AS STARMAN

CONSOLIDATED INTERIM REPORT FOR THE 1ST HALF-YEAR 2005

Beginning of financial year:	01.01.2005
End of financial year:	31.12.2005
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Main activities:	cable television and data communication services

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EXPLANATORY MEMORANDUM TO THE CONSOLIDATED INTERIM REPORT FOR THE1ST HALF-YEAR 2005

General information

In the first half-year 2005, Starman's net profit rose substantially as the company continued to achieve its targets. By the end of June, Starman had successfully launched telephone services and the company's shares were listed on the main list of the Tallinn Stock Exchange.
Starman's total revenue for the 1st half-year 2005 amounted to 5.85 million euros – a 37% increase, compared to the same period last year. EBITDA for the first 6 months of the year amounted to 1.9 million euros, and net profit to 0.7 million euros – a respective 29% and 31% increase, compared to the first half-year 2004. When considering the EBITDA and net profit for the 1st half-year 2005, it is worth noting that the results include 0.26 million euros worth of one-off expenses. The majority of these expenses (99.5%) were incurred in the 2nd quarter. Therefore, the profit for the 2nd quarter (0.22 million euros) was smaller than that for the 1st quarter (0.48 million euros).
AS Starman has taken a clear focus on private customers. Starman's triple-play offering (cable television, Internet and telephone) provide household users with the option of ordering all services from a single service provider offering the best price and quality ratio on the Estonian market.
In August, the company introduced a new logo and corporate symbolics. This reflects the company's development from a small cable operator into Estonia's largest telecommunication company providing services through cable networks.

Financial ratios

A selection of ratios for evaluating the economic activities in the first half-year 2005:

	2003	**2004**	**1st half-year 2005**
Sales increase	35%	44%	37%
EBITDA margin	38%	32%	32%
Gross margin	16%	12%	15%
Net margin	13%	10%	12%
Revenue/average assets	0.62	0.68	0.66
Equity ratio	70%	51%	51%
Debt to equity	0.34	0.73	0.69
Debt/EBITDA	1.05	2.08	1.72
Investments/EBITDA	0.78	2.15	1.25
Current ratio	0.66	0.78	0.75
Invoice turnover rate (annual)	23.5	18.5	18.3

Definitions:
Sales increase = increase compared to the same period last year
EBITDA = operating profit + depreciation and amortisation
EBITDA margin = EBITDA/total revenue
Gross margin = operating profit/total revenue

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Net margin = net profit/total revenue
Revenue/average assets - for comparison purposes, the revenue for the 1st half-year 2005 have been multiplied by 2
Equity ratio = equity/total assets
Debt = borrowings + long-term borrowings
Debt/EBITDA - for comparison purposes, EBITDA for the 1st half-year 2005 has been multiplied by 2
Current ratio = current assets/current liabilities
Invoice turnover rate = revenue for the period/accounts receivable at the end of the period

Group structure

The Starman Group incorporates the parent company AS Starman, and the fully owned subsidiaries AS Levi Kaabel, Tallinna Kaabeltelevisiooni AS and AS Telset Telecommunications Group. These companies were incorporated under the Starman Group in June 2004. The primary assets of the companies were sold to the parent company immediately after the acquisition of these subsidiaries. In effect, the subsidiaries have had no extra-group turnover since December 2004.
On 31 May 2005, Starman acquired from AS Levi Kaabel full ownership of AS Telset Telecommunications Group. On the same day, Starman and its subsidiaries concluded a merger agreement on the merger of Starman and all of its subsidiaries. The merger process is scheduled to be completed at the end of 2005.

Revenue and expenses

Cable television and Internet services contributed the majority of Starman's total revenue for the 1st half-year 2005 – 52% and 41% of total revenue, respectively.
Revenue from cable television services increased by 56%, compared to the 1st half-year 2004. Revenue for the second quarter exceeded that for the first quarter by 9%. Organic growth in recent years has been achieved at the expense of price increase. Cable television service prices are normalising, but still remain relatively low, considering the living standard in Estonia. At the end of June 2005, the company had a total of 128 thousand cable television customers - a 3% decrease in customer numbers as of the end of 2004 mostly due to the standardisation of prices. Starman discontinued inefficient special offers and standardised prices for Starman and former TELE 2 customers. The effect of these changes on the revenue from cable television services is significantly smaller than that relating to the drop in customer numbers, since average revenue per unit (ARPU) showed a significant increase among customers eligible for special offers.

