) and retained earnings (1,187 thousand euros), by the issue of 2 extra shares for each share in circulation. The company's share capital was thus increased three times, and the number of shares 30 times. With the same resolution, the company cancelled the option set forth in the Articles of Association on the issue of B-shares, whereas the preferential shares of AS Lõhmus Holdings (377,250 shares) were converted into common shares. The increase in share capital was entered into the Commercial Register on 26 May 2005.

Pursuant to the Articles of Association, the company's Supervisory Board has the right to increase the share capital by 440,990 euros (i.e. 5.3%) within 3 years after the introduction of amendments in the Articles of Association on 17 May 2005. The Supervisory Board can exercise this right upon redemption of the stock options granted to the Management Board (see Note 20: "Related party transactions"). The resolution of the General Shareholders' Meeting held on 17 May 2005 excluded the shareholders' preferential right to subscribe to shares subjected to the option scheme.

In 2005, 5% of the net profit for 2004 was transferred to the mandatory reserve, thus increasing the reserve to 94 thousand euros.

The IPO of the Starman shares was carried out between 13.06.2005 and 17.06.2005, with the company's majority shareholder Royalton Capital Investors selling, through its 100%-owned subsidiary Highbury Investments B.V., 3,628,892 shares (i.e. 27.8% of the company's share capital). In addition, Royalton Capital Investors and OU Com Holding concluded, on 6 May 2005, a contract of purchase and sale of shares with OÜ Com Holding acquiring from Royalton Capital Investors 391,620 shares (i.e. 3% of the company's share capital) during the IPO and at the IPO price.

Starman's shares were offered for trade on the Tallinn Stock Market on June 28. As of 31 December 2005, the following shareholders held over 1% of the shares in the company:

Highbury Investments B.V./
Royalton Capital Investors - 33.4%
OÜ Constock - 19.1%
OÜ Com Holding - 17.8%
Hansa Baltic Growth Fund - 4.0%
AS Lõhmus Holdings - 3.0%

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Danske Bank Clients Holdings - 2.5%
ING Luxembourg S.A. - 2.5%
J.P. Morgan Bank Luxembourg S.A - 2.4%
Nordea Bank Finland PLC Clients - 2.4%
Pictet & CIE Client Account - 2.3%
Chase Nominees Ltd - 1.6%

No dividends were announced in 2005. In 2004, the company announced dividends in the total amount of 167 thousand euros – i.e. 0.3 euros per share. As a result, the company incurred income tax expenses in the total amount of 59 thousand euros. This amount has been charged to the expenses of the period (see Note 6). The Management Board has proposed to announce 292 thousand euros of dividends in 2006, incurring an income tax liability of 87 thousand euros.

The company's potential income tax liability

As of 31.12.2005, the group's retained earnings amounted to 1,753 thousand euros. The maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 501 thousand euros. The company can thus pay 1,178 thousand euros in net dividends.

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid, and the related total income tax expenses would not exceed the distributable profit as of 31.12.2005.

Note 19 Finance lease and operating lease

The group has made investments into cable networks, machinery and equipment under finance lease (see also Note 13), incurring the following liabilities from these transactions (as of December 31):

	2005	2004
Current portion - payable within 1 year	1023	643
Non-current portion - payable within 1-5 years	5754	4889
Non-current portion - payable in over 5 years	3	494
Total finance lease liability (Note 14)	**6780**	**6026**
Repayment due date	2011	2011
Interest rate	4.1 – 6.2%	4.22 – 8%
Underlying currency	EEK, EUR	EEK, EUR

Contents, terms and conditions of sales and leaseback transactions

In 2002, AS Starman concluded 3 sales and leaseback transactions with Ühisliisingu AS.

