

## AS STARMAN

### CONSOLIDATED INTERIM REPORT FOR 9 MONTHS OF THE YEAR 2005

Beginning of financial year:	1 January 2005
End of financial year:	31 December 2005
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Main activities:	Cable television and data communication services



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***EXPLANATORY MEMORANDUM TO THE CONSOLIDATED  
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**General information**

The first 9 months of the year 2005 were successful for the Company. Starman's total revenue for 3 quarters amounted to 139.4 million kroons – a 29% increase, compared to the same period last year. EBITDA for the first 9 months amounted to 46.9 million kroons – a 40% increase compared to the last year, and its net profit amounted to 18.1 million kroons, which is almost twice the result of the same period in 2004.

The results of the first 3 quarters include 4.2 million kroons worth of one-off expenses. Those non-recurrent expenses did not have an effect on the profit for the third quarter which was closed at the net profit of 7.1 million kroons.

Starman started to offer digital television services in September. In addition to the effect of strengthening its private consumer oriented product portfolio, the new services should increase the cable television's average revenue per unit (ARPU) in the long run.

**Financial ratios**

A selection of ratios for evaluating the economic activities in the first 9 months of the year 2005:

	2003	2004	2005 9 months
Sales increase	35%	44%	29%
EBITDA margin	38%	32%	34%
Gross margin	16%	12%	16%
Net margin	13%	10%	13%
Revenue/average assets	0.62	0.68	0.66
Equity ratio	70%	51%	53%
Debt to equity	0.34	0.73	0.69
Debt/EBITDA	1.05	2.08	1.71
Investments/EBITDA	0.78	2.15	1.17
Current ratio	0.66	0.78	0.89
Invoice turnover rate (annual)	23.5	18.5	22.6

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

Net margin = net profit/total revenue

Revenue/average assets – for comparison purposes, the revenue for the first 9 months of the year 2005 have been multiplied by 4/3

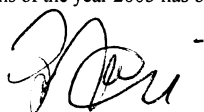
Equity ratio = equity/total assets

Debt = borrowings + long-term borrowings

Debt/EBITDA – for comparison purposes, EBITDA for the first 9 months of the year 2005 has been multiplied by 4/3

Current ratio = current assets/current liabilities

Invoice turnover rate = revenue for the period/accounts receivable at the end of the period; for comparison purposes, revenue for the first 9 months of the year 2005 has been multiplied by 4/3



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**Group structure**

Starman Group incorporates AS Starman, the parent company, and AS Levi Kaabel, Tallinna Kaabelitelevisiooni AS and AS Telset Telecommunications Group, the fully owned subsidiaries. These companies were incorporated into the Starman Group in June 2004. The primary assets of the subsidiaries were sold to the parent company immediately after the acquisition of the subsidiaries. In effect, those companies have had no economic activities since December 2004. Moreover, the subsidiaries have had no extra-group turnover since December 2004.

On 31-th May 2005, Starman acquired full ownership of AS Telset Telecommunications Group from AS Levi Kaabel. On the same day, Starman and its subsidiaries signed a merger agreement on the merger of Starman and all of its subsidiaries. The merger process is scheduled to be completed at the beginning of 2006.

**Revenue and expenses**

Traditionally, cable television and Internet services contributed the majority of Starman's total revenue for the first 9 months, accounting for 52% and 40% of total revenue, respectively. Revenue from cable television services increased by 38%, compared to the same period in 2004. Organic growth of 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. At the end of September 2005, the Company had a total of 128 thousand cable television customers, 0.4% of which were digital television users.

Revenue from Internet services increased by 17%, compared to the first 9 months of the year 2004. As of the end of September 2005, the Company had 27 thousand Internet customers. Over the first 9 months of the year, Starman succeeded in maintaining its ARPU, despite the fact that the competitive pressure on the margins continued in that period.

Backed by a rapid expansion in customer numbers, telephone services showed a notable increase in sales month after month. By the end of September 2005, the Company had a total of 10.6 thousand telephone customers. While telephone services contributed 4% of the total revenue for the first 9 months of the year 2005, a substantial increase can be expected here in the near future.