Revenue from Internet services increased by 20%, compared to the 1st half-year 2004. Revenue for the second quarter exceeded that for the first quarter by 1%. The slowdown in internet revenue growth in first half of the year can be explained by the marketing focus on selling telephony services. As of the end of June, the company had a total of 26 thousand Internet customers. Starman has maintained its position as the leading broadband provider among private customers in the company's "footprint". Although no change occurred in customer numbers compared to the beginning of the year, the company succeeded in maintaining its ARPU in the 1st half-year, even though ARPU is clearly being pushed down by the market. As has become normal for Starman, autumn/early winter is the season for growth in Internet services.
Backed by a rapid expansion in customer numbers, telephone services showed notable sales increase month after month. By the end of June 2005, Starman had a total of 7.3 thousand telephone customers. Telephone services contributed 3% of the total revenue for the 1st half-year 2005, but in the near future we can expect a substantial increase here.
Contributing 3% of the total revenue of AS Starman for the 1st half-year and decreasing by 33% compared to the same period 2004, sales of goods and materials is primarily influenced by the decline in sales of Internet modems.

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Starman's operating expenses amounted to 3.96 million euros in the 1st half-year 2005, having grown by 41% compared to the same period 2004. Upon eliminating one-off expenses (especially fringe benefit tax on stock options issued to Management Board members, IPO expenses, and expenses on the pending TELE 2 court case) from the operating expenses, the restated operating expense growth indicator amounts to 32%.
If we disregard the above one-off expenses, we can see that expenses on network maintenance-related services and materials - mainly relating to the upgrading of the outdated cable network acquired as part of the TELE 2 transaction - as well as a 60% increase in programs costs increased at a growing rate in the 1st half-year 2005, compared to last year. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue.
Personnel expenses increased by 41% compared to last year. The average number of employees amounted to 174 in the 1st half-year of 2005. As at 30 June 2005, the company employed 191 people – a 17% increase, compared to the end of 2004. Employee numbers rose due to the increased focus on improving customer service.
In expenses related to asset valuation, the provision for bad debts amounted to 34 thousand euros – i.e. 0.6% of the turnover for the period. Loss of inventories and discounts totalled 33 thousand euros in the first half of 2005.

EBITDA for the first 6 months of 2005 amounted to 1.89 million euros. Upon elimination of one-off expenses, the EBITDA margin would amount to 37%.

Depreciation costs increased by 21% compared to the 1st half-year 2004.
Financial expenses, the negative effect of the significant appreciation of the US dollar on the company's financial results - especially in the second quarter - deserves to be separately mentioned. The results recorded under financial expenses make up less than a half of the estimated total foreign exchange loss.

Net profit for the first 6 months of 2005 amounted to 0.7 million euros. Upon elimination of one-off expenses, the net profit margin would amount to 17%, instead of the "official" 12%, whereas net profit growth would amount to 80%, compared to the first 6 months of 2004.

Balance sheet, investments, financing

In the first half-year 2005, Starman's investments in fixed assets amounted to 2.36 million euros, of which 0.64 million euros were invested in the first quarter and 1.72 million euros in the second quarter. The company made the following investments: cable network renovation and construction – 0.73 million euros; telephone modems – 0.42 million euros; DIGI TV Head-End – 0.32 million euros; Internet equipment – 0.37 million euros (incl. Head-End`s : 0.27 million euros); cable television Head-End`s and equipment: 0.2 million euros (incl. cable television Head-Ends: 0.16 million euros); telephone Head-End – 0.18 million euros; computers and computer systems – 0.06 million euros; other investments – 0.08 million euros.
Upgrading of and enhancement of the data communication capability of the existing network made up the majority of the investments in the cable network. Data communication capability increased to 73%. While at the end of 2004, Starman covered 243 thousand households with 161 thousand – i.e. 66% of the households – being serviced by a network with data communication capabilities, the respective numbers as of 30 June 2005 were 245 thousand and 178 thousand. Investments in telephone modems were directly related to the growth in customer numbers. The majority of 2005 investment in Internet and cable television equipment, which enhances quality and supports the growth in customer numbers, was made in the first 6 months of the year. The DIGI TV Head-End and telephone Head-End investment is associated with the development of new products and

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solutions. As of 30 June 2005, the respective equipment had not yet been fully accepted and was therefore recorded under "Construction-in-progress".

