

# starman

**AS STARMAN**

**INTERIM REPORT  
FOR THE FIRST HALF-YEAR 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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## EXPLANATORY MEMORANDUM TO AS STARMAN'S INTERIM REPORT FOR THE FIRST HALF-YEAR 2006

### General information

The successful development of Starman continued in the first half-year 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 in the home user sector.

The company achieved its best ever financial results in the first half-year 2006, this being attributable to successful investments and sales activities in earlier periods and efficient management of expenses for the first half-year.

Starman's total revenue for the first half-year 2006 amounted to 117.1 million kroons – a 28% increase, compared to the same period last year. EBITDA for the first half-year 2006 amounted to 49.9 million kroons and net profit to 24.3 million kroons, exceeding the relevant figures of the first half-year of the previous year by 1.7 and 2.2 times, respectively. In terms of profitability, the second quarter was particularly successful. While in the first quarter Starman's net profit amounted to 11.7 million kroons, partly due to seasonal factors, the same figure in the second quarter - including income tax expense in the amount of 1.4 million kroons - was as much as 12.6 million kroons.

### Financial ratios

A selection of ratios for evaluating the economic activities in the first half-year 2006:

	2004	2005	1 <sup>st</sup> half-year 2006
Sales increase	44%	26%	28%
EBITDA margin	32%	33%	43%
Gross margin	12%	15%	24%
Net margin	10%	12%	21%
Revenue/average assets	0.68	0.67	0.75
Equity ratio	51%	54%	56%
Debt to equity	0.73	0.69	0.59
Debt/EBITDA	2.08	1.76	1.06
Investments/EBITDA	2.15	1.16	0.66
Current ratio	0.82	0.67	1.02*
Invoice turnover rate (annual)	18.5	20.2	21.3

#### Definitions:

Sales increase = increase compared to the same period last year

EBITDA = operating profit + depreciation and amortisation

EBITDA margin = EBITDA / total revenue

Gross margin = operating profit/total revenue

Net margin = net profit/total revenue

Revenue/average assets - for comparison purposes, the revenue for the first half-year 2006 has been multiplied by 2

Equity ratio = equity/total assets

Debt = borrowings + long-term borrowings

Debt/EBITDA - for comparison purposes, EBITDA for the first half-year 2006 has been multiplied by 2

Current ratio = current assets/current liabilities



Invoice turnover rate = revenue for the period/accounts receivable at the end of the period; for comparison purposes, revenue for the first half-year 2006 has been multiplied by 2

\* As to this ratio, it should be borne in mind that because of the specifics of the accounting principles applied, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of the first half-year, loan payments due within the following six months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for the first half-year is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first half-year 2006, the current ratio amounts to 0.75.

### 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 Kaabelitelevisiooni AS and AS Telset Telecommunications Group – whose financial results have been reflected in those of the group already from June 2004 and 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 half-year 2006, accounting for 48% and 35% of total revenue, respectively. Increasingly emerging telephone services accounted for as much as 15% of the total revenue for the first half-year.

Revenue from cable television services increased by 17%, compared to the first half-year 2005. Organic growth of the market has mostly been achieved at the expense of price increase in recent years. At the beginning 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. In the second quarter of 2006, a new service provider – Elion Ettevõtte AS – entered the market by launching its digital television services. Starman has been active in the highly competitive cable television market for a long time already. Over this time, the company has managed to develop a strong product range, which, among other things, includes digital television services already from autumn 2005. At the end of June 2006, the company had a total of 129 thousand cable television customers, 2.8% of which were digital television users.

Revenue from internet services increased by 9%, compared to the first half-year 2005. At the end of June 2006, the company had 34 thousand internet customers – a 30% increase compared to the same period a year ago. The current trend towards increasing speeds continues. In the second quarter of this year, some products were launched which far exceed the actual needs of the majority of home users. Starman keeps a close eye on market developments and maintains its position at the forefront of the home user sector in terms of speeds. 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 first half of the previous year 6.3 times. By the end of June 2006, the company had a total of 23 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 67.2 million kroons in the first half-year 2006, having grown by 8% compared to the same period in 2005.

