

starman

CONSOLIDATED ANNUAL REPORT AS STARMAN

Translation of the Estonian Original

Beginning of financial year: 01.01.2007

End of financial year: 31.12.2007

Registry code: 10069659

Address:
Akadeemia tee 28
12618, Tallinn
Republic of Estonia

Telephone: +372 6 779 977

Fax: +372 6 779 907

E-mail: starman@starman.ee

Internet: www.starman.ee

Main activities: cable television and data communication services

TABLE OF CONTENTS

CONSOLIDATED MANAGEMENT REPORT	2
CONSOLIDATED FINANCIAL STATEMENTS	17
MANAGEMENT REPRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS	17
CONSOLIDATED INCOME STATEMENT	18
CONSOLIDATED BALANCE SHEET	19
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	20
CONSOLIDATED CASH FLOW STATEMENT	21
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	22
Note 1 Basis of preparation	22
Note 2 Revenue	32
Note 3 Other income and expenses	32
Note 4 Net financial items	33
Note 5 Income tax	33
Note 6 Cash	33
Note 7 Receivables	34
Note 8 Prepayments	34
Note 9 Inventories	35
Note 10 Property, plant and equipment	35
Note 11 Intangible assets	36
Note 12 Borrowings	37
Note 13 Payables	38
Note 14 Prepayments	39
Note 15 Owners' equity	39
Note 16 Finance lease and operating lease	40
Note 17 Segment information	41
Note 18 Related party transactions	42
Note 19 Note to the consolidated cash flow statement	44
Note 20 Investments in the shares of the subsidiary	44
Note 21 Earnings per share	45
Note 22 Pending disputes and legal actions	46
Note 23 Financial instruments and risk management	47
Note 24 Parent company's unconsolidated income statement	49
Note 25 Parent company's unconsolidated balance sheet	50
Note 26 Parent company's unconsolidated statement of changes in equity	51
Note 27 Parent company's unconsolidated cash flow statement	52
INDEPENDENT AUDITOR'S REPORT	53
PROFIT ALLOCATION PROPOSAL	54
SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE ANNUAL REPORT 2007	55

CONSOLIDATED MANAGEMENT REPORT

General

Starman is the biggest cable-TV network based telecommunication company in Estonia. In its activity the company is focused on private customers. This concentration is supported by the entire Starman brand concept, including the company's slogan "Million reasons to stay at home!".

The success of Starman continued in 2007. Telephony service 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. The triple play service is now available to the majority of the company's customers. Through its cable network, Starman is currently represented in most of Estonia's major cities, predominantly in densely populated areas. The company's cable network covers 47% of Estonian households. In December last year, the product portfolio of Starman was supplemented with a DTT (digital terrestrial television) service. ZUUMtv, which was positioned separately, is transmitted through air and Starman's cable network is not used for delivering this product. ZUUMtv is expected to attract a considerable number of new customers in the near future, especially in those regions of Estonia where Starman was not present thus far.

In September, an important era for Starman came to an end when the investment fund Royalton Capital Investors, which had been the company's key shareholder for about seven years, sold the second and last part of its shares. While the first part was sold in June 2005 in an IPO process, which valued the company at 684 million kroons, the share price offered to all shareholders in the takeover bid exceeded that of the IPO by almost 72%, the aggregate value of the company thus amounting to 1.17 billion kroons. This deal certifies Starman's current success and good prospects for the future. After having acquired the initial 54.04% of the company's shares, a consortium of financial investors led by Bancroft Private Equity LLP has acquired more shares in both the mandatory takeover bid and a number of separate market transactions. At the moment, Baltic Moontech Investments Holding AS representing the above financial investors holds a total of 8,505,727 shares in Starman, i.e. 65.16% of the company's share capital. Given the current structure of shareholders, delisting of the company from Tallinn Stock Exchange will probably be applied for in the near future.

Starman Group's total revenue for 2007 amounted to 281.8 million kroons, representing a 19% increase on the same period a year ago. EBITDA for 2007 amounted to 93.2 million kroons and the net profit attributable to shareholders to 37.5 million kroons - respectively a 1% and 15% decrease compared to the same figures last year. The good performance is built on the company's successful long-term activities relating to traditional services, where the best-ever results were achieved both in terms of volume and profitability. As expected, the starting ZUUMtv had a negative impact on Starman's profit figures. A drop of 24.8 million kroons in EBITDA - Starman's main performance indicator - is directly attributable to ZUUMtv, plus certain indirect costs whose amount cannot be determined precisely as they were allocated to a number of different products. The negative impact of 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.

