

starman

AS STARMAN

INTERIM REPORT OF THE GROUP FOR 2006

Beginning of financial year: 01.01.2006
End of financial year: 31.12.2006

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Principal activities: cable TV and data communication services

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

General

Success of Starman continued in 2006. Telephone services rendered a considerable additional impact on the strong market position in the spheres of cable-TV and the internet. Starman is currently offering the best bundled triple play service in the home user sector.

In the fourth quarter the product portfolio of Starman was supplemented with a DTT (digital terrestrial television) service. The service is supplied under a separate trademark by the company named Eesti Digitaaltelevisiooni AS, which was established in cooperation with AS Levira. The ZUUM trademark was introduced in November and the product was launched at the end of the year. From that date Starman is offering digital television services under two separate trademarks using two different technologies. While digital television services have been offered under the Starman trademark already since autumn 2005, the ZUUMtv is expected to attract a considerable number of new clients especially in those regions of Estonia, where Starman was not present thus far.

In 2006, the company achieved its best ever financial results. Such a good performance can be attributed to both successful investments and sales activities in earlier periods as well as to skilful cost management. With the continued supply of only well-established services the results would have been even better. The launch of the new product in the fourth quarter entailed substantial additional costs amounting to approximately 5 million EEK. The negative impact of the starting ZUUMtv on the financial results of the Group is anticipated to continue also in the near future. However, in the long run the new product is expected to strengthen the company's market position and profitability.

Starman's total revenue in 2006 amounted to 236.9 million EEK representing a 24% increase in comparison with the same period of the last year. EBITDA in 2006 amounted to 94.5 million EEK and the net profit attributable to shareholders to 44.0 million EEK, exceeding the relevant figures of the previous year 1.5 and 1.9 times, respectively. The net profit attributable to shareholders amounted to 7.9 million EEK in the fourth quarter. Besides ZUUMtv the profit for the quarter was influenced by the autumn sales involving various special offers for other services. Success of the autumn sales expanded clientele and thus created better premises for the increase of revenue in the near future.

Financial ratios

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

	2004	2005	2006
Sales increase	44%	26%	25%
EBITDA margin	32%	33%	40%
Gross margin	12%	15%	21%
Net margin	10%	12%	19%
Revenue/average assets	0.68	0.67	0.72
Equity ratio	51%	54%	58%
Debt to equity	0.73	0.69	0.56
Debt/EBITDA	2.08	1.76	1.19
Investments/EBITDA	2.15	1.16	0.83
Current ratio	0.82	0.67	1.09
Invoice turnover rate (annual)	18.5	20.2	20.0

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 attributable to shareholders / total revenue

Equity ratio: equity / total assets

Debt = borrowings + long-term borrowings

Current ratio: current assets / current liabilities

Invoice turnover rate: period sales / accounts receivable at the end of period

Group structure

Starman Group consists of AS Starman being the parent company and, starting from October 2006, Eesti Digitaalteleviseiooni AS being a subsidiary company. 66% of shares in Eesti Digitaalteleviseiooni AS are held by Starman and 34% of the shares by AS Levira. The financial results of Eesti Digitaalteleviseiooni AS have been consolidated into the Group report line-by-line separately indicating the minority share.

The former subsidiaries of Starman – AS Levi Kaabel, Tallinna Kaabeltelevisiooni 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, were deleted from the Commercial Register in March 2006.

Revenue and expenses

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for 2006, accounting for 47% and 35% of the total revenue, respectively. Increasingly emerging telephone services accounted for as much as 16% of the total revenue for the financial year.

Revenue from the cable television services increased by 15% in comparison with the year 2005. Organic growth of the market in recent years has mostly been achieved at the expense of price increase. At the beginning of 2006 the prices of Starman's cable television services further approached those of the countries with a similar living standard but still remain rather low. In addition to the regular price increase, the ARPU (average revenue per user) is also supported by structural changes. 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 including digital television services already since autumn 2005. The new service provider has not affected the Starman's clientele. At the end of December 2006, the company had a total of 132 thousand cable television customers, 4.0% of which were digital television users.