Considering that the operating expenses for the first half-year 2005 included one-off charges in an amount of 4.1 million kroons, the restated growth figure would amount to 16%.



For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue. 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 206 during the first half-year 2006. As of 30.06.2006, the company employed 214 people – a 3% (six persons) increase when compared to the end of the year 2005. As to expenses related to asset valuation, the provision for bad debts amounted to just 454 thousand kroons, i.e. 0.4% of the turnover for the period (0.6% in the first half-year 2005). Loss of inventories and discounts totalled 1007 thousand kroons in the first half-year 2006 (514 thousand kroons in the first half-year 2005).

EBITDA for the first half-year 2006 amounted to 49.9 million kroons resulting in the excellent EBITDA margin of 43%. Besides the aggressive growth of telephone services, the successful management of expenses for the first half-year contributed to such a high margin.

Depreciation costs increased by 34%, compared to the first half-year 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 half-year 2006 amounted to 24.2 million kroons. Thus, during the first half-year 2006 Starman earned slightly more profit than in the entire previous year.

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

In the first half-year 2006, Starman's investments in fixed assets amounted to 33.2 million kroons, of which 17.1 million kroons were invested in the second quarter. There was a 10% decrease in the volume of investments in the first half-year 2006, compared to the same period last year. Some decline vis-à-vis the year 2005 should be regarded as of a somewhat incidental nature and is associated with the timing of investments – Starman will continue to make substantial investments in the future. The company made the following investments: 15.3 million kroons in cable network renovation and construction, 5.6 million kroons in telephone modems, 5.6 million kroons in internet equipment (incl. 4.3 million kroons in Head-Ends), 2.5 million kroons in analogue cable television Head-Ends, 1.4 million kroons in STBs, and 2.8 million kroons in other spheres.

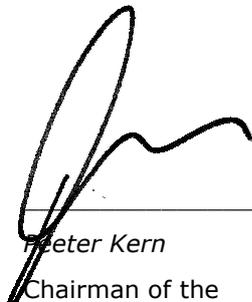
Upgrading of and enhancement of the data communication capability of the existing network continued to make up the majority of the investments in the cable network. While at the end of 2005 Starman covered 247 thousand households with 198 thousand – i.e. 80% – of the households being serviced by a network with data communication capabilities, the respective numbers as of 30.06.2006 were 248 thousand and 214 thousand (the data communication capability increased to 86%). 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's balance sheet continues to be characterised by a high capitalisation, a relatively low debt level and a sufficient liquidity. Cash flow from the company's main activities exceeded investment needs in the first half-year 2006, as a result of which the volume of debt decreased by 4.6 million kroons; 4.6 million kroons was also paid out as dividends. Considering the remarkable growth in profitability, the relative debt figure has decreased to a rather conservative level. The relatively high level of inventories can be linked to investments to be made in the future periods. The increase in accounts payable is incidental to the fact that the payment deadline for one of the company's major investments had not yet been reached as of 30.06.2006. Besides usual fluctuations, the increase in taxes payable is attributable to income tax payable on dividends.

**DECLARATION OF THE MANAGEMENT BOARD CONCERNING THE INTERIM REPORT FOR THE FIRST HALF-YEAR 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.