Starman's operating expenses amounted to 92.6 million kroons in the first 9 months of the year 2005, having grown by 24% compared to the same period in 2004. The operating expenses include one-off charges in the amount of 4.2 million kroons, the most significant of which are the fringe benefit tax assessed on options issued to members of the Management Board and costs relating to the Initial Public Offering of shares (IPO).

If we disregard those one-off expenses, it can be concluded that personnel expenses, costs of network maintenance-related services and materials – mainly relating to the upgrading of the outdated cable network acquired as a part of the TELE 2 transaction – as well as programs costs increased at a growing rate in the first 9 months of the year 2005, compared to the same period in 2004. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue.

Personnel expenses increased by 40% compared to last year. The average number of employees was 180 during the first 9 months of the year 2005. As of 30 September 2005, the Company employed 198 people – a 21% increase (34 persons) when compared to the end of 2004. Employee numbers rose due to the increased focus on improving customer service.

As regards expenses related to asset valuation, the provision for bad debts amounted to just 822 thousand kroons, i.e., 0.6% of the turnover for the period. Loss of inventories and discounts totalled 1047 thousand kroons in the first 9 months of the year 2005.



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EBITDA for the first 9 months of 2005 amounted to 46.9 million kroons. Upon elimination of one-off expenses, the EBITDA margin would amount to 37%.

Depreciation costs increased by 19% compared to the first 9 months of the year 2004. 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 a half of the estimated total foreign exchange loss.

The net profit for the first 9 months of 2005 amounted to 18.1 million kroons. Upon elimination of one-off expenses, the margin would amount to 16% instead of the "official" margin of 13%.

**Balance sheet, investments, financing**

In the first 9 months of the year 2005, Starman's investments in fixed assets amounted to 54.8 million kroons, of which 17.8 million kroons were invested in the third quarter. The Company made the following investments: cable network renovation and construction – 18.3 million kroons; telephone modems – 10.1 million kroons; DIGI TV Head-End – 6.7 million kroons; Internet equipment – 6.3 million kroons (incl. Head-Ends – 4.3 million kroons); analogue cable television Head-Ends and equipment – 4.3 million kroons (incl. cable television Head-Ends – 3.6 million kroons); telephone Head-End – 4.2 million kroons; STBs for digital TV – 1.4 million kroons; other investments – 3.5 million kroons.

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. Said equipment was ready for provision of services in the third quarter. Interconnection enables Starman to end using the services of intermediaries, which represents a change that will have a positive effect on profit margins.

Upgrading of 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 serviced by a network with data communication capabilities, the respective numbers as of 30 September 2005 were 246 thousand and 192 thousand (the data communication capability increased to 78%). Investments in telephone modems and STBs were directly related to the growth in customer numbers. The majority of investments in Internet and cable television equipment scheduled for the year 2005, which enhance quality and support the growth in customer numbers, were made in the first 9 months of the year.

In the first 9 months of the year 2005, Starman succeeded in maintaining a high capitalisation, a relatively low debt level and a sufficient liquidity. When assessing the balance sheet prepared as of 30 September 2005, it should be kept in mind that the levels of inventories and accounts payable are somewhat higher than average due to preparations for the sales period of autumn and winter.



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**INCOME STATEMENT**

(in thousands of kroons)

	2005 9 months	2004 9 months	2005 3 <sup>rd</sup> quarter	2004 3 <sup>rd</sup> quarter	Notes
Sales revenue	137,826	106,808	47,164	40,780	2
Other operating revenue	1646	1379	697	575	3
Goods, raw materials and services	-44,497	-36,695	-15,467	-14,994	3
Other operating expenses	-23,240	-21,602	-7398	-9976	3
Personnel expenses	-22,316	-15,945	-7663	-5517	3
Depreciation, amortisation and impairments	-25,005	-20,978	-9035	-7834	
Other expenses	-2550	-371	-73	-164	3
<b>Operating profit</b>	<b>21,864</b>	<b>12,597</b>	<b>8225</b>	<b>2871</b>	
Net financial items	-3799	-2359	-1159	-1023	4
<b>Profit before income tax</b>	<b>18,064</b>	<b>9321</b>	<b>7066</b>	<b>931</b>	
Income tax	0	-917	0	-917	
<b>Net profit for the financial year</b>	<b>18,064</b>	<b>9321</b>	<b>7066</b>	<b>931</b>	
Basic EPS (in <i>EEK</i> )	1.38	0.71	0.54	0.07	9
Diluted EPS (in <i>EEK</i> )	1.38	0.71	0.54	0.07	9