Financial ratios

A selection of ratios for evaluating the economic activities in the year 2007:

	2005	2006	2007
Sales increase	26%	25%	19%
EBITDA margin	33%	40%	33%
Gross margin	15%	21%	13%
Net margin	12%	19%	13%
Revenue/average assets	0.67	0.72	0.73
Equity ratio	54%	58%	57%
Debt to equity	0.69	0.56	0.57
Debt/EBITDA	1.76	1.19	1.41
Investments/EBITDA	1.16	0.83	1.15
Current ratio	0.67	1.09	0.91
Invoice turnover rate (annual)	20.2	20.0	21.5

Definitions:

Sales increase = increase compared to the same period last year
 EBITDA = operating profit + depreciation, amortisation and impairments
 EBITDA margin = EBITDA / total revenue
 Gross margin = operating profit / total revenue
 Net margin = net profit attributable to shareholders / total revenue
 Equity ratio = total 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 Digitaaltelevisiooni AS being a subsidiary company. 66% of shares in Eesti Digitaaltelevisiooni AS are held by Starman and 34% of the shares by AS Levira. The financial results of Eesti Digitaaltelevisiooni AS have been consolidated into the Group report on a line-by-line basis, separately indicating the minority share.

Management changes

In relation to having a new majority owner, an extraordinary general meeting of the company's shareholders was held on 25 October 2007. At the meeting, it was decided to remove some of the Supervisory Board members, to elect Tamas Szalai, Fred Martin and Krisztina Havas as new members of the Supervisory Board, and to re-elect the Supervisory Board members Indrek Kuivallik and Rain Lõhmus for an additional term of three years. From now on, Starman's Supervisory Board will have five members instead of the former seven.

Effect of the general economic environment

Even though several signs of the unsustainability of the current model of Estonian economic growth were perceivable for years, most of these signs became a common reality in the second half of 2007. The efficiency of the current business models should decline noticeably as regards the accelerated domestic consumption that mostly resulted from the credit offers targeted to the retail market, as well as in the real estate sector that has been enjoying superb productivity levels as a result of similar factors. Inflation figures were coupled, in addition to the domestic consumption factor, with the external factor which mostly related to international commodities markets and which appeared at a most inopportune time. The problem of finding qualified labour

despite quick wage increases – the obstacle that became the central issue of the local labour market in the last year – continued.

Despite these worries the Estonian economy demonstrated a thriving growth in 2007 and the impact of setbacks will probably be felt in the following years. The economic growth, which was quite impressive when compared to most of the European countries, undoubtedly created the preconditions for solid results of companies. With Starman it must be taken into account that the company operates in a highly competitive environment where the growth potential of several market segments has been steadily decreasing over the recent years. Therefore, the impact of the quick economic growth on the revenues of the company is somewhat limited. On the other hand, considering the relatively broad and stable clientele of Starman and its well-positioned products, some setbacks of the economy should not have a remarkable impact on the company.

In 2007 Starman did quite a good job maintaining its competitive position, solving labour-related issues and optimising also the prices of other inputs.

Revenue and expenses

While in 2006 the company's total revenue surpassed the 200-million-kroon limit for the first time, the year 2007 saw the continuation of the expected moderate growth, with revenues nearing the landmark of 300 million kroons. Total revenue for the year amounted to 281.8 million kroons, i.e. a 45.0-million-kroon increase from 2006. Traditionally, cable television and internet services contributed the majority of the total revenue, accounting for 45% and 33% of the total revenues, respectively. Telephony service, growing faster than the latter two, accounted for 17% of the total revenues for the period. The digital terrestrial television (DTT) service has not had a notable effect on the revenues yet.

Revenue from cable television services comparison with the year 2006 increased by 14%. Organic growth in the market has mostly been achieved at the expense of price increase in recent years. In the first quarter of 2007 the prices of Starman's cable television services further approached those of countries with a similar living standard but still remained 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. At the end of December 2007, the company had a total of 133 thousand cable television customers, 5.8% of which were digital television users. Starman is the market leader in the provision of paid-for television services to customers. The number of cable television customers at the end of December exceeded the last year's relevant figure by 1.1%, quite a good result given the saturated market and tightened competition. Monthly fees made up 96% of the total revenue from cable television.