Revenue from the internet services increased 9% year-on-year. At the end of December 2006, the company had 39 thousand internet customers, representing a 26% increase in comparison with the same period a year ago. Starman maintained its position of the leading broadband provider among the private customers in the regions where the company is present. The current market 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, with the average figure decreasing 14% in comparison with the average of 2005. 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 rapidly with the revenue exceeding that of the previous year 3.3 times. As of the end of December 2006 the company had 30 thousand telephone clients, i.e. 1.8 times more than at the same time last year. The average ARPU of the telephone services decreased 2% in comparison with 2005.



Starman views its cable television, the internet and telephone services as a single integrated service. Since the 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 provide the most accurate overview. In 2006, the total revenue from the given services per client was 25% higher than in 2005.

The launch of the ZUUMtv at the end of the year did not practically have any impact on the Group revenues. At the end of December, Eesti Digitaalteleviiooni AS had 1.1 thousand customers. Expanding coverage, which by the end of 2007 is anticipated to reach 97% of the Estonian households, and the improving selection of programmes foster expectation of a substantial increase in the number of customers. For Starman, the supply of the new service is similar to the supply of current services, except the transmission services to be supplied by Levira.

In 2006, the operating expenses of Starman amounted to 142.4 million EEK, representing a 12% growth year-on-year. For the majority of expense items, the rate of growth in expenses was smaller than the increase in revenue. A notable 65% increase in marketing expenses should be attributed to the launch of the ZUUMtv, tight competition and the company's sustained belief in its 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 increased in the case of several functions. Therefore, the relative share of outsourced services has declined, which is also manifested in a decrease of several expenditure items year-on-year.

The personnel expenses grew 19% year-on-year. Upon evaluation of personnel costs it should be borne in mind that the given figure encompasses 88% of the company's total payroll whilst the rest is capitalised in accordance with the corporate accounting rules. The average number of employees in 2006 was 210. As of 31 December 2006, the company employed 222 people representing a 7% (14 people) increase in comparison with the end of 2005. The staff has mostly grown on account of part-time employees – at the beginning of 2006 part-time employees formed 9% of the staff but at the end of the year already 16% of the staff. At the end of 2006, the number of employees translated to the full employment equivalent was 199, which is 3% (5 people) higher than at the end of 2005; the average number of employees translated to the full employment equivalent in 2006 was 194.

As to expenses related to asset valuation, the provision for bad debts amounted to 891 thousand EEK, i.e. to just 0.4% of the period turnover like in 2005. Such a sound level of provisions can be attributed besides efficient credit risk management to overall favourable situation in economy. In 2006, losses and discounts of inventories amounted to 995 thousand EEK (in 2005, to 1,120 thousand EEK).

EBITDA of 2006 amounted to 94.5 million EEK resulting in the excellent EBITDA margin of 40%. Besides the aggressive growth of telephone services, such a high margin was also upheld by efficient cost management. As a result of the launch of the ZUUMtv and autumn sales campaigns the EBITDA margin fell to 34% in the fourth quarter.

Depreciation costs increased by 30% in comparison with the year 2005. Owing to the extensive investing activities carried out in recent years, the depreciation costs continued to have a considerable impact on the profit figures.

The net profit attributable to shareholders for 2006 amounted to 44.0 million EEK. Result for minority shareholders – their share from Eesti Digitaalteleviiooni AS loss - was 0.8 million EEK negative. By making the profit figure comparable with the figure of 2005, i.e. eliminating the income tax in the sum of 1.37 million EEK, the profit of Starman would be double compared to 2005.

Balance sheet, investments, financing

In 2006, Starman's investments into fixed assets amounted to 78.1 million EEK (in 2005, to 73 million EEK), of which 18.7 million were invested in the fourth quarter. The company made the following investments: 35.1 million EEK in cable network renovation and construction, 11.8 million EEK in telephone modems, 11.3 million EEK in internet equipment (incl. 9.6 million EEK in Head-Ends), 7.1 million EEK in analogue cable television Head-Ends, 4.8 million EEK in STBs (incl. 1.8 million EEK for provision of ZUUMtv) and 8.0 million EEK in other spheres.



