

# starman

## AS STARMAN

### INTERIM REPORT FOR 9 MONTHS OF 2006

Beginning of financial year: 1 January 2006  
End of financial year: 31.12.2006

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Principal activities: cable television and data communication services

  
Management Board Member

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Management Board Member

## EXPLANATORY MEMORANDUM TO THE INTERIM REPORT FOR 9 MONTHS OF THE YEAR 2006

### General

Success of Starman continued for the first 9 months of the year. Telephone services rendered a considerable additional impact on the strong market position in cable-TV and the internet. Starman is currently offering the best bundled triple play service in the home user sector.

A joint venture established with AS Levira at the end of September may be expected to increase the number of TV clients notably already in the near future on account of those regional markets, where Starman was thus far not present. In the newly established Eesti Digitaaltelevisiooni AS 66% of the shares are held by Starman and 34% by Levira. The current product portfolio of Starman will be supplemented with a DTT (digital terrestrial television) service. For Starman, supply of the new service is similar to the supply of current services, except the transmission services to be supplied by Levira. The joint venture will be consolidated in the financial results from the fourth quarter of 2006.

The company achieved its best ever financial results in the first 9 months of the year 2006. Such a good performance can be attributed to both successful investments and sales activities in earlier periods as well as to skilful cost management.

Starman's total revenue for the nine months of 2006 amounted to 176.2 million EEK – a 26% increase, compared with the same period of the last year. EBITDA for the first nine months of 2006 amounted to 74.2 million EEK and net profit to 36.0 million EEK, exceeding the relevant figures of the nine months of the previous year 1.6 and 2 times, respectively. Of the total net profit for the nine months, 11.8 million EEK were earned in the third quarter.

### Financial ratios

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

	2004	2005	2006 9 months
Sales increase	44%	26%	27%
EBITDA margin	32%	33%	42%
Gross margin	12%	15%	23%
Net margin	10%	12%	20%
Revenue/average assets	0.68	0.67	0.73
Equity ratio	51%	54%	53%
Debt to equity	0.73	0.69	0.61
Debt/EBITDA	2.08	1.76	1.17
Investments/EBITDA	2.15	1.16	0.80
Current ratio	0.82	0.67	1.27*
Invoice turnover rate (annual)	18.5	20.2	20.4

#### 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 nine months of 2006 has been multiplied by 4/3

Equity ratio = equity/total assets

Debt = borrowings + long-term borrowings

Debt/EBITDA - for comparison purposes, EBITDA for the first nine months of 2006 has been multiplied by 4/3

Current ratio = current assets/current liabilities

Invoice turnover rate = revenue for the period/accounts receivable at the end of the period; for comparison purposes, revenue for the first nine months of 2006 has been multiplied by 4/3

\* As to this ratio, it should be borne in mind that because of the special nature of the accounting principles applied in preparing this report, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of the nine months, loan payments due within the following three 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 nine months is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the nine months of 2006, the current ratio amounts to 1.04.

### Group structure

As from March 2006, Starman Group comprises just AS Starman also in formal legal terms. The former subsidiaries of Starman – AS Levi Kaabel, Tallinna Kaabelitelevisiooni AS and AS Telset Telecommunications Group – whose financial results have been consolidated 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. In the fourth quarter of 2006 a new subsidiary, Eesti Digitaaltelevisiooni AS, will be incorporated in the Group structure.

### Revenue and expenses

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for the nine months of 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 period.

Revenue from cable television services increased by 16%, compared with the first 9 months of 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 includes digital television services already from spring 2005. The new service provider has not affected Starman's clientele. At the end of September 2006, the company had a total of 130 thousand cable television customers, 3.4% of which were digital television users.

Revenue from the internet services increased by 9%, compared with the first nine months of 2005. At the end of September 2006, the company had 36 thousand internet customers – a 33% increase compared with the same period a year ago. The current trend towards higher speeds continues. In the second quarter of this year, some products were launched which far surpassed the actual needs of the majority of home users. Starman keeps a close eye on the 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 nine months of the previous year 4.6 times. As expected, lower call intensity in summer time affected the telephone ARPU in the third quarter of the current year. By the end of September 2006, the company had a total of 26 thousand telephone customers.