The first two transactions were used to partially finance the construction of Tartu cable transmission network. With the transactions, AS Starman sold the cable television Head-End and a part of the cable transmission network for a total of 697 thousand euros, and leased back the sold non-current assets on finance lease terms for a total of 487 thousand euros thereafter. The rental agreements were concluded for a term of 4 years, whereas only the interest was payable during the first year (6-month Euribor + 3%). In May 2004, an amendment was introduced to the above agreements, establishing a new 7-year payment schedule for the finance lease balance so that only interest will be payable for the first 18 months. The interest rate was also changed – to 6-month Euribor + 2%. As of 31.12.2005, the finance lease balance related to the above transactions amounted to 288 thousand euros (31.12.2004:288 thousand euros).

With the third transaction, AS Starman sold its cable television Head-End in Tallinn, as well as a part of the cable transmission network in Tallinn and its vicinity for a total of 2,564 thousand euros, and leased back the non-current assets on finance lease terms for a total of 1,278 thousand

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euros thereafter. The resources, which were thus made available, were mostly used for financing the purchase of the 40% stake in Starman Internet. The rental agreement was concluded for a term of 4 years, and an interest rate of 6-month Euribor + 3.5%. In connection with the transaction, a 2nd-rank commercial pledge was established on the movable property of AS Starman for the benefit of Ühisliisingu AS in the total amount of 767 thousand euros. In May 2004, an amendment was introduced to the above agreements, establishing a new 7-year payment schedule for the finance lease balance so that only interest will be payable for the first 18 months. The interest rate was also changed – to 6-month Euribor + 2%. As of 31.12.2005, the finance lease balance related to the above agreement amounted to 787 thousand euros (31.12.2004: 787 thousand euros).

On 1 June 2004, AS Starman concluded a sales and leaseback contract with Ühisliisingu AS, selling the cable transmission network acquired, for the most part, from TELE 2 for 4,282 thousand euros, and leasing back the sold non-current assets on finance lease terms for 3,834 thousand euros thereafter. The resources, which were thus made available, were used for acquiring the subsidiaries. The rental agreement was concluded for a term of 7 years, whereas only the interest is payable during the first 18 months (6-month Euribor + 2%). Effectively, the given agreement was associated with the above agreements through various additional conditions (e.g. joint collateral). As of 31.12.2005, the finance lease balance related to the above agreement amounted to 3,834 thousand euros in the balance sheet. (as of 31.12.2004: *3*,834 thousand euros).

Other sales and leaseback transactions concluded by AS Starman do not substantially differ from other finance lease transactions concluded by AS Starman—it simply proved more reasonable for the parties involved (the equipment seller, buyer and leasing company) to register, in certain cases, AS Starman as the vendor of the goods in the leasing company. This involved financing of the equipment used for service provision.

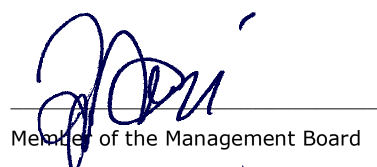
The group has acquired the following assets under finance lease (as of December 31):

	Land and buildings	**Machinery and equipment**	**Total**
2004			
Acquisition cost	7544	3291	10,835
Net book value	6038	1401	7439
2005			
Acquisition cost	7544	5240	12,784
Net book value	5546	3700	9246

The group has leased out, under operating lease, machinery and equipment with the following cost and net book value as of December 31:

	2005	**2004**
Acquisition cost of assets leased out under operating lease[1]	1408	870
Net book value of assets leased out under operating lease[1]	1244	315
Revenue from operating lease	269	559

[1]Among other things, the above assets include telephone modems which have been granted into the use of customers and which have an acquisition cost of 1,172 thousand euros and a net book value of 1,031 thousand euros in 2005 (127 thousand euros and 108 thousand euros in 2004, respectively).



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The company has acquired vehicles under operating lease terms:

	2005	2004
Operating lease payments in the period	56	52
Operating lease payments arising from non-rescindable contracts in future periods:	83	121
incl. payable within 1 year	50	53
1 - 5 years	33	68

Note 20 Related party transactions

in thousands of euros

For the purposes of these financial statements, the following are considered related parties:

a) shareholders with significant influence, and companies controlled by them;

b) management board and higher management, their relatives and companies controlled by them.