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**BALANCE SHEET**

(in thousands of kroons)

	30.09.2005	31.12.2004	Notes
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank accounts	7944	9315	
Trading securities	0	3214	
Accounts receivable	8124	8072	
Other short-term receivables	2377	1661	
Inventories	13,945	8993	
<b>Total current assets</b>	<b>32,390</b>	<b>31,255</b>	
<b>Non-current assets</b>			
Other financial assets	288	313	
Property, plant and equipment	261,200	233,503	
Intangible assets	440	320	
<b>Total non-current assets</b>	<b>261,928</b>	<b>234,136</b>	
<b>TOTAL ASSETS</b>	<b>294,318</b>	<b>265,391</b>	
<b>LIABILITIES AND OWNER'S EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	3715	10,865	5
Prepayments	4772	3892	
Accounts payable	17,869	10,193	
Other short-term payables	0	6500	6
Taxes payable	3739	3187	
Accrued expenses	6341	5431	
<b>Total current liabilities</b>	<b>36,436</b>	<b>40,068</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	103,206	88,709	5
<b>Total non-current liabilities</b>	<b>103,206</b>	<b>88,709</b>	
<b>Total liabilities</b>	<b>139,641</b>	<b>128,777</b>	
<b>Owner's equity</b>			
Share capital	130,536	43,512	
Share premium	0	68,455	
Reserves	1465	719	
Retained earnings/loss	4613	9001	
Profit for the financial year	18,064	14,927	
<b>Total owner's equity</b>	<b>154,677</b>	<b>136,614</b>	7
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>294,318</b>	<b>265,391</b>	



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## STATEMENT OF CHANGES IN EQUITY

(in thousands of kroons)

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owner's equity
<b>31.12.2003</b>	<b>43,512</b>	<b>68,455</b>	<b>19</b>	<b>12,311</b>	<b>124,297</b>
Announcement of dividends	0	0	0	-2610	-2610
Transfers to mandatory reserve	0	0	700	-700	0
Profit for the financial year	0	0	0	9321	9321
<b>30.09.2004</b>	<b>43,512</b>	<b>68,455</b>	<b>719</b>	<b>18,322</b>	<b>131,008</b>
<b>31.12.2004</b>	<b>43,512</b>	<b>68,455</b>	<b>719</b>	<b>23,928</b>	<b>136,614</b>
Bonus issue	87,024	-68,455	0	-18,569	0
Transfers to mandatory reserve	0	0	746	-746	0
Profit for the financial year	0	0	0	18,064	18,064
<b>30.09.2005</b>	<b>130,536</b>	<b>0</b>	<b>1465</b>	<b>22,677</b>	<b>154,677</b>

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



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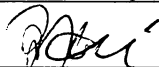


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**CASH FLOW STATEMENT**

(in thousands of kroons)