Upgrading 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 served by a network with the data communication facility, the respective numbers as of 31.12.06 were 251 thousand and 225 thousand (the data communication capability increased to 90%). Investments in the telephone modems and STBs are directly related to the growth in the number of customers. Investments into 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 high capitalisation, a relatively low debt level and a sufficient liquidity. For the first time in the last three years the cash flows from principal activity in 2006 outstripped the investment needs, wherefore the total amount of debt remained practically unchanged (having grown by 2 million EEK in comparison with the end of the year 2005) and 4.6 million EEK dividend payment was made to shareholders. Against the background of notably improved profitability the debt amount has fallen to a quite conservative level. However, the company's investment plans remain extensive.


Whereas, on the one hand, the creditworthiness of the company has recently improved considerably and, on the other hand, attractive 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 had the majority of its current debts refinanced. As a result, the present average term of debt of 5 years extended to 7 and some of the collaterals were released. In addition, the average interest rate decreased considerably from the previous typical rate of 6-months' EURIBOR +2% to 6-months' EURIBOR + 1%.

High level of inventories as of 31 December 2006 is mainly due to the value of STBs designated for the ZUUMtv offer amounting to 8 million EEK in the balance sheet of Eesti Digitaaltelevisiooni AS. Considering the anticipated market capacities for the new product and the delivery schedule of the STBs the level of these inventories will probably remain high also in the future.

DECLARATION OF THE MANAGEMENT BOARD RESPECTING THE INTERIM REPORT OF THE GROUP FOR 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 of the results of its operations and cash flows;
3. AS Starman is a going concern.



Peter Kern
Chairman of the
Management Board



Randy Hütsi
Member of the
Management Board



Henri Treude
Member of the
Management Board



Management Board Member

CONSOLIDATED INCOME STATEMENT

(in thousands of EEK)

	2006	2005	IV Q 2006	IV Q 2005	Notes
Revenue	234,732	188,243	60,141	50,418	2
Other income	2,129	2,130	457	484	3
Goods, raw materials and services	-67,378	-60,536	-17,733	-16,038	3
Other operating expenses	-35,103	-32,480	-11,739	-9,239	3
Personnel expenses	-37,770	-31,666	-10,403	-9,349	3
Depreciation and impairment of fixed assets	-45,395	-34,940	-12,343	-9,935	
Other operating charges	-2,110	-2,858	-425	-308	3
Operating profit	49,105	27,895	7,955	6,032	
Net financial items	-4,610	-5,072	-855	-1,2724	
Profit before income tax	44,495	22,823	7,100	4,760	
Income tax	1,365	0	0	0	
Net profit	43,130	22,823	7,100	4,760	
Minority interest	-828	0	-828	0	
Parent company's share of net profit	43,958	22,823	7,928	4,760	
Basic EPS (in EEK)	3.37	1.75	0.61	0.36	13
Diluted EPS (in EEK)	3.37	1.75	0.61	0.36	13

CONSOLIDATED BALANCE SHEET

(in thousands of EEK)

	31.12.2006	31.12.2005	Notes
ASSETS			
Current assets			
Cash	11,716	4,405	
Receivables	12,308	9,683	5
Prepayments	2,943	1,017	6
Inventories	23,471	11,894	
Total current assets	50,438	26,999	
Non-current assets			
Other financial assets	0	150	
Property, plant and equipment	298,826	269,280	
Intangible assets	600	409	
Total non-current assets	299,426	269,839	
TOTAL ASSETS	349,864	296,838	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	15,375	16,751	7
Payables	28,639	21,622	8
Prepayments	2,209	2,025	
Total current liabilities	46,223	40,398	
Non-current liabilities			
Long-term borrowings	97,188	93,830	7
Other long-term liabilities	4,374	3,173	9
Total long-term liabilities	101,562	97,003	
Total liabilities	147,785	137,401	
OWNERS' EQUITY			
Minority interest	3,252	0	
Share capital	130,536	130,536	
Legal reserve	2,607	1,465	
Retained earnings	65,684	27,436	
Total owner's equity held by the shareholders of the parent company	198,827	159,437	
Total owners' equity	202,079	159,437	10
TOTAL LIABILITIES AND OWNERS' EQUITY	349,864	296,838	

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

(in thousands of EEK)