The group has purchased services from the following related parties:

	2005	2004
Shareholders with significant influence	29	12
Companies controlled by shareholders	183	204

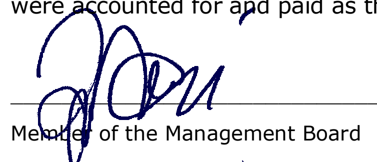
The company incurred the following liabilities from these transactions as of December 31 (recorded under accounts payable):

	2005	2004
Companies controlled by shareholders	3	0

Remuneration of Management Board members

Total remuneration (wages and bonuses) of the members of the Management Board and Supervisory Board of the group company amounted to 311 thousand euros in 2005 (2004: 124 thousand euros).

On 2 June 2005, the Supervisory Board approved a new incentive system for the Management Board, issuing options to the members of the Management Board under which they can, on certain conditions, acquire a total of 600,000 shares in the company. The options have been divided into three series on the basis of the periods of realisation: the A series grants the right to acquire 200,040 shares from 1 July 2006 to 30 June 2008; the B series grants the right to acquire 199,980 shares from 1 July 2007 to 30 June 2009, and the C series grants the right to acquire 199,980 shares from 1 July 2008 to 30 June 2010. In the case of the A series, the option redemption price equals to the average trade price applicable in the 3rd to the 8th week after the first day of trading in the shares on the stock exchange, plus 15%; for the B series the option redemption price equals to the average trade price applicable during the 1st quarter of 2006, plus 15%, and for the C series the option redemption price amounts to the average trade price for the 1st quarter of 2007, plus 15% (dividends paid will be deducted from the redemption price of options of all series). Several other conditions must be met for the options to be realised—specific criteria have been established for the company's financial results and market capitalisation as well as for the member's employment relation with Starman. According to an expert opinion, the market value of the options issued amounted to 155 thousand euros at the moment of their issue. Since 1278 euros were actually paid for the options, the fringe benefits amounted to a total of 153 thousand euros, on which 115 thousand euros were accounted for and paid as the fringe benefit tax.



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Services were sold to the members of the Management Board and the Supervisory Board and their relatives in the course of ordinary business. The total volume of the above services did not exceed 3195 euros in 2005 and 2004.

The members of Management Board have a right to termination benefits. According to the contacts the maximum amount of such termination benefits is 62 thousand euros for all management members.

Note 21 Note to the consolidated cash flow statement

in thousands of euros, per annum

Adjustments of net profit include the following gains/losses related to non-monetary operating activities, as well as revenue and expenses related to investing and financing activities:

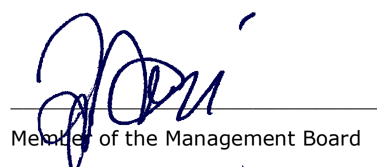
	2005	2004
Depreciation, amortisation and impairments (Note 13, 14)	2233	1855
Proceeds from disposals of property, plant and equipment (Note 4)	-15	-5
Allowance for doubtful receivables (Note 9)	-24	5
Interest income	-10	-8
Interest expenses	285	231
Profit from change in fair value (Note 8)	-4	-10
Total adjustments of net profit	**2465**	**2068**

Purchase of non-current assets includes the following:

	2005	2004
Purchase of and additions to PPE (Note 13)	-4647	-2290
Purchase of and additions to intangible assets (Note 14)	-16	-24
PPE acquired under finance lease	485	464
Total acquisition of non-current assets	**-4178**	**-1850**

Note 22 Investments in the shares of subsidiaries

On 1 June 2004, AS Starman acquired 2 subsidiaries—Tallinna Kaabeltelevisiooni AS and AS Levi Kaabel (owner of the full subsidiary AS Telset Telecommunications Group). The value of the 100% stake in these companies totalled 4,154 thousand euros + 59 thousand euros in transaction costs directly related to the investment. For the 3,738 thousand euros paid on 1 June 2004, 88% of the shares of the subsidiary were registered in the name of AS Starman in the Estonian Central Register of Securities. On 27 May 2005, Starman paid 414 thousand euros as a second instalment arising from the contract of purchase and sale of shares concluded with Tele 2 OÜ in May 2004 (i.e. 10% of the transaction value), acquiring in the Estonian Central Register of Securities 12% of the shares of AS Levi Kaabel and Tallinna Kaabeltelevisiooni AS which were set as collateral to the instalment.