Revenue from the internet services increased 12% year-on-year. At the end of December 2007, the company had 48 thousand internet customers, representing a 22% increase in comparison with the same period a year ago. Starman maintained its position as the market leader of broadband internet for private customers in its footprint. In line with the general impacts of the market, the ARPU continued to show a downward trend, with the average figure of 2007 dropping 11% compared to the last year's relevant figure. Starman's popular triple packages in which the internet services are cheaper had 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. In the second half of the year a slowdown of the internet ARPU's decrease rate could be observed. Monthly fees for broadband generated 97% of total revenue from internet services.

While 2006 was the first year in which the telephony service had a notable positive impact on the results of the company, that positive effect was perpetuated in 2007. Of the three primary services, the telephony service continues to show the best growth figures, although the growth rate has somewhat decelerated, with the revenue for 2007 having increased 32% in comparison with the same period a year ago. As at the end of December 2007, the company had 43 thousand telephony clients, i.e. 41% more than at the same time last year. No other telephony service provider in Estonia can boast such a quick increase in the clientele. Thanks to the availability of its own network, good technical solutions and a favourable pricing policy, Starman has become the only considerable alternative to the incumbent fixed-line telephone operator Elion Ettevõtte AS

which has historically enjoyed its monopoly in the market. In its coverage area, Starman's share of the fixed telephone market for private customers had increased to nearly 29% (approximately 14% in the Estonia overall) by the end of the year. The ARPU of the telephony service, which has been quite stable so far, has been declining significantly from the beginning of 2007. The average ARPU for 2007 decreased 15% when compared to the corresponding figure of the previous year. Most of the revenue from the telephony service is generated by call traffic; the share of fixed monthly fees contributed 35% in 2007 (31% in 2006).

Starman views its cable television, internet and telephony 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, a separate analysis of the respective segments might not give the most accurate picture. In 2007, the average aggregate revenue from the given services per client was 14% higher in comparison with the same period a year ago.

ZUUMtv was launched with content slightly weaker than planned. Eesti Digitaaltelevisiooni AS is trying to make up for the initial setback by expanding the coverage area and improving the selection of programmes. The coverage area changed notably in the second quarter; by the end of the quarter ZUUMtv covered as much as 93% of Estonian households. Although the relevant figure was 60% at the launch of the product, it encompassed mainly densely populated areas such as Tallinn and Tartu where the traditional cable television is more economically feasible and where the potential of ZUUMtv is thus relatively modest. While until now the three main local channels were available to ZUUMtv clients in analogue format, then from the end of April the first of them – *Eesti Televisioon* – is available digitally. Prospects for the near future seem quite positive in this sphere, which is also confirmed by the improvement of the selection of channels at the beginning of 2007. At the end of December, Eesti Digitaaltelevisiooni AS had 10 thousand customers and ZUUMtv covered 97% of Estonian households. The DTT service contributed 0.2% of the company's total revenues in 2007. That figure continued to increase during the year, reaching 3.5% in December.

The sales of goods and materials can be regarded as providing supplementary revenues. The sales of customer equipment necessary for provision of services (STBs, routers, modems) accounted for 80% of these revenues in 2007. The year-on-year 51% increase in this revenue category mostly resulted from the sales of STBs necessary for consuming ZUUMtv.

Starman's operating expenses amounted to 188.6 million kroons in 2007, representing a 32% growth year-on-year. In addition to personnel expenses, the biggest expense items for the year included programme fees, marketing expenses, DTT transmission charges, telephone traffic expenses, rental of communication ducts and internet traffic expenses. The fact that the operating expenses grew faster than the revenue is primarily attributable to ZUUMtv – when eliminating the direct costs relating to this newly launched product, the increase in operating expenses would amount to 14%. The impact of ZUUMtv is most notable among expenses reported under "Services purchased" which include the transmission charge payable to Levira as a major expense item. The amount of the transmission charge depends primarily on coverage, and therefore its impact on profit figures after the product has just been introduced and customer figures are far from the company's long-term targets is quite substantial. In addition to the impact of ZUUMtv, the annual increase of marketing expenses by 40% resulted from the continuing aggressive competition in promoting of telecommunications services. Of major expense items, expenses on the rental of communication ducts (a growth of 34%) and personnel expenses have also shown fast growth compared to the same period a year ago. Despite the pressure on several input prices due to fast-growing salaries, the company has been quite successful in managing the growth in operating expenses.