	9 months 2005	9 months 2004
<b>Cash flow from operating activities</b>		
Net profit	18,064	9 321
Total adjustments of net profit, incl.:	28,266	23,735
<i>Depreciation, amortisation and impairments</i>	25,005	20,978
<i>Proceeds (loss) from disposals and write-off of non-current assets</i>	-235	-71
<i>Write-down of receivables</i>	597	512
<i>Interest income</i>	-141	-83
<i>Interest expenses</i>	3274	2499
<i>Profit from change in fair value</i>	-61	-100
<i>Merger of companies</i>	-173	0
Change in receivables and prepayments related to operating activities	-1368	-230
Change in inventories	-4952	-3355
Change in liabilities and prepayments related to operating activities	3527	6780
<b>Total cash flow from operating activities</b>	<b>43,538</b>	<b>36,251</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment, and intangible assets	-46,594	-19,805
Proceeds from disposals of property, plant and equipment, and intangible assets	854	25
Investments in subsidiaries	0	-58,159
Purchase of other financial investments	0	-1000
Disposals of other financial investments	3275	0
Interest received	143	83
<b>Total cash flow from investing activities</b>	<b>-42,322</b>	<b>-78,856</b>
<b>Cash flow from financing activities</b>		
Loan repayments	-563	-563
Repayment of finance lease principal	-13,059	-21,725
Interest paid	-3283	-2499
Proceeds from sales and leaseback transactions	14,319	73,863
Dividends paid	0	-2610
Income tax on dividends paid	0	-917
<b>Total cash flow from financing activities</b>	<b>-2586</b>	<b>45,549</b>
<b>TOTAL CASH FLOW</b>	<b>-1370</b>	<b>2944</b>
Cash and cash equivalents at the beginning of the period	9315	5173
Change in cash and cash equivalents	-1370	2944
<b>Cash and cash equivalents at the end of the period</b>	<b>7944</b>	<b>8116</b>
<b>Non-monetary transactions</b>	<b>9 months 2005</b>	<b>9 months 2004</b>
Non-current assets acquired under finance lease	6650	6713
Non-current assets generated upon acquisition/merger of companies (at net book value)	173	66,696
Finance lease liabilities generated upon acquisition/merger of companies	98	193

  
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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 in the preparation of the interim report are the same principles that were used in 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 first 9 months of the 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 Sales revenue

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

Fields of activity	9 months 2005	9 months 2004	3 <sup>rd</sup> quarter 2005	3 <sup>rd</sup> quarter 2004
Cable television services	72,327	52,547	24,755	21,977
Internet services	56,452	48,391	18,666	16,966
Sales of goods and materials	3356	5193	820	1423
Telephone service	5691	677	2923	414
<b>Total</b>	<b>137,826</b>	<b>106,808</b>	<b>47,164</b>	<b>40,780</b>

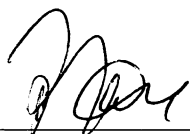


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**Note 3 Expenses, and other operating revenue**

	9 months 2005	9 months 2004	3 <sup>rd</sup> quarter 2005	3 <sup>rd</sup> quarter 2004
<b><i>Other operating revenue</i></b>				
Proceeds from disposals of non-current assets	235	71	185	61
Revenue from fines for delay	913	740	325	278
Revenue from revaluation of liabilities	291	145	122	48
Other income	208	423	65	187
<b>Total other operating revenue</b>	<b>1646</b>	<b>1379</b>	<b>697</b>	<b>575</b>
<b><i>Goods, raw materials and services</i></b>				
Purchased services	-37,292	-28,524	-13,125	-11,851
Materials	-780	-374	-249	-217
Goods purchased for resale	-2931	-4925	-622	-1511
Maintenance expenses	-2447	-1735	-939	-1005
Other expenses	-1047	-1138	-533	-411
<b>Total goods, raw materials and services</b>	<b>-44,497</b>	<b>-36,695</b>	<b>-15,467</b>	<b>-14,994</b>
<b><i>Other operating expenses</i></b>				
Consulting and advisory expenses	-4361	-6252	-804	-4169
Marketing expenses	-6027	-5028	-2155	-1839
Customer information expenses	-4034	-3138	-1351	-1222
Office expenses	-3151	-2524	-1056	-957
Allowance for doubtful receivables	-822	-504	-287	-178
Transportation expenses	-1941	-1631	-699	-612
Other expenses	-2905	-2525	-1048	-1000
<b>Total other operating expenses</b>	<b>-23,240</b>	<b>-21,602</b>	<b>-7398</b>	<b>-9976</b>
<b><i>Personnel expenses</i></b>				
Wages and salaries	-16,666	-11,849	-5715	-4095
Social tax	-5650	-4096	-1948	-1422
<b>Total personnel expenses</b>	<b>-22,316</b>	<b>-15,945</b>	<b>-7663</b>	<b>-5517</b>
<b><i>Other expenses</i></b>				
Fringe benefit tax on options	-1804	0	0	0
Expenses from revaluation of liabilities	-442	0	0	0
Other expenses	-303	-371	-73	-164
<b>Total other expenses</b>	<b>-2550</b>	<b>-371</b>	<b>-73</b>	<b>-164</b>



