



**AS STARMAN**

**CONSOLIDATED INTERIM REPORT  
FOR 2005**

Beginning of financial year: 1 January 2005  
End of financial year: 31 Decemebr 2005

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Main activities: Cable television and data communication services

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## EXPLANATORY MEMORANDUM TO THE CONSOLIDATED INTERIM REPORT OF AS STARMAN FOR 2005

### General information

The year 2005 was successful for Starman. The Company maintained its solid position in cable television and Internet services. The sales of telephone services launched in February yielded rapid positive results. The positive impact of the provision of digital television services launched in September 2005 should be revealed in the longer term.

Starman's total revenue for 2005 amounted to 190.3 million kroons – a 26% increase, compared to the last year. EBITDA for the year 2005 amounted to 62.8 million kroons and net profit 22.8 million kroons – respectively 31% and 53% increase, compared to the last year. The annual results were as anticipated. An assessment of the figures should take into account that the results include one-off expenses in the amount of 4.5 million kroons.

Substantial sales activities and the related costs had an impact on the results for the fourth quarter, resulting, also, in an extended customer base that creates better opportunities for a future increase of the revenue base. Personnel expenses were greater than average in the fourth quarter due to seasonal reasons. Considering the foregoing, the net profit for the fourth quarter amounted to 4.8 million kroons.

### Financial ratios

A selection of ratios for evaluating the economic activities in the year 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	0.78	0.60
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

## Group structure

Starman Group incorporates AS Starman, the parent company, and AS Levi Kaabel, Tallinna Kaabelitelevisiooni AS and AS Telsel 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 May 2005, Starman acquired full ownership of AS Telsel 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 (incl. the deletion of the subsidiaries from the Commercial Register) will 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 year 2005, accounting for 52% and 40% of total revenue, respectively.

Revenue from cable television services increased by 38%, compared to the year 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 December 2005, the Company had a total of 130 thousand cable television customers, 1.2% of which were digital television users.

Revenue from Internet services increased by 15%. As of the end of December 2005, the Company had 31 thousand Internet customers. In the fourth quarter the ARPU of Internet services declined, with the competitive pressure on the margins having been continuing throughout the year.

Backed by a 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. While telephone services contributed 6% of the total revenue for the year 2005, a substantial increase can be expected here in the near future.

Starman's operating expenses amounted to 127.5 million kroons in 2005, having grown by 23% compared to the year 2004. The operating expenses included one-off expenses in the amount of 4.5 million kroons, the most significant of which were 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, marketing 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 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.

Personnel expenses increased by 46% compared to last year. The average number of employees was 187 during the year 2005. 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.

As to expenses related to asset valuation, the provision for bad debts amounted to just 822 thousand kroons, i.e., 0.4% of the turnover for the period. Loss of inventories and discounts totalled 1120 thousand kroons in the year 2005.

EBITDA for the year 2005 amounted to 62.8 million kroons. Upon elimination of one-off expenses, the EBITDA margin would amount to 35%.

Depreciation costs increased by 20% compared to the year 2004.

  
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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.

Unlike in the previous year, the result for the year 2005 was not affected by the payment of dividends and the related income tax.

The net profit for the year 2005 amounted to 22.8 million kroons. Upon elimination of one-off expenses, the margin would amount to 14% instead of the "official" margin of 12%.


### **Balance sheet, investments, financing**

In the year 2005, Starman's investments in fixed assets amounted to 72.9 million kroons, of which 18.1 million kroons were invested in the fourth quarter. The Company made the following investments: cable network renovation and construction – 26.2 million kroons; telephone modems – 16.4 million kroons; internet equipment – 7.3 million kroons (incl. Head-Ends – 5.2 million kroons); DIGI TV Head-End and equipment – 7.1 million kroons (incl. Head-End – 6.8 million kroons); analogue cable television Head-Ends and equipment – 4.9 million kroons (incl. cable television Head-Ends – 4.2 million kroons); telephone Head-End – 4.8 million kroons; STBs – 2.2 million kroons; other investments – 4.0 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 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 with data communication capabilities, the respective numbers as of 31 December 2005 were 247 thousand and 198 thousand (the data communication capability increased to 80%). Investments in telephone modems and STBs were directly related to the growth in customer numbers. Investments in internet and cable television equipment support both quality and the growth in customer numbers. Future investments to telephone Head-End will follow the same logic.

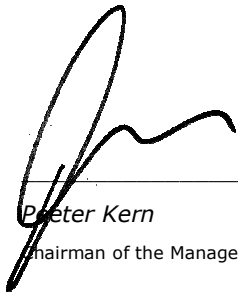
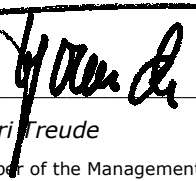

In 2005, Starman succeeded in maintaining high capitalisation, a relatively low debt level and sufficient liquidity.