Personnel expenses increased 24% year-on-year. As regards personnel expenses, it should be noted that this indicator includes 81% of the total wage fund, since the remainder is capitalised in accordance with the corporate accounting rules (in 2006 the corresponding figure accounted for 88% of the wage fund). The average number of employees was 231 in 2007 (as compared to 210 in 2006). As at 31 December 2007, the company employed 256 people. Part-time employees accounted for 19% of the staff. The average number of employees translated to the full employment equivalent was 203 in 2007, having grown only 5% compared to the same figure a year ago. While the number of employees translated to the full employment equivalent remained stable at just below 200 during the first nine months of 2007, the fourth quarter witnessed a

significant growth and, by the end of December, the relevant figure had risen to as much as 226. The rise in the number of employees is related to both the expected increase in business volumes and a reduction of certain outsourced activities. Non-capitalised wages and salaries (incl. bonuses) paid to Management Board members and Supervisory Board members in 2007 amounted to 6493 thousand kroons and 293 thousand kroons, respectively.

As to expenses related to asset valuation, the provision for bad debts amounted to 1019 thousand kroons, i.e. to merely 0.4% of the period turnover just like a year ago. Such a sound level of provisions can be attributed besides efficient credit risk management to overall favourable situation in economy which continued for most of the financial year 2007. In 2007, losses and discounts of inventories amounted to 752 thousand kroons (in 2006, to 995 thousand kroons).

EBITDA – Starman's main performance indicator – amounted to 93.2 million kroons in 2007, resulting in a margin of 33% (40% in 2006). When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to an excellent 43% (42% in 2006). Hence, 2007 was record-breaking in terms of profitability of traditional services.

Depreciation costs increased 27% in comparison with the year 2006. Owing to the extensive investing activities carried out in recent years, the depreciation costs continued to have a considerable impact on the profit figures.

Traditionally, the net financial result has no significant effect on Starman's overall economic results. The interest expense on external funding used by the company is undoubtedly the single major expense item. That expense item amounted to 6.46 million kroons in 2007 – i.e. a 26% increase from 2005. With general trends towards interest rate hikes, the company succeeded in maintaining the average cost of external funding at a reasonable level – the average indicator for 2007 was 5.17%, compared to the 4.62% in 2006.

The net profit attributable to shareholders for 2007 amounted to 37.5 million kroons. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 10.2 million kroons negative. When assessing profit figures, one should note that the results include the income tax expenditure of 2.6 million kroons related to disbursement of dividends. When eliminating the direct influence of ZUUMtv on the level of revenues, operating expenses and depreciation, and adding the interest expense relating to funding the activity in question in accordance with the company's average cost of external funding, we arrive at the net profit margin of 20% instead of the "official" 13%.

Balance sheet, investments and financing

In 2006 the company maintained its financial policy which, on the balance sheet, is characterised by high capitalisation, a relatively low debt level and sufficient liquidity.

In 2007, Starman's investments in fixed assets amounted to 106.9 million kroons, representing a 37% increase on the last year's figure. The company made the following investments: 51.1 million kroons in cable network construction and renovation; 16.9 million kroons in STBs (incl. 14.2 million for provision of ZUUMtv), 11.1 million kroons in internet equipment (incl. 8.6 million kroons in Head-Ends); 9.1 million kroons in telephone modems; 7.4 million kroons in analogue cable television Head-Ends; and 11.3 million kroons in other spheres.

Investments in cable network, the company's most important physical asset, increased by 45% compared to 2006. When compared to earlier years, projects aiming at network expansion are notable among investments in the cable network. There are still some locations in Estonia where cable network expansion should be feasible, given the company's current success in providing telecommunications services. In addition to the usual trend of moving along with real estate developments in Tallinn and its surroundings, the company made investments in, e.g., Tapa, Kadrina, Võru, Pärnu, and Haapsalu in 2007. While work aimed at the modernisation and enhancement of the data communication capability of the existing network was continued, the relative share of that particular type of network investments diminished, given the high level already achieved. As at 31 December 2007, Starman's network covered 266 thousand households with 251 thousand – i.e. 94% – of the households being served by a network with the data communication facility (as at 31 December 2006 the comparable figures were 251 thousand, 225 thousand and 90%, respectively). At the beginning of 2007 cable networks in Rapla and Kehra

were upgraded to support data communication, and in the second half of the year respective work was started in Kuressaare and Valga; minor network modernisation works continued also in Tallinn and Ida-Virumaa. 54% of the network investments were made in Starman's most important target area – Tallinn and its vicinity (75% in 2006).