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2004	Tallinna Kaabeltelevisiooni AS	Levi Kaabel AS	Total
Share at the beginning of the year, %	0	0	
Share at the end of the year, %	100	100	
Share in the subsidiary's equity at the beginning of the year	0	0	
Net book value at the beginning of the year	**0**	**0**	**0**
Shares acquired in 2004, at acquisition cost	941	3273	**4214**
Profit/loss from equity method of the financial year	89	428	**517**
Net book value at the end of the year	**1030**	**3701**	**4731**
Share in the subsidiary's equity at the end of the year	974	3649	

All subsidiaries have been registered in Estonia.

The fair value of the net assets of the acquired companies at the moment of the acquisition (in thousands of euros):

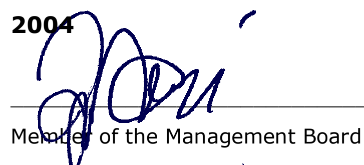
31.05.2004	Tallinna Kaabeltelevisiooni AS	Levi Kaabel AS	Total
Cash	15	67	82
Other current assets	88	215	303
Property, plant and equipment[1]	923	3340	4263
Liabilities[2]	85	349	434
Net assets	941	3273	4214

[1] At the moment of acquisition, the fair value of the PPE of Tallinna Kaabeltelevisiooni AS was 598 and that of Levi Kaabel AS 2,349 thousand euros bigger than their net book value in the books of the subsidiaries.

[2] At the moment of acquisition, the fair value of the liabilities of Tallinna Kaabeltelevisiooni AS was 55 and that of Levi Kaabel AS 53 thousand euros smaller than their net book value in the books of the subsidiaries.

By acquiring subsidiaries´ shares, AS Starman acquired also a certain amount of intangible assets, for example agreements with clients and subsidiaries´ cable transmission network permits. As it was not possible to reliably measure the fair value of these assets, these were not recorded as separate intangible assets.

2004 **Tallinna** **Levi Kaabel AS** **Telset**



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	Kaabeltelevisiooni AS		Telecommunications Group AS
Revenue	990	2635	1446
Profit	571	1767	1094

On 31 May 2005, Starman AS acquired from AS Levi Kaabel 100% stake in AS Telset Telecommunications Group. On the same day, Starman and its subsidiaries concluded a merger agreement, with Starman acquiring all of its subsidiaries on 1 June 2005.

Note 23 Earnings per share

in thousands of euros

	2005	2004
Net profit	1459	954
Weighted average number of shares (in thousands of units)	13,054	13,054
Basic EPS (in EUR)	**0.11**	**0.07**
Diluted EPS (in EUR)	**0.11**	**0.07**

EPS is calculated by dividing the net profit for the financial year with the weighed average number of shares in the given financial year. The number of shares in previous periods has been restated by taking into consideration the split and bonus issue in May 2005 (see Note 18).

The company has continently issuable shares—the options issued to Management Board members (see Note 18: Owner's equity and Note 20: Related party transactions). As the conditions required for redemption of the options had not been met as of the balance sheet date, these instruments had no dilutive effect. Diluted EPS therefore equals to basic EPS.

Note 24 Pending disputes and court cases

On 28 June 2005, the Arbitration Court of the Estonian Chamber of Commerce and Industry delivered its award in Starman's action against Tele 2 OÜ and Tele 2 Eesti AS. The action, filed for 120 thousand euros, concerned the subsidiaries' outstanding receivables, which should have been, in Starman's opinion, paid by the former owner. Starman's management had evaluated the risks involved, and formed a provision in the amount of 10% of the amount at issue (i.e. 12 thousand euros). The evaluation came 15 thousand euros short—this amount has been recorded as expenses on revaluation of liabilities in the income statement. In addition, Starman was obliged to bear the legal expenses in the amount of 11 thousand euros. The case has thus been settled, with 27 thousand euros recorded as one-off expenses charged against the company's results for 2005.