In the first half-year 2005, Starman succeeded in maintaining a high capitalisation, a relatively low debt level and a sufficient liquidity. The balance sheet as of 30 June 2005, shows that several current asset and current liability entries have significantly increased, compared to 2004, as a result of larger-than-average investments made at the end of the 2nd quarter. The majority of the increase in inventories is thus made up of telephone modems not yet delivered to the customers, while standard receivables from customers have actually decreased by 0.04 million euros (the increase in item "Accounts receivable" was, above all, conditioned by receivables related to sales and leaseback transactions) and accounts payable and accrued expenses largely hinge on the fact that equipment suppliers have granted Starman longer-than-average payment terms for major projects. The increase in taxes payable is, primarily related to the one-off fringe benefits specified above.

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INCOME STATEMENT

(in thousands of euros)

	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004	Note
Revenue	5 794	4 220	3 005	2 232	2
Other income	61	51	30	28	3
Goods, raw materials and services	-1 855	-1 387	-974	-746	3
Other operating expenses	-1 013	-743	-536	-395	3
Personnel expenses	-937	-666	-527	-356	3
Depreciation, amortisation and impairments	-1 021	-840	-524	-445	
Other expenses	-158	-13	-154	-7	3
Operating profit	**872**	**622**	**321**	**309**	
Net financial items	-169	-85	-96	-52	4
Profit before income tax	**703**	**536**	**225**	**258**	
Net profit for the financial year	**703**	**536**	**225**	**258**	
Basic EPS (in *EUR*)	0.05	0.04	0.02	0.02	9
Diluted EPS (in *EUR*)	0.05	0.04	0.02	0.02	9

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BALANCE SHEET

(in thousands of euros)

	30.06.2005	31.12.2004	Note
ASSETS			
Current assets			
Cash and bank accounts	485	595	
Trading securities	209	205	
Accounts receivable	632	516	
Other short-term receivables	80	106	
Inventories	740	575	
Total current assets	**2 146**	**1 998**	
Non-current assets			
Other financial assets	18	20	
Property, plant and equipment	16 202	14 924	
Intangible assets	28	20	
Total non-current assets	**16 248**	**14 964**	
TOTAL ASSETS	**18 395**	**16 962**	
LIABILITIES AND OWNER'S EQUITY			
Liabilities			
Current liabilities			
Borrowings	406	694	5
Prepayments	304	249	
Accounts payable	1 276	651	
Other short-term payables	0	415	6
Taxes payable	350	204	
Accrued expenses	522	347	
Total current liabilities	**2 857**	**2 561**	
Non-current liabilities			
Long-term borrowings	6 103	5 670	5
Total non-current liabilities	**6 103**	**5 670**	
Total liabilities	**8 960**	**8 230**	
Owner's equity			
Share capital	8 343	2 781	
Share premium	0	4 375	
Reserves	94	46	
Retained earnings/loss	295	575	
Profit for the financial year	703	954	
Total owner's equity	**9 434**	**8 731**	7
TOTAL LIABILITIES AND OWNER'S EQUITY	**18 395**	**16 962**	

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STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	Share capital	Share premium	Mandatory reserve	Retained earnings	**Total owner's equity**
31.12.2003	**2 781**	**4 375**	**1**	**787**	**7 944**
Announcement of dividends	0	0	0	-167	-167
Transfers to mandatory reserve	0	0	45	-45	0
Profit for the financial year	0	0	0	585	585
30.06.2004	**2 781**	**4 375**	**46**	**1 161**	**8 363**
31.12.2004	**2 781**	**4 375**	**46**	**1 529**	**8 731**
Bonus issue	5 562	-4 375	0	-1 187	0
Transfers to mandatory reserve	0	0	48	-48	0
Profit for the financial year	0	0	0	703	703
30.06.2005	**8 343**	**0**	**94**	**998**	**9 434**

Additional information on transfers to owner's equity has been disclosed in Note 7.