	Owner's equity held by the shareholders of the parent company					Minority interest	Total owners' equity
	Share capital	Share premium	Legal reserve	Retained earnings	Total		
31.12.2004	43,512	68,455	719	23,928	136,614	0	136,614
Bonus issue	87,024	-68,455	0	-18,569	0	0	0
Transfers to legal reserve	0	0	746	-746	0	0	0
Net profit for the financial year	0	0	0	22,823	22,823	0	22,823
31.12.2005	130,536	0	1,465	27,436	159,437	0	159,437
Contributions by minority shareholders	0	0	0	0	0	4,080	4,080
Dividends announced	0	0	0	-4,568	-4,568	0	-4,568
Transfers to legal reserve	0	0	1,142	-1,142	0	0	0
Net profit for the financial year	0	0	0	43,958	43,958	-828	43,130
31.12.2006	130,536	0	2,607	65,684	198,827	3,252	202,079

For additional information on transfers to the owners' equity, please see Note 10.

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of EEK)

	2006	2005
Cash flow from operations		
Net profit	43,130	22,823
Adjustments of net profit:		
Depreciation and impairment of fixed assets	45,395	34,940
Gains on disposal of property, plant and equipment	-155	-235
Allowance for doubtful receivables	323	-373
Interest income	-336	-167
Interest expenses	5,108	4,462
Profit from change in fair value	0	-62
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-4,724	-593
Change in inventories	-11,228	-1,191
Change in liabilities and prepayments related to operating activities:		
Accounts payable	8,383	2,765
Prepayments	1,385	1,306
Total cash flow from operations	87,281	63,675
Cash flow from investing activities		
Purchase of tangible and intangible assets	-75,813	-65,373
Gains on disposals of tangible and intangible assets	2,799	842
Investments into subsidiary companies	0	-6,500
Disposals of other financial investments	0	3,276
Interest received	334	167
Total cash flow from investing activities	-72,680	-67,588
Cash flow from financing activities		
Loan repayments	-751	-751
Repayment of finance lease principal	-143,819	-18,697
Interest paid	-5,108	-4,462
Proceeds from sale and leaseback transactions	144,240	22,913
Contributions by minority shareholders to owner's equity	4,080	0
Dividends paid	-4,568	0
Income tax on dividends paid	-1,365	0
Total cash flow from financing activities	-7,291	-997
TOTAL CASH FLOW	7,310	-4,910
Cash and cash equivalents at the beginning of the period	4,405	9,315
Change in cash and cash equivalents	7,311	-4,910
Cash and cash equivalents at the end of the period	11,716	4,405
Non-monetary transactions- non-current assets acquired under	2,312	7,589

NOTES TO THE INTERIM REPORT

Note 1. Accounting principles and bases of estimation 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 as 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 Group for 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 the auditors. This interim report has been prepared in thousands of EEK.

Note 2. Revenue

AS Starman Group's revenue was fully generated on the Estonian market, and divided into the following fields of activity:

Fields of activity	2006	2005	IV Q 2006	IV Q 2005
Cable television services	112,034	97,168	28,036	24,842
Internet services	82,024	75,370	20,393	18,918
Telephone service	36,894	11,289	10,499	5,598
Sales of goods and materials	3,739	4,416	1,172	1,060
DTT services*	41	0	41	0
Total	234,732	188,243	60,141	50,418

*DTT – Digital Terrestrial Television

Note 3. Other income and expenses

	2006	2005 IV Q	2006	IV Q 2005
Other income				
Gains on disposals of non-current assets	160	235	4	0
Revenue from fines for delay	1,392	1,218	287	305
Revenue from revaluation of liabilities	387	382	105	91
Other income	190	296	61	88
Total other income	2,129	2,130	457	484
Goods, raw materials and services				
Services purchased	-61,429	-51,497	-16,394	-14,205
Materials	-997	-1,036	-252	-256
Goods purchased for resale	-2,733	-3,639	-825	-708
Maintenance expenses	-1,224	-3,243	-337	-796
Other expenses	-995	-1,120	75	-73
Total goods, raw materials and	-67,378	-60,536	-17,733	-16,038
Other operating expenses				
Consulting and advisory expenses	-3,007	-5,371	-596	-1,010
Marketing expenses	-16,090	-9,759	-6,768	-3,730
Customer information expenses	-4,711	-5,324	-1,257	-1,291
Office expenses	-3,674	-4,215	-1,062	-1,064
Allowance for doubtful receivables	-891	-824	-179	-3
Transportation expenses	-3,264	-2,716	-879	-775
Other expenses	-3,466	-4,272	-998	-1,368
Total other operating expenses	-35,103	-32,480	-11,739	-9,239
Personnel expenses				
Wages and salaries	-28,280	-23,633	-7,780	-6,967
Social tax	-9,490	-8,033	-2,623	-2,383
Total personnel expenses	-37,770	-31,666	-10,403	-9,349
Other operating charges				
Fringe benefit tax on options	0	-1,805	0	0
Expenses from revaluation of liabilities	0	-443	0	0
Other expenses*	-2,110	-610	-425	-308
Total other operating charges	-2,110	-2,858	-425	-308