On 30 November 2005, an agreement between OÜ Baccata and AS Starman was endorsed by a ruling of the Tallinn City Court, under which AS Starman paid 10 thousand euros to OÜ Baccata. The dispute concerned remuneration payable under a contract for services. The action filed by OÜ Baccata against AS Starman for 13 thousand euros has thus been settled.

Note 25 Financial instruments

Credit risk

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Credit risk stands for contingent damages caused to the company by the failure of its customers and business partners to fulfil their obligations. As of 31.12.2005 the company's maximum possible credit risk amounted to 693 thousand euros (31.12.2004: 851 thousand euros). This indicator is deeply theoretical, since due to the specifics of the company's operations (large number of customers with relatively small single payments), the company has no single material credit risks. In order to manage and hedge the overall credit risk, the company has established procedures for evaluating the solvency and for dealing with debtors.

The company's available current assets are invested in highly creditworthy financial instruments.

Currency risk

The company is exposed to fluctuations in the US dollar exchange rate. Approximately ¼ of the monthly expenses are directly or indirectly related to the fluctuations in the US dollar exchange rate. Similarly, investments in Internet equipment are US dollar-based. Upon evaluating the currency risk on the background of the company's business activities, we find that the risk has a certain, although minor, effect on the results of operations. We must take into consideration, however, that, under the current market situation regarding the solutions offered, the company can only cover currency risks in a short perspective. As the USD exchange rate has risen to a sufficiently high level for the company, Starman concluded, in the end of November 2005, 26 forward transactions for the purchase of US dollars in the amount of 3,383 thousand USD, with terms of maturity of up to 10.11.2006. These transactions allowed to cover short USD positions 100% in the 6-month perspective and 50% in the 12-month perspective. As of 31.12.2005, the company had a total of 21 forward transactions in the total amount of 2,693 USD. The losses resulting from revaluation in the amount of 703 euros are recorded as "Other payables" under "Payables" in the balance sheet (see Note 16).

Interest risk

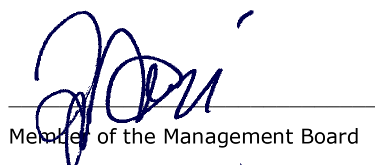
Most of the company's loan capital has been tied with the 6-month Euribor. The company is thus exposed to fluctuations in interest rates denominated in euros. Considering the company's strong financial position, interest expenses should not increase in the near future even if euro interest rates are raised. The company monitors the changes in the international money market, and compares the financing offers with both floating and fixed interest rates. The effect of the interest risk on the results of the company's operations is very small. According to the management, there is no need for hedging these risks.

Fair value of assets and liabilities

According to the Management Board, the fair value of the group's financial assets and liabilities does not materially differ from the net book value. The fair value of interest fund units is the market value of the units, and the fair value of cash (incl. term deposits), bonds and other receivables/liabilities is calculated based on the discounted cash flow method.

Note 26 Events after the balance sheet date

With the claim submitted to the Estonian Competition Board and the Estonian National Communications Board on 16 January 2006, AS Starman contested Elion Ettevõtted AS's plan to raise, from 1 February 2006, the rental charges to be paid for the use of communication ducts. The planned price increase for objects already leased out amounts to 20% and 400% (+ newly added subscription fee) in case of cable network expansion and renovation. Starman believes this to be unlawful—in violation of the Telecommunications Act, Competition Act and several other legal acts. Starman's expenses on the rental of communication ducts amounted to nearly 0,47 million euros in 2005. These rental prices would have an immediate effect only as regards the objects currently leased out (potential price increase: 20%), since expansion and renovation would be economically unreasonable under such conditions. If the prices remain in effect for a longer period of time, this could have a negative effect on the company's investments.