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Peter Kern  
Chairman of the  
Management Board



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Randy Hütsi  
Member of the  
Management Board



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Henri Treude  
Member of the  
Management Board



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Member of the Management Board

**INCOME STATEMENT**

(in thousands of kroons)

	<b>1<sup>st</sup> half- year 2006</b>	<b>1<sup>st</sup> half- year 2005</b>	<b>2<sup>nd</sup> quarter 2006</b>	<b>2<sup>nd</sup> quarter 2005</b>	<b>Notes</b>
Revenue	116,058	90,661	58,887	47,024	2
Other income	1067	950	497	473	3
Goods, raw materials and services	-33,416	-29,029	-15,859	-15,235	3
Other operating expenses	-14,708	-15,842	-7184	-8379	3
Personnel expenses	-17,817	-14,654	-9171	-8247	3
Depreciation, amortisation and impairments	-21,389	-15,970	-10,977	-8207	
Other expenses	-1236	-2477	-979	-2409	3
<b>Operating profit</b>	<b>28,559</b>	<b>13,639</b>	<b>15,214</b>	<b>5020</b>	
Net financial items	-2946	-2641	-1286	-1499	4
<b>Profit before income tax</b>	<b>25,613</b>	<b>10,998</b>	<b>13,928</b>	<b>3521</b>	
Income tax	-1365	0	-1365	0	
<b>Net profit</b>	<b>24,248</b>	<b>10,998</b>	<b>12,563</b>	<b>3521</b>	
Basic EPS (in EEK)	1.86	0.84	0.96	0.27	11
Diluted EPS (in EEK)	1.86	0.84	0.96	0.27	11

**BALANCE SHEET**

(in thousands of kroons)

	<b>30.06.2006</b>	<b>31.12.2005</b>	<b>Notes</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	9333	4405	
Receivables	11,709	9683	5
Prepayments	2772	1017	
Inventories	17,803	11,894	
<b>Total current assets</b>	<b>41,617</b>	<b>26,999</b>	
<b>Non-current assets</b>			
Other financial assets	150	150	
Property, plant and equipment	278,192	269,280	
Intangible assets	443	409	
<b>Total non-current assets</b>	<b>278,785</b>	<b>269,839</b>	
<b>TOTAL ASSETS</b>	<b>320,402</b>	<b>296,838</b>	
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	9641	16,751	6
Payables	29,302	21,622	7
Prepayments	1937	2025	
<b>Total current liabilities</b>	<b>40,880</b>	<b>40,398</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	96,355	93,830	6
Other long-term liabilities	4050	3173	8
<b>Total non-current liabilities</b>	<b>100,405</b>	<b>97,003</b>	
<b>Total liabilities</b>	<b>141,285</b>	<b>137,401</b>	
<b>Owners' equity</b>			
Share capital	130,536	130,536	
Mandatory reserve	2607	1465	
Retained earnings	45,974	27,436	
<b>Total owners' equity</b>	<b>179,117</b>	<b>159,437</b>	9
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>320,402</b>	<b>296,838</b>	

**STATEMENT OF CHANGES IN EQUITY**

(in thousands of kroons)

	Share capital	Share premium	Mandatory reserve	Retained earnings	Total owners' equity
<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>
Announcement of dividends	0	0	0	-4568	-4568
Transfers to mandatory reserve	0	0	1142	-1142	0
Profit for the accounting period	0	0	0	24,248	24,248
<b>30.06.2006</b>	<b>130,536</b>	<b>0</b>	<b>2607</b>	<b>45,974</b>	<b>179,117</b>

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

**CASH FLOW STATEMENT**

(in thousands of kroons)