Investments in telephone modems and STBs are directly related to the growth in the number of customers. This equipment is respectively used by customers for the consumption of telephony and digital television services. In addition to the telephony service, the telephone modem also allows customers to use the internet service. Investments in the internet and cable television equipment primarily enhanced quality in the environment of ever growing data communication volumes. As regards cable television equipment, a substantial part of investments is also attributable to the network expansion mentioned above.

As to the company's financing needs, dividend payments amounting to 11.7 million kroons made at the beginning of July had to be considered besides the investments to be made in fixed assets. While mainly the company's own resources were used for financing in 2007, external funding was increased by 18.9 million kroons as well. Owners' equity, which as usual has been used for financing a majority of the company's assets, was further increased through the profit to reach nearly 232 million kroons by the end of the year.

Despite the investment-intensive year once again, Starman's operations still involved only a moderate liquidity risk. Considering the specifics of Starman's balance sheet, concentration on single traditional liquidity indicators (e.g. current ratio) can, unfortunately, be misleading. Namely, customer receivables recorded under assets have been significantly undervalued as of the balance sheet date, since the deadlines of the group invoices have recently fallen due, and new invoices have not yet been accounted for (the situation is also characterised by a higher-than-average invoice turnover rate). Although the company's day-to-day liquidity position is always normal, Starman maintains an additional liquidity buffer (consisting of cash and short-term debt instruments) for possible short-term setbacks.

The high level of inventories as at 31 December 2007 is mainly due to the network expansion projects to be launched in the near future and the STBs designated for the ZUUMtv offer included in the balance sheet of Eesti Digitaaltelevisiooni AS. Considering the delivery schedule of the STBs designated for the ZUUMtv offer and the anticipated market capacities for the new product, the level of these inventories will probably remain high also in the future.

Organisation

The once expansive nature of Starman's activities and the extremely rapid increase of revenues have gradually subsided and the organisation reached the phase of maturity in recent years characterised by a relatively moderate growth. Therefore, and as the need to quickly realise new business opportunities has decreased, the company is now focusing on keywords such as quality, efficiency and systematisation. Starman's quality management system has been developed and implemented since 2005 in accordance with the ISO 9001:2000 requirements. In the main quality areas, the company has established concrete indicators which are under continuous surveillance. Some of the most important indicators to mention are service uptime, network quality indicators such as signal levels, signal and noise ratios, customer call reception indicators, figures characterising the speed of making new services available, and service failure elimination speed thresholds. At the same time, in order to remain flexible and competitive in a changing environment, the company tries to conduct its daily operations by also using simple approaches, which are based on the experience gained as a small company. The company continues applying the so-called "thin company" policy. Cost and investment management is based on the principle according to which areas less related to customer wellbeing are subjected to a significantly stricter monitoring. Differentiating what is important, focusing on the main issues and efficiency are in forefront, perfection afterwards.

Significant changes were introduced in the corporate structure in the second half of 2006, with a majority of the employees being organised into two large divisions – customer service (includes the call centre, customer connection staff and all direct support functions) and network construction (includes cable network expansion, renovation, and network quality management as well as all direct support functions). The two large divisions incorporating over 80% of the

company's full-time employees are supported by marketing and development, relatively small technology and financial units and auxiliary functions such as administration, human resources and legal service. The structural changes aimed at improving the quality of Starman's services through the optimisation of processes and concentration of organisational resources. We gladly observed in 2007 that the changes contributed a lot to the attainment of our objectives.

