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

TABLE OF CONTENTS

Member of the Management Board

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 12.2 million euros – a 26% increase, compared to the last year. EBITDA for the year 2005 amounted to 4 million euros and net profit 1.46 million euros – 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 0.3 million euros.

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 0.3 million euros.

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

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Group structure

Starman Group incorporates AS Starman, the parent company, and AS Levi Kaabel, Tallinna Kaabeltelevisiooni 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 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 (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 8.15 million euros in 2005, having grown by 23% compared to the year 2004. The operating expenses included one-off expenses in the amount of 0.3 million euros, 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 52.5 thousand euros, i.e., 0.4% of the turnover for the period. Loss of inventories and discounts totaled 71.6 thousand euros in the year 2005.

EBITDA for the year 2005 amounted to 4 million euros. 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 1.46 million euros. 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 4.66 million euros, of which 1.16 million euros were invested in the fourth quarter. The Company made the following investments: cable network renovation and construction – 1.67 million euros; telephone modems – 1.05 million euros; internet equipment – 0.47 million euros (incl. Head-Ends – 0.33 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 – 0.27 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. 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.

Peeter Kern	*Rändy Hütsi*	*Henri Treude*
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

INCOME STATEMENT

(in thousands of euros)

	2005	2004	2005 4th quarter	2004 4th quarter	Notes
Sales revenue	12,031	9543	3222	2717	2
Other operating revenue	136	117	31	29	3
Goods, raw materials and services	-3869	-3308	-1025	-962	3
Other operating expenses	-2076	-1876	-591	-496	3
Personnel expenses	-2024	-1388	-598	-369	3
Depreciation, amortisation and impairments	-2233	-1855	-635	-514	
Other expenses	-183	-28	-20	-5	3
Operating profit	**1783**	**1204**	**386**	**399**	
Net financial items	-324	-191	-81	-41	4
Profit before income tax	**1459**	**1013**	**304**	**358**	
Income tax	0	-59	0	0	
Net profit for the accounting period	**1459**	**954**	**304**	**358**	
Basic EPS (in *EUR*)	0.11	0.07	0.02	0.03	9
Diluted EPS (in *EUR*)	0.11	0.07	0.02	0.03	9

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BALANCE SHEET

(in thousands of euros)

	31.12.2005	31.12.2004	Notes
ASSETS			
Current assets			
Cash and bank accounts	282	595	
Trading securities	0	205	
Accounts receivable	597	516	
Other short-term receivables	87	106	
Inventories	760	575	
Total current assets	**1726**	**1998**	
Non-current assets			
Other financial assets	10	20	
Property, plant and equipment	17,210	14,924	
Intangible assets	26	20	
Total non-current assets	**17,246**	**14,964**	
TOTAL ASSETS	**18,971**	**16,962**	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	1071	694	5
Prepayments	332	249	
Accounts payable	662	651	
Other short-term payables	1	415	6
Taxes payable	272	204	
Accrued expenses	447	347	
Total current liabilities	**2785**	**2561**	
Non-current liabilities			
Long-term borrowings	5997	5670	5
Total non-current liabilities	**5997**	**5670**	
Total liabilities	**8782**	**8230**	
Owners' equity			
Share capital	8343	2781	
Share premium	0	4375	
Reserves	94	46	
Retained earnings/loss	295	575	
Profit for the financial year	1459	954	
Total owners' equity	**10,190**	**8731**	7
TOTAL LIABILITIES AND OWNERS' EQUITY	**18,971**	**16,962**	

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STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owners' 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 financial year	0	0	0	954	954
31.12.2004	**2781**	**4375**	**46**	**1529**	**8412**
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 owners' equity is disclosed in Note 7.

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CASH FLOW STATEMENT

(in thousands of euros)

	2005	2004	Notes
Cash flow from operating activities			
Net profit	1459	954	
Total adjustments of net profit, incl.:	2465	2068	
Depreciation, amortisation and impairments	*2233*	*1855*	
Proceeds (loss) from disposals and write-off of non-current assets	*-15*	*-5*	
Write-down of receivables	*-24*	*5*	
Interest income	*-11*	*-7*	
Interest expenses	*285*	*231*	
Profit from change in fair value	*-4*	*-10*	
Change in receivables and prepayments related to operating activities	-38	-10	
Change in inventories	-76	-168	
Change in liabilities and prepayments related to operating activities	-155	334	
Total cash flow from operating activities	**3654**	**3179**	
Cash flow from investing activities			
Purchase of property, plant and equipment, and intangible assets	-4178	-1850	
Proceeds from disposals of property, plant and equipment, and intangible	54	6	
Investments in subsidiaries	0	-3717	
Disposal/purchase of other financial investments	0	-64	
Interest received	209	0	
Total cash flow from investing activities	11	7	
Cash flow from financing activities	**-3904**	**-5618**	
Loan repayments			5
Repayment of finance lease principal	-48	-48	5
Interest paid	-1195	-1588	
Proceeds from sales and leaseback transactions	-285	-230	
Dividends paid	1464	4795	
Income tax on dividends paid	0	-167	
Total cash flow from financing activities	0	-59	
TOTAL CASH FLOW	**-64**	**2704**	
Cash and cash equivalents at the beginning of the period	9315	5173	
Change in cash and cash equivalents	-4910	4142	
Cash and cash equivalents at the end of the period	**4405**	**9315**	

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Non-monetary transactions

	2005	2004
Non-current assets acquired under finance lease	485	465
Non-current assets generated upon acquisition/merger of companies (at net book value)	11	4263
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) 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 Euros.