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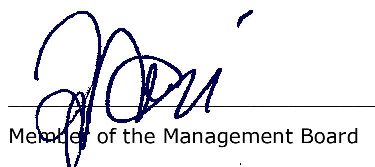
Note 27 Parent company's unconsolidated income statement

in thousands of euros, per annum

	2005	2004
Revenue	12,031	8606
Other income	136	108
Goods, raw materials and services	-3869	-2934
Other operating expenses	-2076	-1826
Personnel expenses	-2024	-1385
Depreciation, amortisation and impairments	-2233	-1850
Other expenses	-182	-26
Operating profit	**1783**	**693**
Net financial items	-324	-197
Profit before income tax	**1459**	**496**
Income tax	0	-59
Net profit for the financial year	**1459**	**437**



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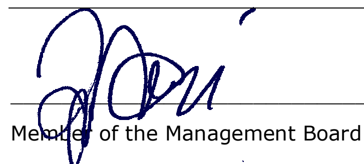
Note 28 Parent company's unconsolidated balance sheet

in thousands of euros, as of December 31

	2005	2004
ASSETS		
Current assets		
Cash	282	451
Short-term financial investments	0	205
Receivables	619	534
Prepayments	65	81
Inventories	760	575
Total current assets	**1726**	**1846**
Non-current assets		
Long-term financial investments	0	4214
Other financial assets	9	20
Property, plant and equipment	17,210	14,910
Intangible assets	26	20
Total non-current assets	**17,245**	**19,164**
TOTAL ASSETS	**18,971**	**21,010**
LIABILITIES AND OWNER'S EQUITY		
Liabilities		
Current liabilities		
Borrowings	1071	689
Payables	1382	1949
Prepayments	129	117
Total current liabilities	**2582**	**2755**
Non-current liabilities		
Long-term borrowings	5996	5665
Other long-term payables	203	4376
Total non-current liabilities	**6199**	**10,041**
Total liabilities	**8781**	**12,796**
Owner's equity		
Share capital	8343	2781
Share premium	0	4375
Mandatory reserve	94	46
Retained earnings	1753	1012
Total owner's equity	**10,190**	**8214**
TOTAL LIABILITIES AND OWNER'S EQUITY	**18,971**	**21,010**



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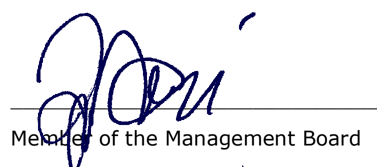
Note 29 Parent company's unconsolidated statement of changes in equity

in thousands of euros, per annum

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owner's equity
31.12.2003	**2781**	**4375**	**1**	**787**	**7944**
Effect of changes in accounting principles	0	0	0	-517	-517
Announcement of dividends	0	0	0	-167	-167
Transfers to mandatory reserve	0	0	45	-45	0
Profit for the period	0	0	0	954	954
31.12.2004	**2781**	**4375**	**46**	**1012**	**8214**
31.12.2004	**2781**	**4375**	**46**	**1012**	**8214**
Bonus issue	5562	-4375	0	-1187	0
Transfers to mandatory reserve	0	0	48	-48	0
Profit for the financial year	0	0	0	1459	1459
Effect of merger with subsidiaries	0	0	0	517	517
31.12.2005	8343	0	94	1753	10,190



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Note 30 Parent company's unconsolidated cash flow statement

in thousands of euros, per annum

	2005	2004
Cash flow from operating activities		
Net profit	1459	437
Adjustments of operating profit	2465	2068
Merger of companies	144	0
Change in receivables and prepayments related to operating activities	-38	-279
Change in inventories	-76	-194
Change in liabilities and prepayments related to operating activities	260	725
Total cash flow from operating activities	**4214**	**2757**
Cash flow from investing activities		
Purchase of property, plant and equipment, and intangible assets	-4178	-1849
Proceeds from disposals of property, plant and equipment, and intangible assets	54	2
Investments into subsidiaries	-414	-3799
Purchase of other financial investments	0	-64
Proceeds from disposals of other financial investments	209	0
Interest received	10	7
Total cash flow from investing activities	**-4319**	**-5703**
Cash flow from financing activities		
Loans received	0	359
Loan repayments	-48	-48
Repayment of finance lease principal	-1195	-1583
Interest paid	-285	-230
Proceeds from sales and leaseback transactions	1464	4795
Dividends paid	0	-167
Paid income tax on dividends	0	-59
Total cash flow from financing activities	**-64**	**3066**
TOTAL CASH FLOW	**-169**	**120**
Cash and cash equivalents at the beginning of the period	451	331
Change in cash and cash equivalents	-169	120
Cash and cash equivalents at the end of the period	**282**	**451**