Starman views its cable television, the 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 102.1 million EEK in the first nine months of 2006, having grown 10% in comparison with the same period in 2005. Whereas the operating expenses for the first nine months of 2005 included one-off charges to the amount of 4.2 million EEK, the adjusted growth figure would be 16%. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue. Notable 55% increase in marketing expenses should be attributed to tight competition and company's sustained belief in the growth potential. As regards personnel expenses consideration should be given to the fact that the relative share of the company's own activities as opposed to outsourcing has 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 in comparison with the same period in the previous year. The average number of employees during the first nine months of 2006 was 208. As of 30.09.06, the company employed 213 people – a 2% (six persons) increase in comparison with the end of the year 2005. As to the expenses related to asset valuation, the provision for bad debts amounted to just 712 thousand EEK, i.e. 0.4% of the turnover for the period (0.6% in the first nine months of 2005). Loss of inventories and discounts totalled 1,070 thousand EEK in the first nine months of 2006 (1,047 thousand EEK in the first nine months of 2005).

EBITDA for the first nine months of 2006 amounted to 74.2 million EEK resulting in an excellent EBITDA margin of 42%. Besides the aggressive growth of telephone services, such a high margin was also upheld by efficient cost management.

Depreciation costs increased by 32% in comparison with the first nine months 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 9 months of 2006 amounted to 36.0 million EEK. Thus, in the first three quarters of 2006 Starman earned about 1.6 times more profit than in the entire previous year.

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

In the first nine months of 2006, Starman's investments in fixed assets amounted to 59.4 million EEK, of which 26.2 million EEK were invested in the third quarter. The company made the following investments: 26.1 million EEK in cable network renovation and construction, 11.2 million EEK in the internet equipment (incl. 9.6 million EEK in Head-Ends), 8.3 million EEK in telephone modems, 6.2 million EEK in analogue cable television Head-Ends, 2.1 million EEK in STBs, and 5.5 million EEK 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 30.09.06 were 250 thousand and 219 thousand (the data communication capability increased to 88%). Investments in telephone modems and STBs are directly related to the growth in customer numbers. Investments in the internet and cable television equipment primarily enhanced quality in the environment of ever growing data communication volumes.

Starman's balance sheet structure continues to be characterised by a high capitalisation, a relatively low debt level and a sufficient liquidity.

Whereas, on one hand, the creditworthiness of the company has recently improved considerably and, on the other hand, interesting investment plans are still in the perspective (e.g. the DTT service), Starman's current external financing conditions were revised in cooperation with lenders. At the end of September, the company refinanced the majority of its current debts. As a result of the refinancing the present average term of debt of 5 years was extended to 7 and some of the collaterals were released. In addition, the interest rate decreased considerably - from previous typical 6-months' EURIBOR +2% to 6-months' EURIBOR + 1%.



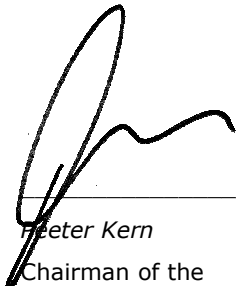
Whereas the aforementioned refinancing transaction, which besides one new contract included termination of a number of previous leasing contracts, had not been fully settled by the balance sheet date, the balance sheet drawn up as of 30 September 2006 reflects payables as one-time items in the sum of 19.8 million EEK (accounts payable) and therefore company's cash account is larger than usual. Larger-than-usual accounts payable and cash position is also due to the fact that some other transactions exceeding ordinary value fell within the period.

  
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Management Board Member

**DECLARATION OF THE MANAGEMENT BOARD CONCERNING THE INTERIM REPORT FOR NINE MONTHS OF 2006**

The Management Board hereby declares its responsibility for the preparation of the interim accounts as presented on pages 6 to 17 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 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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Management Board Member

**INCOME STATEMENT**

(in thousands of EEK)

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	
	<b>9 months</b>	<b>9 months</b>	<b>3<sup>rd</sup> quarter</b>	<b>3<sup>rd</sup> quarter</b>	<b>Notes</b>
Revenue	174,591	137,826	58,533	47,164	2
Other income	1,673	1,646	606	697	3
Goods, raw materials and services	-49,644	-44,497	-16,230	-15,467	3
Other operating expenses	-23,363	-23,240	-8,655	-7,398	3
Personnel expenses	-27,368	-22,316	-9,551	-7,663	3
Depreciation, amortisation and impairments	-33,053	-25,005	-11,663	-9,035	
Other expenses	-1,685	-2,550	-448	-73	3
<b>Operating profit</b>	<b>41,151</b>	<b>21,864</b>	<b>12,592</b>	<b>8,225</b>	
Net financial items	-3,756	-3,800	-810	-1,159	4
<b>Profit before income tax</b>	<b>37,395</b>	<b>18,064</b>	<b>11,782</b>	<b>7,066</b>	
Income tax	-1,365	0	0	0	
<b>Net profit for the financial year</b>	<b>36,030</b>	<b>18,064</b>	<b>11,782</b>	<b>7,066</b>	
Basic EPS (in EEK)	2.76	1.38	0.90	0.54	11
Diluted EPS (in EEK)	2.76	1.38	0.90	0.54	11