As regards customer service, the availability of services to customers, as well as the speed and quality of servicing improved over the year. Besides the general organisational changes, also particular development projects had a role in the improvement. For example, the functionality of the customer support telephone 1770 was developed by adding several additional options such as the optimisation of the wait time through the possibility of calling back and the separation of general notices from specific information (e.g. the immediate notices of scheduled maintenance operations, automatic failure notices, etc.). The developments of Starman's customer support telephone 1770 earned the title "Service of the Year" in 2007 from the generally acknowledged service organisation Heateenindus.ee. Along with the structural changes the roles of the first and second customer service levels were clarified and their cooperation improved, resulting in an increase of the percentage of customer contacts in 2007 which were resolved at the first service level. Accordingly, the speed of managing more complicated contacts at the second service level increased. Thanks to the inclusion of customer care technicians into a uniform service structure the servicing of customers at their homes was devoted more attention. With a view to smoother cooperation and better quality control, the outsourcing of customer care operations from subcontractors was discontinued in the first half of 2007. It can be said now that these changes have led the organisation in the desired direction and that customer satisfaction has increased thanks to uniform servicing.

Owing to the quick increase of data communication volumes in recent years, the cable network was divided into smaller nodes on a growing basis in 2007. As a result, the network load decreased and several indicators characterising the quality of the network improved. For customers, this means that services offered to them are more stable and of an even better quality. The already relatively good indicator of service uptime improved in 2007 – the average downtime decreased by 22% year-on-year, stopping at the level of 0.14%. Power failures continue to account for the majority of the limited downtime. In 2007 additional measures were taken to respond to the power failures in a more efficient manner. Most of the network construction resources were traditionally devoted to the implementation of particular network investment projects which are discussed in more detail in the section dedicated to investments in this Management Report.

Internal software development was rendered more systematic in 2007. Naturally the company's important asset – internally developed customer management software "Starvara" – continued to develop. As regards the software solutions that were introduced, the most significant were the development of wizards for transactions made by customer service personnel, the electronic entry of work orders and the integration of customers' electronic correspondence into Starvara. In the middle of the year the last accounting differences regarding the customers who were joined with Starman's accounting system in earlier years as a result of the acquisitions of various companies were abolished, and all Starman's customers were transferred into the uniform accounting system.

The company did not issue any significant newly developed products in 2007. Work aimed at the perfection of the existing services was continued, and analyses and tests regarding possible new solutions were carried out. With a view to systemisation, some smaller services such as the service of e-mail and website management were discontinued. As regards the e-mail service, an offer of a notably larger potential – Smail.ee – was launched in conjunction with Google.

The market research carried out supported our knowledge of Starman as a well-known brand in the local retail market. Various advertising campaigns were conducted during the year and the company continued to be noticed. Starman continued to pay more attention to TV advertising following the increase of TV ads in 2006. ZUUMtv as a service that is available countrywide can be distinguished as one of the reasons in this regard. The prominence of Starman as a telephony service provider grew. Besides advantageous offers and the high-quality servicing, skilful marketing played its role in the keen interest towards Starman's triple packages.

Share trading and shareholders

Starman's shares were listed on the main list of the Tallinn Stock Exchange on 28 June 2005. This was preceded by the IPO as a result of which the participation of Royalton Capital Investors, the company's majority shareholder, decreased from 64.2% to 33.4%. The IPO was very successful. Shares were oversubscribed by institutional investors 9.4 times and by retail investors 3.5 times. The sales price was fixed at 52.42 kroons (3.35 euros).

Further share price developments until the end of 2007 can be seen in the diagram below:



* Note: Starting from 24 September 2007 the closing price of the share is deemed to be 89.97 kroons, because at that moment the information was published that basically laid down the basis for the subsequent share price; 89.97 kroons was also the price proposed to shareholders in the takeover bid; in reality the closing price differed from 89.97 kroons on just a couple of trading days after 24 September 2007.

Some share and trading indicators:

	2005	2006	2007
Number of shares (pcs)	13,053,570	13,053,570	13,053,570
Shares traded (pcs)	2,982,926	3,082,096	16,824,355
Nominal value (EEK)	10	10	10
Book value (EEK)	12.21	15.23	17.40
Closing price at the end of the year (EEK)	59.77	68.85	89.97
Highest closing price (EEK)	62.59	68.85	89.97
Lowest closing price (EEK)	54.76	51.95	66.50
Annual price change, %	14%	15%	35%
Earnings per share (EEK)	1.75	3.37	2.87
Dividends (EEK)	0.35	0.70	0.00
P/E ratio	34.2	20.4	31.3
P/B ratio	4.9	4.5	5.2
Dividend yield, %	0.6%	1.0%	0.0%
Market value (in million of EEK)	780.2	898.7	1174.4

