AS STARMAN

INTERIM REPORT
FOR THE FIRST QUARTER OF 2006

Beginning of financial year: 1 January 2006
End of financial year: 31 December 2006

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Main activities: cable television and data communication services

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Member of the Management Board

EXPLANATORY MEMORANDUM TO AS STARMAN'S INTERIM REPORT FOR THE FIRST QUARTER OF 2006

General information

The successful development of Starman continued in the first quarter of 2006. Telephone services rendered a considerable additional impact on the strong market position in cable-TV and internet. Starman is currently offering the best bundled triple play service on the market and thus clearly enjoying the leader position in the home user sector.

Through successful investments and sales activities in earlier periods the company achieved, in the first quarter of 2006, its best ever financial results.

Starman's total revenue for the first quarter of 2006 amounted to 3.7 million euros – a 31% increase, compared to the same period last year. EBITDA for the first quarter of 2006 amounted to 1.5 million euros and net profit to 0.7 million euros –respectively 45% and 56% increase, compared to the first quarter of the previous year. In evaluating the results, consideration should be given to certain seasonality. Namely, the first quarter sees the realisation of the results of the previous quarter, which is traditionally the best selling period. In addition, the operating expenses of the company are generally somewhat lower in the first quarter.

Financial ratios

A selection of ratios for evaluating the economic activities in the first quarter of 2006:

	2004	**2005**	**2006 Q1**
Sales increase	44%	26%	31%
EBITDA margin	32%	33%	41%
Gross margin	12%	15%	23%
Net margin	10%	12%	20%
Revenue/average assets	0,68	0,67	0,76
Equity ratio	51%	54%	55%
Debt to equity	0,73	0,69	0,64
Debt/EBITDA	2,08	1,76	1,15
Investments/EBITDA	2,15	1,16	0,68
Current ratio	0,82	0,67	0,96
Invoice turnover rate (annual)	18,5	20,2	22,9

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 quarter of 2006 has been multiplied by 4
Equity ratio = equity/total assets
Debt = borrowings + long-term borrowings
Debt/EBITDA - for comparison purposes, EBITDA for the first quarter of 2006 has been multiplied by 4
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 quarter of 2006 has been multiplied by 4

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Group structure

As from March 2006, Starman Group comprises just AS Starman also in formal legal terms. The last of Starman's subsidiaries – AS Levi Kaabel, Tallinna Kaabeltelevisiooni AS and AS Telset Telecommunications Group – with whom the merger agreement was signed in May 2005 have been deleted from the Commercial Register by now.

Revenue and expenses

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for the first quarter of 2006, accounting for 48% and 35% of total revenue, respectively. Increasingly emerging telephone services accounted for as much as 14% of the total revenue for the first quarter.

Revenue from cable television services increased by 22%, compared to the first quarter of 2005. Organic growth of the market has mostly been achieved at the expense of price increase in recent years. In the first quarter of 2006 the prices of Starman's cable television services further approached those of countries with a similar living standard but still remain rather low. In addition to the regular price increase, also structural changes support the ARPU (Average Revenue Per User). As regards structural changes, the triple packages that do not contain smaller programme ranges and the new possibilities such as digital television should be mentioned. At the end of March 2006, the company had a total of 130 thousand cable television customers, 2.2% of which were digital television users.

Revenue from internet services increased by 8%, compared to the first quarter of 2005. At the end of March 2006, the company had 33 thousand internet customers – a 20% increase compared to the same period a year ago. In line with the general impacts of the market, the ARPU continued to show a downward trend. Starman's popular triple packages in which the internet services are cheaper have a growing impact on the internet ARPU. However, the supporting influence of the triple packages on other services and hence also on the average aggregate revenue per user cannot be disregarded.

Telephone services continued to grow quickly with the revenue exceeding that of the previous quarter by 44%. By the end of March 2006, the company had a total of 21 thousand telephone customers.

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

Starman's operating expenses amounted to 2.2 million euros in the first quarter of 2006, having grown by 23% compared to the same period in 2005. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue. When compared to the first quarter of 2005, personnel and marketing expenses increased at the quickest rate. As regards personnel expenses consideration should be given to the circumstance that the relative share of the company's own activities as opposed to outsourcing have been increased in the case of several functions. Thus, the relative share of outsourced services has declined, which is also reflected in a decrease of several expenditure items when compared to the same period in the previous year. The average number of employees was 202 during the first quarter of the year 2006. As of 31 March 2006, the company employed 206 people – a 1% (two persons) decrease when compared to the end of the year 2005.

As to expenses related to asset valuation, the provision for bad debts amounted to just 17.6 thousand euros, i.e. 0.5% of the turnover for the period. Loss of inventories and discounts totalled 35.4 thousand euros in the first quarter of 2006.