	<b>6M 2006</b>	<b>6M 2005</b>
<b>Cash flow from operating activities</b>		
Net profit	24,248	10,998
Adjustments of net profit:		
Depreciation, amortisation and impairments	21,389	15,970
Gains on disposals of property, plant and equipment	-156	-50
Allowance for doubtful receivables	78	753
Interest income	-123	-108
Interest expenses	2537	2147
Profit from change in real value	0	-61
Merger of companies	0	-173
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-3859	-2168
Change in inventories	-5694	-2581
Change in liabilities and prepayments related to operating activities:		
Accounts payable	7680	8593
Prepayments	789	559
<b>Total cash flow from operating activities</b>	<b>46,889</b>	<b>33,879</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment, and intangible assets	-31,757	-29,917
Gains on disposals of property, plant and equipment, and intangible assets	2795	170
Interest received	124	110
<b>Total cash flow from investing activities</b>	<b>-28,838</b>	<b>-29,637</b>
<b>Cash flow from financing activities</b>		
Loan repayments	-376	-376
Repayment of finance lease principal	-8273	-7673
Interest paid	-2537	-2156
Proceeds from sales and leaseback transactions	2631	4233
Dividends paid	-4568	0
<b>Total cash flow from financing activities</b>	<b>-13,123</b>	<b>-5972</b>
<b>TOTAL CASH FLOW</b>	<b>4928</b>	<b>-1730</b>
Cash and cash equivalents at the beginning of the period	4405	9315
Change in cash and cash equivalents	4928	-1730
<b>Cash and cash equivalents at the end of the period</b>	<b>9333</b>	<b>7584</b>
<b>Non-monetary transactions</b>		
Non-current assets acquired under finance lease	1433	6094

**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 half-year 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 kroons.

**Note 2 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>1<sup>st</sup> half-year 2006</b>	<b>1<sup>st</sup> half-year 2005</b>	<b>2<sup>nd</sup> quarter 2006</b>	<b>2<sup>nd</sup> quarter 2005</b>
Cable television services	55,863	47,571	28,072	24,793
Internet services	41,019	37,786	20,729	19,022
Telephone service	17,436	2768	9364	1773
Sales of goods and materials	1740	2536	722	1436
<b>Total</b>	<b>116,058</b>	<b>90,661</b>	<b>58,887</b>	<b>47,024</b>

**Note 3 Other income and expenses**

	1 <sup>st</sup> half-year 2006	1 <sup>st</sup> half-year 2005	2 <sup>nd</sup> quarter 2006	2 <sup>nd</sup> quarter 2005
<b><i>Other income</i></b>				
Gains on disposals of non-current assets	156	50	26	20
Revenue from fines for delay	645	588	332	294
Revenue from revaluation of liabilities	184	170	99	81
Other income	82	142	40	78
<b>Total other income</b>	<b>1067</b>	<b>950</b>	<b>497</b>	<b>473</b>
<b><i>Goods, raw materials and services</i></b>				
Purchased services	-30,057	-24,166	-14,294	-12,450
Materials	-371	-531	-200	-328
Goods purchased for resale	-1288	-2309	-543	-1401
Maintenance expenses	-693	-1509	-355	-782
Other expenses	-1007	-514	-467	-274
<b>Total goods, raw materials and services</b>	<b>-33,416</b>	<b>-29,029</b>	<b>-15,859</b>	<b>-15,235</b>
<b><i>Other operating expenses</i></b>				
Consulting and advisory expenses	-1523	-3557	-845	-2567
Marketing expenses	-5647	-3874	-2584	-1617
Customer information expenses	-2265	-2683	-1071	-1328
Office expenses	-1795	-2095	-885	-1041
Allowance for doubtful receivables	-454	-535	-179	-175
Transportation expenses	-1619	-1242	-846	-644
Other expenses	-1405	-1856	-774	-1007
<b>Total other operating expenses</b>	<b>-14,708</b>	<b>-15,842</b>	<b>-7184</b>	<b>-8379</b>
<b><i>Personnel expenses</i></b>				
Wages and salaries	-13,343	-10,951	-6870	-6167
Social tax	-4474	-3703	-2301	-2080
<b>Total personnel expenses</b>	<b>-17,817</b>	<b>-14,654</b>	<b>-9171</b>	<b>-8247</b>
<b><i>Other expenses</i></b>				
Fringe benefit tax on options	0	-1805	0	-1805
Expenses from revaluation of liabilities	0	-443	0	-443
Other expenses*	-1236	-229	-979	-161
<b>Total other expenses</b>	<b>-1236</b>	<b>-2477</b>	<b>-979</b>	<b>-2409</b>

\* Other expenses for the first half-year 2006 include a realised loss in the amount of 1103 thousand kroons from forward transactions for purchasing US dollars. Said forward transactions were entered into at the end of 2005 for covering short USD positions. As USD has depreciated compared to the exchange rate prevailing at

the time of concluding the transactions, the company has gained through lower operating expenses (mostly concerns the item "Purchased services") and investments on more favourable terms on the other hand. In the second half-year, short USD positions have been covered only to a minor extent.