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CASH FLOW STATEMENT

(in thousands of euros)

	1st half-year 2005	1st half-year 2004
Cash flow from operating activities		
Net profit	703	536
Total adjustments of net profit, incl.:	1 181	942
Depreciation, amortisation and impairments	*1 021*	*840*
Proceeds (loss) from disposals and write-off of non-current assets	*-3*	*-1*
Write-down of receivables	*48*	*21*
Interest income	*-7*	*-4*
Interest expenses	*137*	*88*
Profit from change in fair value	*-4*	*-3*
Merger of the companies	*-11*	*0*
Change in receivables and prepayments related to operating activities	-139	-12
Change in inventories	-165	-149
Change in liabilities and prepayments related to operating activities	585	261
Total cash flow from operating activities	**2 165**	**1 578**
Cash flow from investing activities		
Purchase of property, plant and equipment, and intangible assets	-1 912	-945
Proceeds from disposals of property, plant and equipment, and intangible assets	11	1
Investments into subsidiaries	0	-3 717
Purchase of other financial investments	0	-64
Interest received	7	4
Total cash flow from investing activities	**-1 894**	**-4 722**
Cash flow from financing activities		
Loan repayments	-24	-24
Repayment of finance lease principal	-490	-1 082
Interest paid	-138	-88
Proceeds from sales and leaseback transactions	271	4 658
Total cash flow from financing activities	**-382**	**3 464**
TOTAL CASH FLOW	**-111**	**320**
Cash and cash equivalents at the beginning of the period	595	331
Change in cash and cash equivalents	-111	320
Cash and cash equivalents at the end of the period	**485**	**651**

Non-monetary transactions	**1st half-year 2005**	**1st half-year 2004**
Non-current assets acquired under finance lease	389	76
Non-current assets generated upon acquisition/merger of companies (at net book value)	11	4 263
Finance lease liabilities generated upon acquisition/merger of companies	6	12

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NOTES TO THE INTERIM REPORT

Note 1 Accounting principles and basis of estimations used in the preparation of the interim report

This interim report has been prepared in accordance with the requirements for abbreviated interim reports, set forth in the International Accounting Standards (IAS 34: "Interim Financial Reporting"), and in compliance with the International Financial Reporting Standards (IFRS). The accounting principles used upon the preparation of the interim report are the same principles that were used upon the preparation of the Annual Report for the year ended on 31 December 2004.

According to the company's management, the consolidated interim report of AS Starman for the 1st half-year 2005 give a true and fair view of the results of the company's operations. This interim report has not been audited or otherwise reviewed by auditors. This interim report has been prepared in thousands of Estonian kroons.

Note 2 Revenue

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

Fields of activity	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004
Cable television services	3 040	1 954	1 585	1 064
Internet services	2 415	2 008	1 216	1 042
Sales of goods and materials	162	241	91	111
Telephone service	177	17	113	15
Total	**5 794**	**4 220**	**3 005**	**2 232**

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Note 3 Expenses and other revenue

	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004
Other revenue				
Proceeds from disposals of non-current assets	3	1	1	0
Revenue from fines for delay	38	30	19	15
Revenue from revaluation of liabilities	11	6	5	3
Other income	9	15	5	10
Total other revenue	**61**	**51**	**30**	**28**
Goods, raw materials and services				
Purchased services	-1 545	-1 066	-796	-589
Materials	-34	-10	-21	-7
Goods purchased for resale	-148	-218	-90	-102
Maintenance expenses	-96	-47	-50	-26
Other expenses	-33	-46	-18	-23
Total goods, raw materials and services	**-1 855**	**-1 387**	**-974**	**-746**
Other operating expenses				
Consulting and advisory expenses	-227	-133	-164	-68
Marketing expenses	-248	-204	-103	-111
Customer information expenses	-171	-122	-85	-69
Office expenses	-134	-100	-67	-52
Allowance for doubtful receivables	-34	-21	-11	-11
Transportation expenses	-79	-65	-41	-36
Other expenses	-119	-97	-64	-48
Total other operating expenses	**-1 012**	**-743**	**-536**	**-395**
Personnel expenses				
Wages and salaries	-700	-496	-394	-265
Social tax	-237	-171	-133	-91
Total personnel expenses	**-937**	**-667**	**-527**	**-356**
Other expenses				
Fringe benefit tax on options	-115	0	-115	0
Expenses from revaluation of liabilities	-28	0	-28	0
Other expenses	-15	-13	-10	-7
Total other expenses	**-158**	**-13**	**-154**	**-7**