EBITDA for the first quarter of 2006 amounted to 1.5 million euros resulting in the excellent EBITDA margin of 41%. Besides seasonal factors also the aggressive growth of telephone services contributed to such a high margin.

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Depreciation costs increased by 34%, compared to the first quarter of 2005. Owing to the extensive investing activities carried out in recent years, the depreciation costs continued to have a considerable impact on profit figures.

The net profit for the first quarter of 2006 amounted to 0.7 million euros. Thus, during the first quarter of 2006 Starman earned slightly more than a half of the aggregate net profit of the previous year.

Balance sheet, investments, financing

In the first quarter of 2006, Starman's investments in fixed assets amounted to 1.0 million euros. Some decline in the volume of investments vis-à-vis previous quarters should be regarded as somewhat temporary. The company made the following investments: 0.5 million euros in cable network renovation and construction, 0.2 million euros in telephone modems, 0.1 million euros in internet equipment (incl. 0.06 million euros in Head-Ends), 0.07 million euros in STBs, 0.06 million euros in analogue cable television Head-Ends, and 0.1 million euros in other spheres.

Upgrading of and enhancement of the data communication capability of the existing network continued to make up the majority of the investments in the cable network. While at the end of 2005 Starman covered 247 thousand households with 198 thousand – i.e. 80% – of the households being serviced by a network with data communication capabilities, the respective numbers as of 31 March 2006 were 247 thousand and 206 thousand (the data communication capability increased to 83%). Investments in telephone modems and STBs are directly related to the growth in customer numbers. Investments in internet and cable television equipment primarily enhanced quality.

Starman succeeded in maintaining a high capitalisation and a relatively low debt level in the first quarter of 2006. As the absolute volume of borrowings did not increase, the relative debt level decreased vis-à-vis the end of the year 2005, considering the remarkable growth in profitability. The higher-than-average liquidity indicators ensued from excellent profitability and slightly smaller investments. However, owing to the dividend payments to be made soon and the investment plans of the company, liquidity should reach a level which is more typical of the recent years in the near future. The relatively high level of inventories can be linked to investments to be made in the future periods.

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DECLARATION OF THE MANAGEMENT BOARD CONCERNING THE INTERIM REPORT FOR THE FIRST QUARTER OF 2006

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) as adopted by the European Union;
2. the interim accounts give a true and fair view of the financial position of the company, as well as the results of its operations and cash flows;
3. AS Starman is able to continue as a going concern.

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

INCOME STATEMENT

(in thousands of euros)

	2006 Q1	2005 Q1	Notes
Revenue	3654	2789	2
Other income	36	30	3
Goods, raw materials and services	-1122	-882	3
Other operating expenses	-481	-477	3
Personnel expenses	-553	-409	3
Depreciation, amortisation and impairments	-665	-496	
Other expenses	-16	-4	3
Operating profit	**853**	**551**	
Net financial items	-106	-73	4
Profit before income tax	**747**	**478**	
Net profit	**747**	**478**	
Basic EPS (in *EUR*)	0.06	0.04	11
Diluted EPS (in *EUR*)	0.06	0.04	11

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BALANCE SHEET

(in thousands of euros)

	31.03.2006	31.12.2005	Notes
ASSETS			
Current assets			
Cash	834	282	
Receivables	661	619	5
Prepayments	65	65	
Inventories	872	760	
Total current assets	**2433**	**1726**	
Non-current assets			
Other financial assets	10	10	
Property, plant and equipment	17,398	17,210	
Intangible assets	28	26	
Total non-current assets	**17,436**	**17,246**	
TOTAL ASSETS	**19,868**	**18,971**	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	856	1071	6
Payables	1532	1382	7
Prepayments	151	129	
Total current liabilities	**2539**	**2582**	
Non-current liabilities			
Long-term borrowings	6147	5997	6
Other long-term liabilities	246	203	8
Total non-current liabilities	**6393**	**6200**	
Total liabilities	**8932**	**8782**	
Owners' equity			
Share capital	8343	8343	
Mandatory reserve	94	94	
Retained earnings	2500	1753	
Total owners' equity	**10,937**	**10,190**	9
TOTAL LIABILITIES AND OWNERS' EQUITY	**19,868**	**18,971**	

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STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owners' equity
31.12.2004	**2781**	**4375**	**46**	**1529**	**8731**
Bonus issue	5562	-4375		-1187	
Transfers to mandatory reserve			48	-48	
Profit for the financial year				1459	1459
31.12.2005	**8343**	**0**	**94**	**1753**	**10,190**
Profit for the accounting period				747	747
31.03.2006	**8343**	**0**	**94**	**2500**	**10,937**

For additional information on transfers to owners' equity, please see Note 9.