Definitions:

Book value = owners' equity held by the shareholders of the parent company at the end of the year / number of shares
Annual price change = the difference between the closing price at the end of the year and the closing price at the end of previous year; since no information was available for beginning of 2005, the IPO price was used for the calculation
Dividends = the dividends paid to shareholders with the distribution of the profit for the year; in case of 2007 it is assumed that dividends will be paid according to Management Board's profit distribution proposal
P/E ratio = closing price at the end of the year / earnings per share
P/B ratio = closing price at the end of the year / book value
Dividend yield = dividend / closing price at the end of the year
Market value = number of shares * closing price at the end of the year

On 21 September 2007, a conditional agreement on transfer of 54.04% of all shares in Starman for a price of 89.97 kroons (5.75 EUR) per share was signed. Under this agreement, Baltic Moontech Investments Holding AS acquired a 54.04% holding in the company on 12 October 2007. On 29 October 2007, Baltic Moontech Investments Holding launched a takeover bid for all of the shares in Starman not held by it. The bid period lapsed on 27 November 2007 and the sale transactions executed in the bid process were settled on 30 November 2007. As a result of the bid, Baltic Moontech Investments Holding acquired altogether 572,292 shares of Starman, representing 4.38% of the issued share capital of the company. Further, since the initial purchase of 54.04% Moontech has acquired altogether 878,834 shares of Starman, representing 6.73% of the company's share capital, in market transactions with the price of 89.97 kroons (5.75 EUR) per share. That event significantly altered the structure of shareholders.

While trading in Starman's shares used to be relatively uneven and mostly characterised by low liquidity and gradual decrease of the number of retail investors, now also larger investors, who had acquired their shareholdings in the course of the IPO, started to sell. As a result of the transaction, the market value of the company was recorded at 1.17 billion kroons, 72% higher than the price after the IPO. As of 31 December 2007, shareholdings in Starman were as follows: Baltic Moontech Investments Holding – 65.15%, Com Holding – 17.72%, Constock – 15.45%, and the remaining 271 shareholders – 1.68%.

Baltic Moontech Investments Holding AS is, through different companies, under the control of a consortium of financial investors led by Bancroft Private Equity LLP. Bancroft Private Equity LLP is an international private equity firm based in London investing in Central and Eastern Europe and Turkey. Using the indirect approach, the interests in Baltic Moontech Holding AS can be divided as follows: Bancroft II, LP (the fund manager of which is Bancroft Private Equity LLP) – 70.78%, Askembla Growth Fund – 17.06% and GE Capital Equity Holdings Inc. – 12.16%.

The near future

In 2008, Starman will continue making efforts for becoming the best private customer-oriented telecommunication service provider in Estonia.

Even though the hitherto rapid economic growth of Estonia will slow down, it will hopefully still be positively prominent when compared to other European economies. In our opinion, the statements of several Scandinavian banks' analysts and the rumours thus spread to investors about the Estonian kroon being devaluated and Estonia soon being hit by an economic depression belong in the domain of unreal scare stories. The company is carefully monitoring the situation with the labour market and domestic consumption. While a certain slowdown of the rapid economic growth will reduce domestic consumption and thus influence consumers' choices concerning telecommunications services, it will also contribute to the arrangement of many economic models which, keeping in mind the selection of labour, might have a positive impact on the company. We hope that the local economy succeeds in maintaining a balance between wage increases and productivity, and that the inflation pressure will subside in the medium term so that the adoption of the euro would become a reality again.

Our growth expectations for this year are similar to those in recent years. All of the main services offered by the company continue to have potential. Still, ZUUMtv, the digital terrestrial television service, could currently be brought out as potentially the biggest driver of growth. The vigorous launch of ZUUMtv as the newly developed product will continue to influence margins. However, in the long run the new product is expected to strengthen the company's market position and profitability.

Starman's cable transmission network and customer base provide many further business opportunities. The company is constantly monitoring the market and prospects, develops its existing products accordingly and – subject to the opening of sufficient business opportunities – could launch additional services/products.