**BALANCE SHEET**

(in thousands of EEK)

	<b>30.09.2006</b>	<b>31.12.2005</b>	<b>Notes</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	35,216	4,405	
Receivables	11,901	9,683	5
Prepayments	3,063	1,017	
Inventories	15,408	11,894	
<b>Total current assets</b>	<b>65,588</b>	<b>26,999</b>	
<b>Non-current assets</b>			
Other financial assets	150	150	
Property, plant and equipment	292,651	269,280	
Intangible assets	421	409	
<b>Total non-current assets</b>	<b>293,222</b>	<b>269,839</b>	
<b>TOTAL ASSETS</b>	<b>358,810</b>	<b>296,838</b>	
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	3,741	16,751	6
Payables	46,060	21,622	7
Prepayments	1,768	2,025	
<b>Total current liabilities</b>	<b>51,569</b>	<b>40,398</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	111,981	93,830	6
Other long-term liabilities	4,361	3,173	8
<b>Total non-current liabilities</b>	<b>116,342</b>	<b>97,003</b>	
<b>Total liabilities</b>	<b>167,911</b>	<b>137,401</b>	
<b>Owners' equity</b>			
Share capital	130,536	130,536	
Legal reserve	2,607	1,465	
Retained earnings	57,756	27,436	
<b>Total owners' equity</b>	<b>190,899</b>	<b>159,437</b>	9
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>358,810</b>	<b>296,838</b>	

**STATEMENT OF CHANGES IN OWNERS' EQUITY**

(in thousands of EEK)

	Share capital	Share premium	Legal 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>1,465</b>	<b>27,436</b>	<b>159,437</b>
Announcement of dividends	0	0	0	-4,568	-4,568
Transfers to mandatory reserve	0	0	1,142	-1,142	0
Profit for the accounting period	0	0	0	36,030	36,030
<b>30.09.2006</b>	<b>130,536</b>	<b>0</b>	<b>2,607</b>	<b>57,756</b>	<b>190,899</b>

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

**CASH FLOW STATEMENT**

(in thousands of EEK)

	<b>2006</b>	<b>2005</b>
<b>Cash flow from operations</b>		
Net profit	36,030	18,064
Adjustments of net profit:		
Depreciation, amortisation and impairments	33,053	25,005
Gains on disposals of property, plant and equipment	-156	-235
Allowance for doubtful receivables	143	597
Interest income	-190	-141
Interest expenses	3,861	3,274
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	-4,408	-1,368
Change in inventories	-3,230	-4,952
Change in liabilities and prepayments related to operating		
Accounts payable	25,804	2,730
Prepayments	931	798
<b>Total cash flow from operations</b>	<b>91,838</b>	<b>43,538</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment, and intangible assets	-57,653	-46,594
Gains on disposals of property, plant and equipment, and	2,795	854
Disposals of other financial investments	0	3,275
Interest received	191	143
<b>Total cash flow from investing activities</b>	<b>-54,667</b>	<b>-42,322</b>
<b>Cash flow from financing activities</b>		
Loan repayments	-563	-563
Repayment of finance lease principal	-140,243	-13,059
Interest paid	-3,861	-3,283
Proceeds from sales and leaseback transactions	144,240	14,319
Dividends paid	-4,568	0
Income tax on dividends paid	-1,365	0
<b>Total cash flow from financing activities</b>	<b>-6,360</b>	<b>-2,586</b>
<b>TOTAL CASH FLOW</b>	<b>30,811</b>	<b>-1,370</b>
Cash and cash equivalents at the beginning of the period	4,405	9,315
Change in cash and cash equivalents	30,811	-1,370
<b>Cash and cash equivalents at the end of the period</b>	<b>35,216</b>	<b>7,944</b>
<b>Non-monetary transactions- non-current assets acquired</b>	<b>1,706</b>	<b>6,650</b>