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**Note 4 Net financial items**

	9 months 2005	9 months 2004	3 <sup>rd</sup> quarter 2005	3 <sup>rd</sup> quarter 2004
Interest income and expenses	-3134	-2401	-1095	-1080
Foreign exchange gains/losses	-630	24	-44	32
Other financial income and expenses	-35	18	-20	25
<b>Total net financial items</b>	<b>-3799</b>	<b>-2359</b>	<b>-1159</b>	<b>-1023</b>

**Note 5 Borrowings**

<b>Short-term borrowings</b>	<b>30.09.2005</b>	<b>31.12.2004</b>
Unsecured debt	47	47
Current portion of long-term finance lease liabilities	3480	10,067
Current portion of long-term bank loans	188	751
<b>Total short-term borrowings</b>	<b>3715</b>	<b>10,865</b>
<b>Long-term borrowings</b>		
Long-term finance lease liabilities	98,709	84,212
Long-term bank loan	4497	4497
<b>Total long-term borrowings</b>	<b>103,206</b>	<b>88,709</b>



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**Outstanding loans raised by the Company as of 30 September 2005**

<b>Creditor</b>	<b>Interest rate</b>	<b>Loan amount</b>	<b>Loan balance</b>	<b>Monthly payment</b>	<b>Repayment term</b>	<b>End of grace period</b>	<b>Collateral</b>
Ühisliising	5.8%	5605	228	118	2005		Leased assets
Hansaliising	6.3%	2894	379	56	2006		Leased assets
Ühisliising	5.8%	18,768	3335	407	2006		Leased assets
Nordea Finance	5.2%	287	223	7	2007		Leased assets
Ühisliising	5.2%	13,364	5441	287	2007		Leased assets
Nordea Finance	4.8%	833	802	19	2008		Leased assets
Ühisliising	4.4%	20,136	14,900	533	2008		Leased assets
Nordea Bank Finland Plc	4.3%	6500	4724	81	2009		Mortgage + commercial pledge
Ühisliising	4.3%	67,000	60,000	210	2010	1.12.2006	Leased assets + commercial pledge
Ühisliising	4.3%	51,031	16,842	82	2011	1.12.2006	Leased assets + commercial pledge
<b>TOTAL</b>		<b>186,417</b>	<b>106,874</b>	<b>1800</b>			

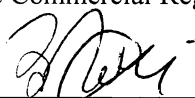
**Note 6 Other short-term payables**

On 27 May 2005, Starman paid the second instalment under the contract of purchase and sale of shares signed with Tele 2 OÜ in May 2004 in the amount of 6.5 million kroons (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 Kaabelitelevisiooni AS, which the seller had retained as security for the instalment.

**Note 7 Owner's equity**

The Company's share capital amounts to 130,535,700 kroons, and is divided into a total of 13,053,570 registered common shares with a nominal value of 10 kroons. All shares have been fully paid for.

By means of a share split in 2005, the nominal value of the shares was reduced from the hitherto 100 kroons to 10 kroons. Along with the split, the Company's share capital was increased via a bonus issue at the expense of share premium (68,455 thousand kroons) and retained earnings (18,569 thousand kroons), 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 was increased 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 registered in the Commercial Register on 26 May 2005.



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Pursuant to the Articles of Association, the Company's Supervisory Board has the right to increase the share capital by 6,900,000 kroons (i.e. by 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 for realisation of the stock options granted to the management (see Note 8: "Related party transactions"). The resolution of the shareholders' meeting held on 17 May 2005 excludes the shareholders' preferential right to subscribe for shares subjected to the option scheme.