#### Note 4 Net financial items

	1 <sup>st</sup> half-year 2006	1 <sup>st</sup> half-year 2005	2 <sup>nd</sup> quarter 2006	2 <sup>nd</sup> quarter 2005
Interest expenses	-2414	-2037	-1237	-960
Foreign exchange gains/losses	132	-588	123	-488
Other financial expenses*	-664	-16	-172	-51
<b>Total net financial items</b>	<b>-2946</b>	<b>-2641</b>	<b>-1286</b>	<b>-1499</b>

\* 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 3383 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. In May 2006, the company entered into 4 forward transactions for the sale of US dollars in the aggregate amount of USD 600 thousand. These transactions were intended to reduce the covering of short USD positions in the second half-year. Besides the forward sales referred to above, 10 of the forward purchase transactions entered into earlier in the total amount of 918 thousand USD were outstanding as of 30.06.2006. A loss of 628 thousand kroons 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, 617 thousand kroons were recorded as expenses for the first half-year 2006. As USD has depreciated, the company has gained through lower operating expenses and investments on more favourable terms on the other hand.

#### Note 5 Receivables

	30.06.2006	31.12.2005
Accounts receivable	10,884	9334
Other short-term receivables	825	349
<b>Total receivables</b>	<b>11,709</b>	<b>9683</b>

#### Note 6 Borrowings

	30.06.2006	31.12.2005
<b>Short-term borrowings</b>		
Current portion of long-term bank loans	376	751
Current portion of finance lease liabilities	9265	16,000
<b>Total short-term borrowings</b>	<b>9641</b>	<b>16,751</b>
<b>Long-term borrowings</b>		
Non-current portion of long-term bank loans	3746	3746
Non-current portion of finance lease liabilities	92,609	90,084
<b>Total long-term borrowings</b>	<b>96,355</b>	<b>93,830</b>



**Outstanding loans raised by the company as of 30.06.2006**

<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	6.7%	8302	621	170	2006		Leased assets
Nordea Finance	5.2%	287	166	7	2007		Leased assets
Ühisliising	5.7%	13,364	3205	266	2007		Leased assets
Nordea Finance	4.8%	833	687	16	2008		Leased assets
Ühisliising	5.2%	29,742	17,389	638	2008		Leased assets
Nordea Finance	4.3%	421	406	8	2009		Leased assets
Ühisliising	5.2%	3568	2558	83	2009		Leased assets
Nordea Bank Finland Plc	4.8%	6500	4122	81	2009		Mortgage + commercial pledge
Ühisliising	5.2%	118,031	76,842	269	2011	1.12.2006	Leased assets + commercial pledge
<b>TOTAL</b>		<b>181,048</b>	<b>105,996</b>	<b>1538</b>			

**Note 7 Payables**

	<b>30.06.2006</b>	<b>31.12.2005</b>
Accounts payable	14,771	10,362
Taxes payable	7493	4249
Accrued expenses	6410	7000
Other short-term payables	628	11
<b>Total payables</b>	<b>29,302</b>	<b>21,622</b>

**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 292 thousand kroons as of 30.06.2006 (528 thousand kroons as of 31.12.2005), is reported under "Prepayments" in the balance sheet.

**Note 9 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.

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 to 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.