  
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**DECLARATION OF THE MANAGEMENT BOARD CONCERNING THE  
CONSOLIDATED INTERIM REPORT FOR 2005**

The Management Board hereby declares its responsibility for the preparation of the interim accounts as presented on pages 5 to 16 hereof and assures the following:


1. the accounting principles applied upon preparation of the interim accounts comply with the International Financial Reporting Standards (IFRS);
2. the interim accounts give a fair and true view of the Group's financial status, performance results and cash flow;
3. AS Starman is a going concern.

  
\_\_\_\_\_  
*Peter Kern*  
Chairman of the Management Board  
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*Rändy Hütsi*  
Member of the Management Board  
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*Henri Freude*  
Member of the Management Board  
\_\_\_\_\_  
Member of the Management Board

**INCOME STATEMENT**

(in thousands of kroons)


	2005	2004	2005 4th quarter	2004 4th quarter	Notes
Sales revenue	188,243	149,315	50,418	42,507	2
Other operating revenue	2130	1828	484	448	3
Goods, raw materials and services	-60,536	-51,752	-16,038	-15,057	3
Other operating expenses	-32,48	-29,36	-9239	-7758	3
Personnel expenses	-31,666	-21,725	-9349	-5780	3
Depreciation, amortisation and impairments	-34,94	-29,024	-9935	-8046	
Other expenses	-2858	-445	-308	-74	3
<b>Operating profit</b>	<b>27,895</b>	<b>18,837</b>	<b>6032</b>	<b>6241</b>	
Net financial items	-5072	-2993	-1272	-634	4
<b>Profit before income tax</b>	<b>22,823</b>	<b>15,844</b>	<b>4760</b>	<b>5606</b>	
Income tax	0	-917	0	0	
<b>Net profit for the accounting period</b>	<b>22,823</b>	<b>14,927</b>	<b>4760</b>	<b>5606</b>	
Basic EPS (in EEK)	1.75	1,14	0.36	0.43	9
Diluted EPS (in EEK)	1.75	1,14	0.36	0.43	9

  
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**BALANCE SHEET**

(in thousands of kroons)

	31.12.2005	31.12.2004	Notes
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank accounts	4405	9315	
Trading securities	0	3214	
Accounts receivable	9334	8072	
Other short-term receivables	1366	1661	
Inventories	11,894	8993	
<b>Total current assets</b>	<b>26,999</b>	<b>31,255</b>	
<b>Non-current assets</b>			
Other financial assets	150	313	
Property, plant and equipment	269,280	233,503	
Intangible assets	409	320	
<b>Total non-current assets</b>	<b>269,839</b>	<b>234,136</b>	
<b>TOTAL ASSETS</b>	<b>296,838</b>	<b>265,391</b>	
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	16,751	10,865	5
Prepayments	5197	3892	
Accounts payable	10,362	10,193	
Other short-term payables	11	6500	6
Taxes payable	4249	3187	
Accrued expenses	7001	5431	
<b>Total current liabilities</b>	<b>43,571</b>	<b>40,068</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	93,830	88,709	5
<b>Total non-current liabilities</b>	<b>93,830</b>	<b>88,709</b>	
<b>Total liabilities</b>	<b>137,401</b>	<b>128,777</b>	
<b>Owners' 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	22,823	14,927	
<b>Total owners' equity</b>	<b>159,437</b>	<b>136,614</b>	7
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>296,838</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 owners' 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	14,927	14,927
<b>31.12.2004</b>	<b>43,512</b>	<b>68,455</b>	<b>719</b>	<b>23,928</b>	<b>131,614</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	22,823	22,823
<b>31.12.2005</b>	<b>130,536</b>	<b>0</b>	<b>1465</b>	<b>27,436</b>	<b>159,437</b>

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




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**CASH FLOW STATEMENT**

(in thousands of kroons)