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Note 4 Net financial items

	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004
Interest income and expenses	-130	-84	-61	-47
Foreign exchange gains/losses	-38	-1	-31	-3
Other financial income and expenses	-1	0	-3	-2
Total net financial items	**-169**	**-85**	**-96**	**-52**

Note 5 Borrowings

Short-term borrowings	**30.06.2005**	**31.12.2004**
Unsecured debt	3	3
Current portion of long-term finance lease liabilities	379	643
Current portion of long-term bank loans	24	48
Total short-term borrowings	**406**	**694**
Long-term borrowings		
Long-term finance lease liabilities	5 816	5 382
Long-term bank loan	287	287
Total long-term borrowings	**6 103**	**5 670**

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Outstanding loans taken by the company as of 30 June 2005

Creditor	Interest rate	Loan amount	Loan balance	Monthly payment	Repayment due date	End of grace period	Collateral
Hansaliising	8,0%	112	5	2	2 005		Leased assets
Ühisliising	5,7%	358	37	8	2 005		Leased assets
Hansaliising	6,2%	185	34	4	2 006		Leased assets
Ühisliising	5,7%	1 094	248	23	2 006		Leased assets
Nordea Finance	5,2%	18	15	0	2 007		Leased assets
Ühisliising	5,1%	942	415	19	2 007		Leased assets
Nordea Finance	4,8%	18	17	0	2 008		Leased assets
Ühisliising	4,3%	660	511	14	2 008		Leased assets
Nordea Bank Finland Plc	4,2%	415	311	5	2 009		Mortgage + commercial pledge
Ühisliising	4,2%	4 282	3 835	13	2 010	1.12.2006	Leased assets + commercial pledge
Ühisliising	4,2%	3 261	1 076	5	2 011	1.12.2006	Leased assets + commercial pledge
TOTAL		**11 346**	**6 505**	**94**			

Note 6 Other short-term payables

On 27 May 2005, Starman made the second instalment under the contract of purchase and sale of shares concluded with Tele 2 OÜ in May 2004 in the amount of 0.42 million euros (i.e. 10% of the total transaction value), effectively acquiring in the Estonian Central Register of Securities 12% of the shares of AS Levi Kaabel and Tallinna Kaabeltelevisiooni AS, which the seller had retained as security for the instalment.

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Note 7 Owner's equity

The company's share capital amounts to 130,535,700 kroons (8.3 million euros), and is divided into a total of 13,053,570 registered common shares with a nominal value of 10 kroons (0.64 euros). All shares have been paid for in full.
With the share split in 2005, the nominal value of the shares was reduced from the hitherto 100 kroons to 10 kroons. 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 3 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 the realisation of the stock options granted to the Management Board (see Note 8: "Related party transactions"). The resolution of the shareholders' meeting held on 17 May 2005 excludes the shareholders' preferential right to subscribe to shares subjected to the option scheme.

5% from 2004 net profit was transferred into mandatory reserve in 2005, increasing this 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 through its 100 % owned subsidiary Highbury Investments B.V. selling 3,628,892 shares – i.e. 27.8% of the company's share capital. In addition, Highbury Investments B.V. and OÜ Com Holding concluded, on 6 May 2005, a contract of purchase and sale of shares, with OÜ Com Holding acquiring from Highbury Investments B.V. 391,620 shares (i.e. 3% of the company's share capital) during the IPO and at the IPO price.
Starman's shares were opened for trade on the Tallinn Stock Market on June 28. As of 30.06.2005, the following parties held over 1% of the shares in the company:

Highbury Investments B.V	33.4%
OÜ Constock	18.6%
OÜ Com Holding	17.8%
AS Lõhmus Holdings	2.9%
Danske Bank Clients Holdings	2.5%
ING Luxembourg S.A.	2.5%
J.P. Morgan Bank Luxembourg S.A.	2.4%
Pictet & CIE Client Account	2.3%
Hansabank	2.0%

On 2 June 2005, the four previous owners of the company (Highbury, Constock, Com Holding and Lõhmus Holdings) amended the previously concluded shareholders' agreement, obliging the parties involved not to sell the company's shares within 6 months after the IPO. With the expiry of the above term, Highbury Investments B.V. will be able to organise a second public offering to sell their current holding.