* In 2006, other expenses include a realised loss in the amount of 1,782 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. Whilst USD has depreciated in comparison with the exchange rate prevailing at the time of concluding the transactions, the company has gained from lower operating expenses (mostly concerns the item "Services purchased") and from being able to make investments on more favourable terms. The last forwards matured in the fourth quarter of 2006.

Note 4. Net financial items

	2006	2005	IV Q 2006	IV Q 2005
Interest expenses	-4,770	-4,295	-1,100	-1,162
Foreign exchange gains/losses	244	-687	85	-60
Other financial income and expenses	-84	-90	160	-50
Total net financial items	-4,610	-5,072	-855	-1,272

Note 5. Receivables

	31.12.2006	31.12.2005
Accounts receivable	11,765	9,334
Other short-term receivables	543	349
Total receivables	12,308	9,683

Note 6. Prepayments

	31.12.2006	31.12.2005
Prepaid taxes	2,182	0
Prepaid services	761	1,017
Total prepayments	2,943	1,017

Note 7. Borrowings

Short-term borrowings	31.12.2006	31.12.2005
Current portion of long-term bank loans	751	751
Current portion of finance lease liabilities	14,624	16,000
Total short-term borrowings	15,375	16,751
Long-term borrowings		
Non-current portion of long-term bank loans	2,995	3,746
Non-current portion of finance lease liabilities	94,193	90,084
Total long-term borrowings	97,188	93,830

Outstanding loans raised by the company as of 31.12.06

Creditor	Interest rate	Loan amount	Loan balance	Monthly repayment	Repayment term	Collateral
Nordea Finance	5.2%	287	127	7	2 007	Leased assets
Ühisliising	4.9%	273	166	5	2 007	Leased assets
Nordea Finance	4.8%	833	611	16	2 008	Leased assets
Ühisliising	4.5%	347	264	10	2 008	Leased assets
Nordea Finance	4.5%	1,165	1,082	19	2 009	Leased assets
Nordea Bank Finland Plc	4.8%	6,500	3,746	81	2 009	Mortgage + commercial pledge
Ühisliising	4.6%	135,713	106,567	1534	2 013	Leased assets + commercial pledge
TOTAL		145,118	112,563	1,672		

Note 8. Payables

	31.12.2006	31.12.2005
Accounts payable	16,405	10,362
Accrued expenses	6,471	7,000
Taxes payable	5,743	4,249
Other short-term payables	20	11
Total payables	28,639	21,622

Note 9. Other long-term payables

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 as of 31.12.2006 amounted to 729 thousand EEK (528 thousand EEK as of 31 December 2005), is reported under "Prepayments" in the balance sheet.

Note 10 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 13: "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 4,569 thousand EEK in net dividends, transferred 1,142 thousand EEK into the legal reserve, and retained the rest of the profit. Following the transfer into the legal reserve and the payment of dividends, the retained earnings of the company thus amount to 21,726 thousand EEK.

As of 31.12.2006, 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 Ida-Euroopa Aktsiafond	- 7.1%
ING Luxembourg S.A.	- 4.1%
Nordea Bank Finland PLC Clients	- 2.8%
AS Lõhmus Holdings	- 2,6%
Hansa Balti Kasvufond	- 2,5%
J.P. Morgan Bank Luxembourg S.A.	- 2.4%
OKO Bank Plc Client	- 1.1%

Note 11 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	2005	IV Q 2006	IV Q 2005
Shareholders with significant influence	0	457	0	225
Companies related to members of supervisory board	2,336	2,859	415	721

As a result of these transactions, the company had the following liabilities to related parties as of 31.12.2006:

	31.12.2006	31.12.2005
Companies related to members of supervisory board	0	50

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

The remuneration, including bonuses, paid to the management board members in 2006 amounted to 4,385 thousand EEK (in 2005, to 3,923 thousand EEK); the remuneration paid to the supervisory board members amounted to 335 thousand EEK (in 2005 to 946 thousand EEK).