	<b>2005</b>	<b>2004</b>	<b>Notes</b>
<b>Cash flow from operating activities</b>			
Net profit	22,823	14,927	
Total adjustments of net profit, incl.:	38,565	32,362	
<i>Depreciation, amortisation and impairments</i>	34,940	29,024	
<i>Proceeds (loss) from disposals and write-off of non-current assets</i>	-235	-78	
<i>Write-down of receivables</i>	-373	77	
<i>Interest income</i>	-167	-116	
<i>Interest expenses</i>	4462	3614	
<i>Profit from change in fair value</i>	-62	-159	
Change in receivables and prepayments related to operating activities	-593	-152	
Change in inventories	-1190	-2630	
Change in liabilities and prepayments related to operating activities	-2429	5229	
<b>Total cash flow from operating activities</b>	<b>57,175</b>	<b>49,736</b>	
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment, and intangible assets	-65,373	-28,949	
Proceeds from disposals of property, plant and equipment, and intangible assets	842	95	
Investments in subsidiaries	0	-58,159	
Disposal/purchase of other financial investments	3275	-1000	
Interest received	168	114	
<b>Total cash flow from investing activities</b>	<b>-61,088</b>	<b>-87,899</b>	
<b>Cash flow from financing activities</b>			
Loan repayments	-751	-751	5
Repayment of finance lease principal	-18,697	-24,844	5
Interest paid	-4462	-3606	
Proceeds from sales and leaseback transactions	22,913	75,033	
Dividends paid	0	-2610	
Income tax on dividends paid	0	-917	
<b>Total cash flow from financing activities</b>	<b>-997</b>	<b>42,305</b>	
<b>TOTAL CASH FLOW</b>	<b>-4910</b>	<b>4142</b>	

  
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Cash and cash equivalents at the beginning of the period	9315	5173
Change in cash and cash equivalents	-4910	4142
<b>Cash and cash equivalents at the end of the period</b>	<b>4405</b>	<b>9315</b>

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**Non-monetary transactions**

	<b>2005</b>	<b>2004</b>
Non-current assets acquired under finance lease	7589	7274
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

**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) as adopted by the European Union. The accounting principles used in the preparation of the interim report are the same principles that were applied in the preparation of the Annual Report for the year ended on 31 December 2004.

According to the Management Board of the Company, the consolidated interim report of AS Starman for 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:

<b>Fields of activity</b>	<b>2005</b>	<b>2004</b>	<b>2005 4<sup>th</sup> quarter</b>	<b>2004 4<sup>th</sup> quarter</b>
Cable television services	97,168	75,125	24,842	22,578
Internet services	75,370	65,799	18,918	17,408
Sales of goods and materials	4416	7249	1060	2056
Telephone service	11,289	1142	5598	465
<b>Total</b>	<b>188,243</b>	<b>149,315</b>	<b>50,418</b>	<b>42,507</b>

  
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**Note 3 Other operating revenue and expenses**

	2005	2004	2005 4 <sup>th</sup> quarter	2004 4 <sup>th</sup> quarter
<b>Other operating revenue</b>				
Proceeds from disposals of non-current assets	235	78	0	7
Revenue from fines for delay	1218	1050	305	309
Revenue from revaluation of liabilities	382	197	91	52
Other income	296	503	88	80
<b>Total other operating revenue</b>	<b>2130</b>	<b>1828</b>	<b>484</b>	<b>448</b>
<b>Goods, raw materials and services</b>				
Purchased services	-51,497	-39,574	-14,205	-11,050
Materials	-1036	-724	-256	-350
Goods purchased for resale	-3639	-7475	-708	-2550
Maintenance expenses	-3243	-2478	-796	-744
Other expenses	-1120	-1501	-73	-363
<b>Total goods, raw materials and services</b>	<b>-60,536</b>	<b>-51,752</b>	<b>-16,038</b>	<b>-15,057</b>
<b>Other operating expenses</b>				
Consulting and advisory expenses	-5371	-7547	-1010	-1295
Marketing expenses	-9759	-6662	-3730	-1633
Customer information expenses	-5324	-4685	-1291	-1547
Office expenses	-4215	-3707	-1064	-1183
Allowance for doubtful receivables	-824	-771	-3	-267
Transportation expenses	-2716	-2345	-775	-714
Other expenses	-4272	-3643	-1368	-1119
<b>Total other operating expenses</b>	<b>-32,480</b>	<b>-29,360</b>	<b>-9239</b>	<b>-7758</b>
<b>Personnel expenses</b>				
Wages and salaries	-23,633	-16,144	-6967	-4295
Social tax	-8033	-5581	-2383	-1485
<b>Total personnel expenses</b>	<b>-31,666</b>	<b>-21,725</b>	<b>-9349</b>	<b>-5780</b>
<b>Other expenses</b>				
Fringe benefit tax on options	-1805	0	0	0
Expenses from revaluation of liabilities	-443	0	0	0
Other expenses	-610	-445	-308	-74
<b>Total other expenses</b>	<b>-2858</b>	<b>-445</b>	<b>-308</b>	<b>-74</b>

  
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**Note 4 Net financial items**