**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 nine months 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 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>9 months</b>	<b>9 months</b>	<b>3<sup>rd</sup> quarter</b>	<b>3<sup>rd</sup> quarter</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Cable television services	83,999	72,327	28,135	24,755
Internet services	61,630	56,452	20,612	18,666
Telephone service	26,395	5,691	8,959	2,923
Sales of goods and materials	2,567	3,356	827	820
<b>Total</b>	<b>174,591</b>	<b>137,826</b>	<b>58,533</b>	<b>47,164</b>

**Note 3 Other income and expenses**

	9 months 2006	9 months 2005	3 <sup>rd</sup> quarter 2006	3 <sup>rd</sup> quarter 2005
<b>Other income</b>				
Gains on disposals of non-current assets	156	235	0	185
Revenue from fines for delay	1,106	912	461	325
Revenue from revaluation of liabilities	282	291	98	122
Other income	129	208	47	65
<b>Total other income</b>	<b>1,673</b>	<b>1,646</b>	<b>606</b>	<b>697</b>
<b>Goods, raw materials and services</b>				
Services purchased	-45,036	-37,292	-14,980	-13,124
Materials	-744	-780	-374	-249
Goods purchased for resale	-1,908	-2,931	-620	-622
Maintenance expenses	-886	-2,447	-193	-939
Other expenses	-1,070	-1,047	-63	-533
<b>Total goods, raw materials and</b>	<b>-49,644</b>	<b>-44,497</b>	<b>-16,230</b>	<b>-15,467</b>
<b>Other operating expenses</b>				
Consulting and advisory expenses	-2,411	-4,361	-887	-804
Marketing expenses	-9,321	-6,026	-3,675	-2,153
Customer information expenses	-3,454	-4,034	-1,189	-1,351
Office expenses	-2,612	-3,151	-817	-1,056
Allowance for doubtful receivables	-712	-822	-258	-287
Transportation expenses	-2,385	-1,941	-766	-699
Other expenses	-2,468	-2,905	-1,063	-1,048
<b>Total other operating expenses</b>	<b>-23,363</b>	<b>-23,240</b>	<b>-8,655</b>	<b>-7,398</b>
<b>Personnel expenses</b>				
Wages and salaries	-20,501	-16,666	-7,157	-5,715
Social tax	-6,867	-5,650	-2,394	-1,948
<b>Total personnel expenses</b>	<b>-27,368</b>	<b>-22,316</b>	<b>-9,551</b>	<b>-7,663</b>
<b>Other expenses</b>				
Fringe benefit tax on options	0	-1,804	0	0
Expenses from revaluation of liabilities	0	-443	0	0
Other expenses*	-1,685	-303	-448	-73
<b>Total other expenses</b>	<b>-1,685</b>	<b>-2,550</b>	<b>-448</b>	<b>-73</b>

\* In the first nine months of 2006, other expenses include a realised loss in the amount of 1,488 thousand EEK from forward transactions for purchasing US dollars. Said forward transactions were mostly 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 "Services purchased") and being able to make investments on more favourable terms on the other hand. In the fourth quarter of 2006 the short USD positions are only covered marginally.

**Note 4 Net financial items**

	9 months 2006	9 months 2005	3 <sup>rd</sup> quarter 2006	3 <sup>rd</sup> quarter 2005
Interest income and expenses	-3,670	-3,135	-1,257	-1,095
Foreign exchange gains/losses	158	-630	26	-44
Other financial income and expenses*	-244	-35	421	-20
<b>Total net financial items</b>	<b>-3,756</b>	<b>-3,800</b>	<b>-810</b>	<b>-1,159</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 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. 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. As of 30.09.06, 3 forward purchase transactions to the total amount of 189.5 thousand USD and 1 forward sale transaction in the amount of 150 thousand USD were outstanding. A loss of 181 thousand EEK 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, 170 thousand EEK were recorded as expenses for the first nine months of 2006. As USD has depreciated, the company has gained through lower operating expenses and being able to make investments on more favourable terms on the other hand.