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30.03.2006

ERNST & YOUNG

Ernst & Young Baltic AS
Rävala pst 4
10143 Tallinn
Eesti
Tel. +372 6 114 610
Faks +372 6 114 611
www.ey.com/ee
Tallinn@ee.ey.com

Ernst & Young Baltic AS
Rävala blv 4
10143 Tallinn
Estonia
Tel. +372 6 114 610
Fax +372 6 114 611
www.ey.com/ee
Tallinn@ee.ey.com

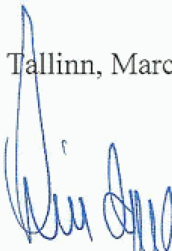
AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS STARMAN

We have audited the consolidated financial statements of AS Starman (hereafter "the Company") and its subsidiaries (hereafter "the Group") for the financial year ended December 31, 2005, which are set out on pages 8 through 39 of the Annual Report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2005, and of the results of its operations and cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Tallinn, March 30, 2006



Hanno Lindpere
Ernst & Young Baltic AS

PROFIT ALLOCATION PROPOSAL

The Management Board proposes to the General Shareholders' Meeting of AS Starman to allocate the profit as follows:

Retained earnings as of 31.12.2005:	1,753 thousand euros
Transfer to mandatory reserve:	73 thousand euros
Net dividends to be paid:	292 thousand euros
Retained earnings after dividend payment:	1,388 thousand euros

0.35 EEK (approximately 0.02 EUR) per share is to be paid to shareholders in net dividends. Under the rules of the Tallinn Stock Exchange, the right to receive dividends shall be established on the basis of the list of security holders in the Estonian Central Register of Securities at 8:00 on the 15th stock exchange day after the General Shareholders' Meeting.

Peeter Kern

Chairman of the Management Board

Randy Hütsi

Member of the Management Board

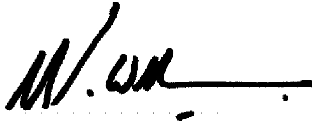
Henri Treude

Member of the Management Board

Member of the Management Board

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2005

We hereby confirm the correctness of the data presented in the consolidated Annual Report 2005:



Nigel Philip Williams

Chairman of the Supervisory Board

Roman Babka

Member of the Supervisory Board

Jaak Ennuste

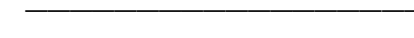
Member of the Supervisory Board

Indrek Kuivallik

Member of the Supervisory Board

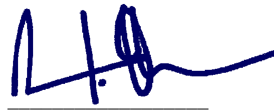
Hans Larsson

Member of the Supervisory Board



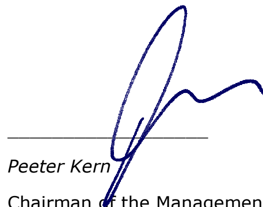
Rain Lõhmus

Member of the Supervisory Board



Sven Ilmar Oksaar

Member of the Supervisory Board

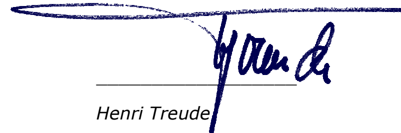


Peeter Kern

Chairman of the Management Board

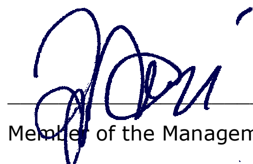
Randy Hütsi

Member of the Management Board



Henri Treude

Member of the Management Board



Member of the Management Board