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CASH FLOW STATEMENT

(in thousands of euros)

	2006 Q1	2005 Q1
Cash flow from operating activities		
Net profit	747	478
Adjustments of net profit:		
Depreciation, amortisation and impairments	665	496
Gains on disposals of property, plant and equipment	-8	-2
Allowance for doubtful receivables	6	15
Interest income	-3	-3
Interest expenses	78	69
Profit from change in real value	0	-1
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-49	36
Change in inventories	-103	0
Change in liabilities and prepayments related to operating activities:		
Accounts payable	150	93
Prepayments	64	41
Total cash flow from operating activities	**1548**	**1221**
Cash flow from investing activities		
Purchase of property, plant and equipment, and intangible assets	-953	-633
Gains on disposals of property, plant and equipment, and intangible assets	176	5
Interest received	3	4
Total cash flow from investing activities	**-774**	**-625**
Cash flow from financing activities		
Loan repayments	-12	-12
Repayment of finance lease principal	-299	-192
Interest paid	-78	-69
Proceeds from sales and leaseback transactions	168	71
Total cash flow from financing activities	**-221**	**-202**
TOTAL CASH FLOW	**553**	**395**
Cash and cash equivalents at the beginning of the period	282	595
Change in cash and cash equivalents	553	395
Cash and cash equivalents at the end of the period	**834**	**990**
Non-monetary transactions		
Non-current assets acquired under finance lease	78	9

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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 2005.

According to the Company's management, the interim report of AS Starman for the first quarter of 2006 gives 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 euros.

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	**2006 Q1**	**2005 Q1**
Cable television services	1776	1456
Internet services	1297	1199
Telephone service	516	64
Sales of goods and materials	65	70
Total	**3654**	**2789**

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Note 3 Other income and expenses

	2006 Q1	2005 Q1
Other income		
Gains on disposals of non-current assets	8	2
Revenue from fines for delay	20	19
Revenue from revaluation of liabilities	5	6
Other income	3	4
Total other income	**36**	**30**
Goods, raw materials and services		
Purchased services	-1007	-749
Materials	-11	-13
Goods purchased for resale	-48	-58
Maintenance expenses	-22	-46
Other expenses	-35	-15
Total goods, raw materials and services	**-1122**	**-882**
Other operating expenses		
Consulting and advisory expenses	-43	-63
Marketing expenses	-196	-144
Customer information expenses	-76	-87
Office expenses	-58	-67
Allowance for doubtful receivables	-18	-23
Transportation expenses	-49	-38
Other expenses	-40	-54
Total other operating expenses	**-481**	**-477**
Personnel expenses		
Wages and salaries	-414	-306
Social tax	-139	-104
Total personnel expenses	**-553**	**-409**
Other expenses		
Other expenses	-16	-4
Total other expenses	**-16**	**-4**

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Note 4 Net financial items

	2006 Q1	2005 Q1
Interest expenses	-75	-69
Foreign exchange gains/losses	1	-6
Other financial income and expenses*	-31	2
Total net financial items	**-106**	**-73**

* As the USD exchange rate had reached for the company a sufficiently high level, Starman entered into 26 forward transactions for purchasing US dollars at the end of November 2005. The total volume of the transactions amounted to USD 3,383 thousand and their maturities extend to 10 November 2006. Those transactions covered the presumable short USD positions to the extent of 100% for half a year, and to the extent of 50% for the next half-year. As of 31 March 2006, 16 of those transactions in the total amount of 1,883 thousand USD were outstanding. A loss of 30.4 thousand euros resulting from the revaluation of these transactions is recorded as "Other short-term payables" under "Payables" in the balance sheet (see Note 7). Of said amount, 29.7 thousand euros were recorded as expenses for the first quarter of 2006. As USD has depreciated, the company has gained through lower operating expenses on the other hand.

Note 5 Receivables

	31.03.2006	31.12.2005
Accounts receivable	639	597
Other short-term receivables	23	22
Total receivables	**661**	**619**

Note 6 Borrowings

Short-term borrowings	**31.03.2006**	**31.12.2005**
Current portion of long-term bank loans	36	48
Current portion of finance lease liabilities	820	1023
Total short-term borrowings	**856**	**1071**

Long-term borrowings		
Non-current portion of long-term bank loans	239	239
Non-current portion of finance lease liabilities	5907	5757
Total long-term borrowings	**6147**	**5997**

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Outstanding loans raised by the Company as of 31 March 2006