**Note 5 Receivables**

	30.09.2006	31.12.2005
Accounts receivable	11,424	9,334
Other short-term receivables	477	349
<b>Total receivables</b>	<b>11,901</b>	<b>9,683</b>

**Note 6 Borrowings**

	30.09.2006	31.12.2005
<b>Short-term borrowings</b>		
Current portion of long-term bank loans	188	751
Current portion of finance lease liabilities	3,553	16,000
<b>Total short-term borrowings</b>	<b>3,741</b>	<b>16,751</b>
<b>Long-term borrowings</b>		
Non-current portion of long-term bank loans	3,746	3,746
Non-current portion of finance lease liabilities	108,235	90,084
<b>Total long-term borrowings</b>	<b>111,981</b>	<b>93,830</b>

**Outstanding loans raised by the company as of 30.09.06**

<b>Creditor</b>	<b>Interest rate</b>	<b>Loan amount</b>	<b>Loan balance</b>	<b>Monthly payment</b>	<b>Repayment term</b>	<b>Collateral</b>
Nordea Finance	5.2%	287	147	7	2 007	Leased assets
SEB Ühisliising	4.9%	273	180	5	2 007	Leased assets
Nordea Finance	4.8%	833	650	16	2 008	Leased assets
SEB Ühisliising	4.5%	347	290	10	2 008	Leased assets
Nordea Finance	4.4%	560	522	11	2 009	Leased assets
Nordea Bank Finland Plc	4.8%	6,500	3,933	81	2 009	Mortgage + commercial pledge
SEB Ühisliising	4.6%	135,713	110,000	1,534	2 013	Leased assets + commercial pledge
<b>TOTAL</b>		<b>144,513</b>	<b>115,722</b>	<b>1,664</b>		

**Note 7 Payables**

	<b>30.09.2006</b>	<b>31.12.2005</b>
Accounts payable	36,311	10,362
Accrued expenses	7,177	7,000
Taxes payable	2,391	4,249
Other short-term payables	181	11
<b>Total payables</b>	<b>46,060</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 136 thousand EEK as of 30.09.06 (528 thousand EEK as of 31 December 2005), is reported as "Prepayments" in the balance sheet.

**Note 9 Owners' equity**

The company's share capital amounts to 130,535,700 EEK, and is divided into a total of 13,053,570 registered common shares with a nominal value of 10 EEK. 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 EEK (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"). 17. 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 4,569 thousand EEK as net dividends, transferred 1,142 thousand EEK 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 EEK.

As of 30.09.06, 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	- 4,9%
Hansa Ida-Euroopa Aktsiafond	- 4,8%
ING Luxembourg S.A.	- 4,1%
Nordea Bank Finland PLC Clients	- 2,8%
AS Lõhmus Holdings	- 2,7%
J.P. Morgan Bank Luxembourg S.A	- 2,4%
OKO Bank Plc Client	- 1,3%

**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:

	9 months 2006	9 months 2005	3 <sup>rd</sup> quarter 2006	3 <sup>rd</sup> quarter 2005
Shareholders with significant influence	0	232	0	0
Companies controlled by shareholders	1,873	1,688	645	562

As a result of these transactions, the company had the following liabilities to related parties as of 30.09.06:

	30.09.2006	31.12.2005
Companies controlled by shareholders	256	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 the management board members in the first nine months of 2006 amounted to 3,285 thousand EEK (2,779 thousand EEK in the first nine months of 2005); remuneration paid to the members of the Supervisory Board for said period amounted to 118 thousand EEK (633 thousand EEK in the first nine months of 2005).

#### Note 11 Earnings per share

	9 months 2006	9 months 2005	3 <sup>rd</sup> quarter 2006	3 <sup>rd</sup> quarter 2005
Net profit (thousands of EEK)	36,030	18,064	11,782	7,066
Weighed average number of shares (thousands of units)	13,054	13,054	13,054	13,054
<b>Basic EPS</b>	<b>2.76</b>	<b>1.38</b>	<b>0.90</b>	<b>0.54</b>
<b>Diluted EPS</b>	<b>2.76</b>	<b>1.38</b>	<b>0.90</b>	<b>0.54</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 is equal to the average trade price applicable during 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 board 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 Ettevõtte 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 Ettevõtte 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 EEK 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 nine months of 2006 include the price increase proposed by Elion for the existing sites as from February. The company has carried out expansion or renovation of the cable network on the basis of the proposed new charges only where inevitable and to very marginal extent.

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 1,534 thousand EEK, 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 Kaabeltelevisiooni 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. During the first session held in October the court was unable to conduct a hearing on the merits; the next session is scheduled to take place in January 2007. The legal costs related to the claim are thus far insignificant remaining below 50 thousand EEK.

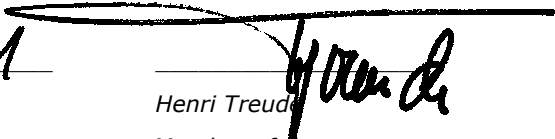
**SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT FOR THE 9 MONTHS OF 2006**



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



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



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



\_\_\_\_\_  
Management Board Member