	<b>2005</b>	<b>2004</b>	<b>2005</b> <b>4<sup>th</sup> quarter</b>	<b>2004</b> <b>4<sup>th</sup> quarter</b>
Interest income and expenses	-4295	-3499	-1162	-1098
Foreign exchange gains/losses	-687	454	-60	430
Other financial income and expenses	-90	52	-50	34
<b>Total net financial items</b>	<b>-5072</b>	<b>-2993</b>	<b>-1272</b>	<b>-634</b>

  
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**Note 5 Borrowings**

<b>Short-term borrowings</b>	<b>31.12.2005</b>	<b>31.12.2004</b>
Unsecured debt	0	47
Current portion of long-term finance lease liabilities	16,000	10,067
Current portion of long-term bank loans	751	751
<b>Total short-term borrowings</b>	<b>16,751</b>	<b>10,865</b>

<b>Long-term borrowings</b>		
Long-term finance lease liabilities	90,084	84,212
Long-term bank loan	3 746	4497
<b>Total long-term borrowings</b>	<b>93,830</b>	<b>88,709</b>

Outstanding loans raised by the Company as of 31 December 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>
Hansaliising	6.6%	2894	217	56	2006		Leased assets
Ühisliising	6.1%	18,768	2237	398	2006		Leased assets
Nordea Finance	5.2%	287	204	7	2007		Leased assets
Ühisliising	5.2%	17,307	7782	449	2007		Leased assets
Nordea Finance	4.8%	833	764	19	2008		Leased assets
Ühisliising	4.6%	24,862	17,348	592	2008		Leased assets
Ühisliising	4.6%	862	690	21	2009		Leased assets
Nordea Bank Finland Plc	4.2%	6500	4497	81	2009		Mortgage + commercial pledge
Ühisliising	4.2%	67,000	60,000	210	2010	1.12.2006	Leased assets + commercial pledge
Ühisliising	4.2%	51,031	16,842	82	2011	1.12.2006	Leased assets + commercial pledge
<b>TOTAL</b>		<b>190,343</b>	<b>110,581</b>	<b>1914</b>			

**Note 6 Other short-term payables**

On 27 May 2005, Starman paid the second installment 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 Kaabeliteleviseiooni AS, which the seller had retained as security for the installment.

**Note 7 Owners' 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.


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 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 Balti Kasvufond	- 4.0%
AS Lõhmus Holdings	- 3.0%
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%

  
Member of the Management Board



**Note 8 Related party transactions**

For the purposes of this report, the following are considered related parties:  
shareholders, and companies related to them;  
subsidiaries;  
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:


	2005	2004	4 <sup>th</sup> quarter 2005	4 <sup>th</sup> quarter 2004
<b>Purchases</b>				
Shareholders	457	180	225	0
Companies related to shareholders	2859	3188	721	563

<b>Balances with related parties:</b>	<b>31.12.2005</b>	<b>31.12.2004</b>
Short-term receivables	0	0
Current liabilities	50	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 2005 were 3923 thousand kroons and 946 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

**Note 9 Earnings per share**

	2005	2004	2005 4 <sup>th</sup> quarter	2004 4 <sup>th</sup> quarter
Net profit (thousands of EEK)	22,823	14,927	4760	5606
Weighed average number of shares (thousands of units)	13,054	13,054	13,054	13,054
<b>Basic EPS</b>	<b>1.75</b>	<b>1.14</b>	<b>0.36</b>	<b>0.43</b>
<b>Diluted EPS</b>	<b>1.75</b>	<b>1.14</b>	<b>0.36</b>	<b>0.43</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 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 "Owners' 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.

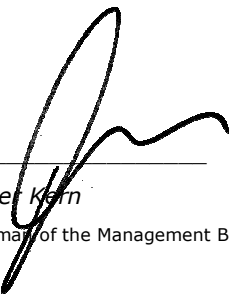
**Note 10 Pending disputes and legal actions**

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 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.

On 30 November 2005, an agreement between OÜ Baccata and AS Starman was endorsed by a ruling of Tallinn City Court, under which AS Starman paid 160 thousand kroons to OÜ Baccata. The dispute concerned remuneration payable under a contract for services. The action of OÜ Baccata against AS Starman for 205 thousand kroons has thus been settled.

  
Member of the Management Board


**SIGNATURES OF THE MANAGEMENT BOARD TO THE CONSOLIDATED INTERIM REPORT FOR THE YEAR 2005**




\_\_\_\_\_  
*Peeter Kern*  
Chairman of the Management Board



\_\_\_\_\_  
*Rando Hütsi*  
Member of the Management Board



\_\_\_\_\_  
*Henri Treud*  
Member of the Management Board



\_\_\_\_\_  
Member of the Management Board