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	**2005**	**2004**	**2005 4th quarter**	**2004 4th quarter**
Cable television services	6210	4801	1588	1443
Internet services	4817	4205	1209	1113
Sales of goods and materials	282	463	68	131
Telephone service	722	73	358	30
Total	**12,031**	**9543**	**3222**	**2717**

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Note 3 Other operating revenue and expenses

	2005	2004	2005 4th quarter	2004 4th quarter
Other operating revenue				
Proceeds from disposals of non-current assets	15	5	0	0
Revenue from fines for delay	78	67	19	20
Revenue from revaluation of liabilities	24	13	6	3
Other income	19	32	6	5
Total other operating revenue	**136**	**117**	**31**	**29**
Goods, raw materials and services				
Purchased services	-3291	-2529	-908	-706
Materials	-66	-46	-16	-22
Goods purchased for resale	-233	-478	-45	-163
Maintenance expenses	-207	-158	-51	-48
Other expenses	-72	-96	-5	-23
Total goods, raw materials and services	**-3869**	**-3308**	**-1025**	**-962**
Other operating expenses				
Consulting and advisory expenses	-343	-482	-65	-83
Marketing expenses	-624	-426	-238	-104
Customer information expenses	-340	-299	-82	-99
Office expenses	-269	-237	-68	-76
Allowance for doubtful receivables	-53	-49	0	-17
Transportation expenses	-174	-150	-50	-46
Other expenses	-273	-233	-87	-71
Total other operating expenses	**-2076**	**-1876**	**-590**	**-496**
Personnel expenses				
Wages and salaries	-1510	-1032	-445	-275
Social tax	-513	-357	-152	-95
Total personnel expenses	**-2024**	**-1388**	**-598**	**-369**
Other expenses				
Fringe benefit tax on options	-115	0	0	0
Expenses from revaluation of liabilities	-28	0	0	0
Other expenses	-39	-28	-20	-5
Total other expenses	**-183**	**-28**	**-20**	**-5**

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Note 4 Net financial items

	2005	2004	2005 4th quarter	2004 4th quarter
Interest income and expenses	-275	-224	-74	-70
Foreign exchange gains/losses	-44	29	-4	27
Other financial income and expenses	-6	3	-3	2
Total net financial items	**-324**	**-191**	**-81**	**-41**

Note 5 Borrowings

Short-term borrowings	**31.12.2005**	**31.12.2004**
Unsecured debt	0	3
Current portion of long-term finance lease liabilities	1023	643
Current portion of long-term bank loans	48	48
Total short-term borrowings	**1071**	**694**

Long-term borrowings		
Long-term finance lease liabilities	5757	5382
Long-term bank loan	239	287
Total long-term borrowings	**5997**	**5670**

Outstanding loans raised by the Company as of 31 December 2005

Creditor	Interest rate	Loan amount	Loan balance	Monthly payment	Repayment term	End of grace period	Collateral
Hansaliising	6.6%	185	14	4	2006		Leased assets
Ühisliising	6.1%	1199	143	25	2006		Leased assets
Nordea Finance	5.2%	18	13	0	2007		Leased assets
Ühisliising	5.2%	1106	497	29	2007		Leased assets
Nordea Finance	4.8%	53	49	1	2008		Leased assets
Ühisliising	4.6%	1589	1109	38	2008		Leased assets
Ühisliising	4.6%	55	44	1	2009		Leased assets
Nordea Bank Finland Plc	4.2%	415	287	5	2009		Mortgage + commercial pledge
Ühisliising	4.2%	4282	3835	13	2010	1.12.2006	Leased assets + commercial pledge
Ühisliising	4.2%	3261	1076	5	2011	1.12.2006	Leased assets + commercial pledge
		0	0	0			
TOTAL		**12,165**	**7067**	**122**			

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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 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 installment.

Note 7 Owners' 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 (4375 thousand euros) and retained earnings (1187 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, Royalton Capital Investors and OÜ 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 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%

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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	4th quarter 2005	4th quarter 2004
Purchases				
Shareholders	29	12	14	0
Companies related to shareholders	183	204	46	36

Balances with related parties:	31.12.2005	31.12.2004
Short-term receivables	0	0
Current liabilities	3	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 251 thousand euros and 60 thousand euros, 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 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 realisation price is equal to the average trade price applicable during the 1st quarter of 2006, plus 15%, and for the C series the option realisation price amounts to the average trade price for the 1st 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 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 thousand euros were accounted for and paid as the fringe benefit tax.

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Note 9 Earnings per share

	2005	2004	2005 4th quarter	2004 4th quarter
Net profit (thousands of EUR)	1459	954	304	358
Weighed average number of shares (thousands of units)	834	834	834	834
Basic EPS	**0.11**	**0.07**	**0.02**	**0.03**
Diluted EPS	**0.11**	**0.07**	**0.02**	**0.03**

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 121 thousand euros 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. 12 thousand euros). The evaluation came 16 thousand euros 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 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 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 10 thousand euros to OÜ Baccata. The dispute concerned remuneration payable under a contract for services. The action of OÜ Baccata against AS Starman for 13 thousand euros has thus been settled.

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

Peeter Kern	*Randy Hütsi*	*Henri Treude*
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

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