Creditor	Interest rate	Loan amount	Loan balance	Monthly payment	Repayment term	End of grace period	Collateral
Hansaliising	6.9%	86	3	1.6	2006		Leased assets
Ühisliising	6.4%	851	77	16.8	2006		Leased assets
Nordea Finance	5.2%	18	12	0.4	2007		Leased assets
Ühisliising	5.4%	854	253	15.7	2007		Leased assets
Nordea Finance	4.8%	53	46	0.8	2008		Leased assets
Ühisliising	4.9%	1928	1229	40.8	2008		Leased assets
Nordea Finance	4.3%	18	18	0.4	2009		Leased assets
Ühisliising	4.6%	228	178	5.4	2009		Leased assets
Nordea Bank Finland Plc	4.8%	415	275	5.2	2009		Mortgage + commercial pledge
Ühisliising	4.5%	7544	4911	18.7	2011	1.12.2006	Leased assets + commercial pledge
TOTAL		**11,996**	**7003**	**106**			

Note 7 Payables

	31.03.2006	31.12.2005
Accounts payable	781	662
Taxes payable	253	272
Accrued expenses	469	447
Other short-term payables	30	1
Total payables	**1532**	**1382**

Note 8 Other long-term liabilities

Other long-term liabilities comprise deferred income consisting of subscription fees, which are to be charged to income over a term of 7 years. The long-term portion of said income is reported in this subsection. The short-term portion, which amounted to 29 thousand euros as of 31 March 2006 (33.7 thousand euros as of 31 December 2005), is reported under “Prepayments” in the balance sheet.

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Note 9 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.

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. 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 11: "Earnings per share"). 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.

The Supervisory Board of the company has approved management´s profit allocation proposal for the financial year 2005. The proposal will be presented to the annual general meeting of shareholders to be held on 25 May 2006. According to this 20% of the net profit for the year 2005 i.e. EUR 0.02 per share will be paid to shareholders as net dividends. Starman intends to pay 292 thousand euros as net dividends, transfer 73 thousand euros into the mandatory reserve and not distribute the rest of the profit. Following the transfer into the mandatory reserve and the payment of dividends, the retained earnings of the company would amount to 1,389 thousand euros.

As of 31.03.2006, the following shareholders held over 1% of the shares in the company:

Royalton Capital Investors	33.4%
OÜ Constock	19.1%
OÜ Com Holding	17.8%
Hansa Balti Kasvufond	4.4%
AS Lõhmus Holdings	3.0%
Nordea Bank Finland PLC Clients	2.8%
Danske Bank Clients Holdings	2.5%
J.P. Morgan Bank Luxembourg S.A	2.4%
Pictet & CIE Client Account	2.3%
Hansa Ida-Euroopa Aktsiafond	2.3%
ING Luxembourg S.A.	2.2%

Note 10 Related party transactions

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

a) shareholders with significant influence and companies controlled by them;
b) management board and higher management, their close relatives and companies controlled by them.

Services were purchased from the following related parties during the accounting period:	**2006 Q1**	**2005 Q1**
Shareholders with significant influence	0	0
Companies controlled by shareholders	36	40

As a result of these transactions, the company had the following liabilities to related parties as of 31 March:

	31.03.2006	**31.12.2005**
Companies controlled by shareholders	14	3

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

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Wages and salaries (incl. bonuses) paid to Management Board members in the first quarter of 2006 amounted to 70 thousand euros (31 thousand euros in 1-st quarter of 2005); no remuneration was paid to the members of the Supervisory Board for said period (0.2 thousand euros in 1-st quarter of 2005).

Note 11 Earnings per share

	2006 Q1	2005 Q1
Net profit	747	478
Weighted average number of shares, thousand pcs	13,054	13,054
Basic EPS (in *EUR*)	**0.06**	**0.04**
Diluted EPS (in *EUR*)	**0.06**	**0.04**

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 in May 2005.

The Company has contingently issuable shares on account of options granted to Management Board members. Members of the Management Board are, subject to certain conditions, entitled to 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.

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 basic EPS.

Note 12 Pending disputes and legal actions

On 16 January 2006, AS Starman lodged a complaint with the Competition Board and the Communications Board by which it contested the plan of Elion Ettevõtted AS to raise, from 1 February 2006, rental charges payable for the use of communication ducts. The planned price increase for objects already leased out, amounts to 20%. In case of network expansion and renovation, planned price increase would be as much as 400%, plus subscription fee that has not been charged before. Starman’s position is that the activity of Elion Ettevõtted AS is unlawful and incompatible with the Telecommunications Act, Competition Act and several other acts of law. Starman's expenses on the rental of communication ducts amounted to nearly 0.5 million euros in 2005. The actual enforcement of the proposed rental charges would have an immediate impact on the company in terms of the existing leased sites (potential increase of 20%), while any expansion or renovation of the network would in most cases prove to be economically unreasonable under such conditions. A prolonged continuation of such a situation might suppress the investing activities of the company. Expenses recorded for the first quarter of 2006 include the price increase proposed by Elion for the existing sites as from February. No expansion or renovation of the cable network has been carried out under the proposed new charges.

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SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT FOR THE FIRST QUARTER OF 2006

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

Member of the Management Board