5% of the net profit for the year 2004 was transferred into the mandatory reserve in 2005, increasing this reserve to 1465 thousand kroons.

The IPO of the Starman shares was carried out between 13 June 2005 and 17 June 2005, with Royalton Capital Investors, the Company's majority shareholder, selling 3,628,892 shares i.e. 27.8% of the Company's share capital through Highbury Investments B.V., its 100 % owned subsidiary. In addition, Royalton Capital Investors and OÜ Com Holding signed, on 6 May 2005, a contract for 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 30 September 2005, the following shareholders held over 1% of the shares in the Company:

Highbury Investments B.V. /	
Royalton Capital Investors	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%
Nordea Bank Finland PLC Clients	1.8%
Chase Nominees Ltd	1.6%
Hansa Ida-Euroopa Aktsiafond	1.3%
Hansa Balti Kasvufond	1.2%



Member of the Management Board

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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:


	9 months 2005	9 months 2004	3 <sup>rd</sup> quarter 2005	3 <sup>rd</sup> quarter 2004
<b>Purchases</b>				
Shareholders	232	158	0	158
Companies related to shareholders	1688	2813	562	750

<b>Balances with related parties:</b>	<b>30.09.2005</b>	<b>31.12.2004</b>
Short-term receivables	0	0
Current liabilities	221	0

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

Wages and salaries (incl. bonuses) paid to Management Board members and Supervisory Board members in the first 9 months of the year 2005 amounted to 2779 thousand kroons and 633 thousand kroons, respectively.

On 2 June 2005, the Supervisory Board approved the Management Board incentive system, 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 realisation price is equal to the average trade price applicable in the 3<sup>rd</sup> to the 8<sup>th</sup> week after the first day of trading in the shares on the stock exchange, plus 15%; for the B series the option realisation price is equal to the average trade price applicable during the 1<sup>st</sup> quarter of 2006, plus 15%, and for the C series the option realisation price amounts to the average trade price for the 1<sup>st</sup> quarter of 2007, plus 15% (dividends paid will be deducted from the realisation 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 2426 thousand kroons at the moment of their issue. Since 20 thousand kroons were actually paid for the options, the fringe benefits amounted to a total of 2406 thousand kroons, on which 1805 thousand kroons were accounted for and paid as the fringe benefit tax.



Member of the Management Board

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**Note 9 Earnings per share**

	<b>9 months 2005</b>	<b>9 months 2004</b>	<b>3<sup>rd</sup> quarter 2005</b>	<b>3<sup>rd</sup> quarter 2004</b>
Net profit (thousands of EEK)	18,064	9321	7066	931
Weighed average number of shares (thousands of units)	13,054	13,054	13,054	13,054
<b>Basic EPS</b>	<b>1.38</b>	<b>0.71</b>	<b>0.54</b>	<b>0.07</b>
<b>Diluted EPS</b>	<b>1.38</b>	<b>0.71</b>	<b>0.54</b>	<b>0.07</b>

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, considering the share split and the bonus issue effected in May 2005.

The Company has contingent obligations relating to issue of shares on account of 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 diluting effect. Therefore, diluted EPS equals to basic EPS.

**Note 10 Pending disputes and legal actions**

On 28 June 2005, the Arbitration Court of the Estonian Chamber of Commerce and Industry delivered its award in Starman's action against Tele2 OÜ and Tele2 Eesti AS. The action was filed for 1886 thousand kroons and concerned the subsidiaries' overdue accounts payable, which, according to Starman, should have been paid by the previous owner. Starman's Management Board had evaluated the risks involved, and formed a provision in the amount of 10% of the amount at issue (i.e. 189 thousand kroons). The evaluation came 248 thousand kroons short – this amount has been recorded under expenses from revaluation of liabilities in the Income Statement. In addition, Starman was obliged to bear the legal expenses in the amount of 178 thousand kroons. The case has thus been settled, with 426 thousand kroons recorded as one-off expenses charged against the Company's results for the year 2005.




Member of the Management Board



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**SIGNATURES OF THE MANAGEMENT BOARD TO THE  
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\_\_\_\_\_  
*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