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Note 8 Related party transactions

For the purposes of this report, the following are considered related parties:

a. shareholders, and companies related to them;
b. subsidiaries;
c. management board and key management, their relatives and companies related to them.

AS Starman purchased/sold goods and services from/to the following related party/parties in the reporting period:

	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004
Purchases				
Shareholders	15	0	15	0
Companies related to shareholders	72	132	36	96

Balances with related parties:	30.06.2005. a.	31.12.2004. a.
Short-term receivables	23	0
Current liabilities	29	0

According to the management of the company, the prices used for the above transactions do not differ from the market prices.

Wages and salaries (incl. bonuses) of Management Board members and Supervisory Board members in the 1st half of 2005 were 105 thousand euros and 20 thousand euros respectively.

On 2 June 2005, the Supervisory Board approved the Management Board bonus payment system, providing members with options with which they could, on certain conditions, acquire a total of 600,000 shares in the company. The options have been divided into three series in accordance with the term of realisation: the A series grant the right to acquire 200,040 shares from 1 July 2006 to 30 June 2008; the B series grant the right to acquire 199,980 shares from 1 July 2007 to 30 June 2009, and the C series the right to acquire 199,980 shares from 1 July 2008 to 30 June 2010. In case of the A series, the option realisation price is average trade price of the 3rd to the 8th week after first trading day of shares at stock exchange + 15%; the respective indicator for the B series is the average trade price for the 1st quarter of 2006 + 15%, and that for the C series the average trade price for the 1st quarter of 2007 + 15% (the paid dividends are to be deducted from the realisation price of options of any of the above series). Several other conditions must be met for the options to be realised – specific criteria has been established for the company's financial results and market capitalisation as well as the member's employment relation with Starman. According to an expert opinion, the market value of the issued options amounted to 155 thousand euros at the moment of their issue. Since 1.3 thousand euros were actually paid for the options, the fringe benefits amounted to a total of 153.7 thousand euros, on which 115.4 thousand euros was calculated and paid for as fringe benefit tax.

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Note 9 Earnings per share

	1st half-year 2005	1st half-year 2004	2nd quarter 2005	2nd quarter 2004
Net profit (thousands of EUR)	703	536	225	258
Weighed average number of shares (thousands of units)	13 054	13 054	13 054	13 054
Basic EPS	**0,05**	**0,04**	**0,02**	**0,02**
Diluted EPS	**0,05**	**0,04**	**0,02**	**0,02**

Net EPS (earnings per share) is calculated by dividing the net profit for the reporting period with the weighed average number of shares in the respective period. The number of shares in previous periods has been restated, by considering the split and fund issue conducted in May 2005.
The company has contingently issuable shares, represented by the options granted to Management Board members (see Note 7 "Owner's equity" and Note 8 "Related party transactions"). Since the conditions established for the realisation of the options had not been met as of the balance sheet date, these instruments had no dilutive effect. Therefore, diluted EPS equals to standard EPS.

Note 10 Pending disputes and court cases

On 28 June 2005, the Arbitration Court of the Estonian Chamber of Commerce passed a verdict in Starman's action against Tele2 OÜ and Tele2 Eesti AS. The action was filed for 121 thousand euros and concerned the subsidiaries' accounts payable, which, according to Starman, should have been paid by the previous owner. Starman's Management Board had evaluated the risks involved, and established a provision in the amount of 10% of the contested amount (i.e. 12 thousand euros). The evaluation came 16 thousand euros short – this amount has been recorded as expenses from 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 under the company's results for the 1st half-year 2005.

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SIGNATURES OF THE MANAGEMENT BOARD TO THE CONSOLIDATED INTERIM REPORT FOR THE 1ST HALF-YEAR 2005

Peeter Kern
Chairman of the Management Board

Rändy Hütsi
Member of the Management Board

Henri Treude
Member of the Management Board

Member of the Management Board