In accordance with the resolution of the annual general meeting of shareholders held on 25 May 2006, 20% of the net profit for the year 2005, i.e. EEK 0.35 per share, was paid to shareholders as net dividends on 21 June 2006. Starman paid 4568 thousand kroons as net dividends, transferred 1142 thousand kroons into the mandatory reserve, and did 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 thus amount to 21,726 thousand kroons.

As of 30.06.2006, 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	- 5.3%
Hansa Ida-Euroopa Aktsiafond	- 4.0%
Nordea Bank Finland PLC Clients	- 2.8%
AS Lõhmus Holdings	- 2.7%
ING Luxembourg S.A.	- 2.6%
Danske Bank Clients Holdings	- 2.5%
J.P. Morgan Bank Luxembourg S.A	- 2.4%

**Note 10 Related party transactions**

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

- shareholders with significant influence and companies controlled by them;
- 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:

	<b>1<sup>st</sup> half-year 2006</b>	<b>1<sup>st</sup> half-year 2005</b>	<b>2<sup>nd</sup> quarter 2006</b>	<b>2<sup>nd</sup> quarter 2005</b>
Shareholders with significant influence	0	232	0	232
Companies controlled by shareholders	1227	1125	665	562

As a result of these transactions, the company had the following liabilities to related parties as of 30.06.2006:

	<b>30.06.2006</b>	<b>31.12.2005</b>
Companies controlled by shareholders	221	50

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 in the first half-year 2006 amounted to 2189 thousand kroons (1636 thousand kroons in the first half-year 2005); remuneration paid to the members of the Supervisory Board for said period amounted to 6 thousand kroons (319 thousand kroons in the first half-year 2005).

#### Note 11 Earnings per share

	1 <sup>st</sup> half-year 2006	1 <sup>st</sup> half-year 2005	2 <sup>nd</sup> quarter 2006	2 <sup>nd</sup> quarter 2005
Net profit	24,248	10,998	12,563	3521
Weighed average number of shares (thousands of units)	13,054	13,054	13,054	13,054
<b>Basic EPS (in EEK)</b>	<b>1.86</b>	<b>0.84</b>	<b>0.96</b>	<b>0.27</b>
<b>Diluted EPS (in EEK)</b>	<b>1.86</b>	<b>0.84</b>	<b>0.96</b>	<b>0.27</b>

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 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.

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

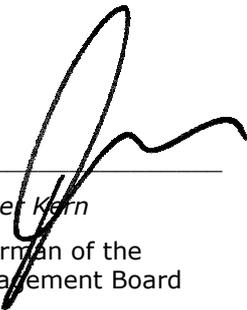
On 16 January 2006, AS Starman lodged a complaint with the Competition Board and the Communications Board by which it contested the plan of Elion Ettevõtted AS to raise, from 1 February 2006, rental charges payable for the use of communication ducts. The planned price increase for objects already leased out, amounts to 32%. 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 7.4 million kroons 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 32%), 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 half-year 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.

On 7 April 2006, AS Starman filed a statement of claim with Harju County Court against AS Telset for recognition of the right of ownership and reclamation of things from illegal possession. The action, the value of which amounts to 1534 thousand kroons, relates to assets which should have been included in the assets of AS Telset Telecommunications Group, a subsidiary acquired by Starman from Tele 2 OÜ in June 2004. The assets being reclaimed should have been transferred from the control of AS Telset to that of Tele 2 Group when Tallinna Kaabeliteleviooni AS, which was a subsidiary of Tele 2 Group at that time, acquired 100% of the shares in Telset Telecommunications Group. By its ruling of 10 April, Harju County Court prohibited all transactions of AS Telset with these assets. No court sessions have been held yet. Expenses relating to the action have been insignificant so far, amounting to less than 50 thousand kroons.

**SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT FOR THE FIRST HALF-YEAR 2006**



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*Peeter Kern*  
Chairman of the  
Management Board



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*Randy Hütsi*  
Member of the  
Management Board



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*Henri Treud*  
Member of the  
Management Board



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Member of the Management Board