Note 12 Subsidiary company

On 20 September 2006, AS Starman and AS Levira founded Eesti Digitaaltelevisiooni AS, the principal activity of which is to supply digital terrestrial television services in Estonia. The services related to marketing and customer service are supplied to Eesti Digitaaltelevisiooni AS by AS Starman and the transmission service by AS Levira. The products are being sold under the ZUUM trademark held by Starman.

66% of shares in Eesti Digitaaltelevisiooni AS are held by Starman and 34% of the shares by Levira. According to the agreement, the shareholders will contribute pro rata with their shareholdings up to 46 million EEK to the company's equity. In the case of a need for additional financing the funds are to be provided by Starman and the shareholders would retain their current interest in profits and votes. The shareholders have signed an option agreement, according to which Levira is entitled and obliged to sell and Starman is entitled and obliged to acquire Levira's share on the agreed terms and conditions. The option can be exercised from 1 July 2008 depending primarily on the number of customers achieved. Most likely the option will be exercised when the number of customers reaches 35,000-50,000. Since Eesti Digitaaltelevisiooni AS is a starting company, it is impossible to reliably determine the value of the option agreement and, therefore, Starman will not assume any additional net assets or incur an additional net liability.

As of 31 December 2006, the owners' contribution to the equity of the company amounted to 12 million EEK. As of 31 December 2006, the loss of Eesti Digitaaltelevisiooni AS amounted to 2,436 thousand EEK, balance sheet total to 12,733 thousand EEK and owners' equity to 9,564 thousand EEK.

Note 13 Earnings per share

	2006	2005	IV Q 2006	IV Q 2005
Net profit attributable to shareholders (thousand EEK)	43,958	22,823	7,928	4,760
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Basic EPS	3.37	1.75	0.61	0.36
Net profit attributable to shareholders (thousand EEK)	43,958	22,823	7,928	4,760
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	9	0	9	0
Weighted average number of shares adjusted with options (thousands of units)	13,063	13,054	13,063	13,054
Diluted EPS	3.37	1.75	0.61	0.36

* The dilutive effect of options has been calculated as follows: $200,040 * (68.85 - 65.87) / 68.85 = 8,638$ shares; incl. 200,040 = number of contingently issuable shares having dilutive effect, 68.85 = market value of shares as of 31.12.2006, 65.87 = share price upon exercise of option.

EPS (earnings per share) is calculated by dividing the net profit attributable to shareholders for the reporting period by the weighted 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. The 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 is equal to the average trade price applicable during 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 board member's employment relation with Starman.

As of the reporting date all conditions necessary for the realisation of the options of A-series had been met. Thus, the dilutive effect of underlying shares has been added to the weighted average number of shares during the period. Diluted earnings per share is calculated by dividing the net profit attributable to shareholders by the number of shares adjusted with dilutive effect of options.

Note 14 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 the 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 legal acts. Starman's expenses related to 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 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 a 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 to the value of 1,534 thousand EEK relates to the 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 AS Telset to Tele 2 Group when Tallinna Kaabelitelevisiooni 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, the 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 was scheduled to take place in January 2007, but was postponed to the end of the next month. Expenses relating to the action have been insignificant so far, amounting to less than 50 thousand EEK.



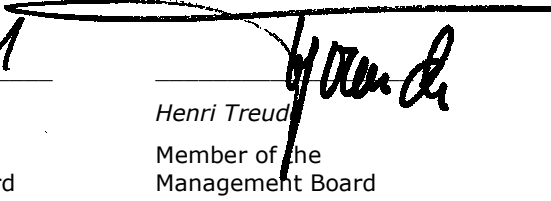
**SIGNATURES OF THE MANAGEMENT BOARD TO THE CONSOLIDATED
INTERIM REPORT OF THE GROUP FOR THE YEAR 2006**



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treud
Member of the
Management Board



Management Board Member