The near future will probably see the delisting of the company from Tallinn Stock Exchange. According to current plans, Starman's parent company, Baltic Moontech Investments Holding AS, will acquire 100% of the shares in Starman and thereafter merge the businesses of Starman and Baltic Moontech Investments Holding AS. That event might alter the current investment and financing policies of the company.

After years of hard work, Starman has gained a strong position on the Estonian highly competitive telecommunication market. This is the result of the efforts made by our employees. There is still enough room for improvement and Starman has excellent chances of meeting its growing objectives.

CORPORATE GOVERNANCE REPORT FOR 2007

As from 1 January 2006, AS Starman ("**Starman**") follows the instructions of the Estonian Principles of Corporate Governance ("the **Principles**"). This report ("**Report**") describes the management of Starman in 2007 and its conformity with the Principles. In 2007, Starman believes it adhered to the Principles except in the cases noted in this Report.

STARMAN

Starman is a public limited company [Est. *aktsiaselts*] registered in the Republic of Estonia, at Akadeemia tee 28, Tallinn, with the registry code of 10069659. The share capital of Starman in 2007 was 130,535,700 kroons, which is divided into registered shares of a single class with a nominal value of 10 kroons. Starman's shares are in the main list of the Tallinn Stock Exchange (Baltic Main List), with the abbreviation SMN1T. The share register of Starman is maintained by the registrar of the Estonian Central Register of Securities. As of 31 March 2008, Starman has 265 shareholders.

GENERAL MEETING

The highest directing body of Starman is the general meeting of shareholders. General meetings can be annual or extraordinary. The authority of the general meeting is defined by the Estonian Commercial Code and Starman's articles of association (the articles of association are available on Starman's website at www.starman.ee). Among other things, the general meeting is competent to amend the articles of association, approve the annual report, distribute the profits, and elect the members of the Supervisory Board of Starman.

Each share in Starman provides one vote at the general meeting and shareholders can participate in general meetings and vote at the meetings personally or through representatives. Usually, the general meeting has the authority to pass resolutions if more than half of the votes represented by shares are present. Resolutions of the general meeting are passed if over half of the votes represented at the general meeting are in favour, except in certain cases (e.g. amending the articles of association, increasing and reducing share capital, issuing convertible bonds, and the merger, division, reorganization, and dissolution of Starman), in which case the resolution is passed if at least 2/3 of the votes represented at the general meeting are in favour.

In 2007, the shareholders' annual general meeting took place on 15 June. The meeting approved the 2006 Annual Report along with a proposal for the distribution of profits, elected an auditor for 2007 and decided to amend the articles of association in connection with the need to ensure fulfilment of the obligations of Starman arising from the option agreements signed with the members of Starman's directing bodies and approved the new wording of the articles of association. 67.18% of the votes represented by shares were present at the annual general meeting and, therefore, the meeting was competent to pass resolutions.

On 25 October 2007, an extraordinary meeting of shareholders took place to remove 5 members from Starman's supervisory board, elect 3 new members and extend the term of office of the supervisory board members. 91.17% of the votes represented by shares were present at the annual general meeting and, therefore, the meeting was competent to pass resolutions.

The management board of Starman shall give at least 30 days' notice of an annual general meeting and 14 days' notice of an extraordinary general meeting by publishing the notice in at least one daily newspaper of national circulation. The notice of the annual general meeting of 2007 was published via the data system of the Tallinn Stock Exchange on 17 April 2007 and in the newspaper "Äripäev" on 11 May 2007, whilst the notice of the extraordinary general meeting of 25 October 2007 was published on 10 October 2007 and in newspaper "Äripäev" on 10 October 2007 respectively. The notices calling general meetings were also published on Starman's website concurrently with their publication in the newspaper of national circulation. No questions were asked regarding the agendas presented in the given notices and no supplementary proposals were made.

Supervisory board members Tamas Szalai, Fred Martin, Krisztina Havas and Rain Lõhmus, as well as the auditor did not participate in the annual general meeting of 2007 and extraordinary general meeting of 25 October 2007 for reasons not related to Starman (see the Principles, clause 1.3.2).

Therefore, as regards the general meetings of Starman, the Principles were followed in 2007, except for the rule prescribed by clause 1.3.2 of the Principles which was followed only in part.

SUPERVISORY BOARD

The supervisory board plans the activities of Starman, elects the members of the management board, and executes supervision over the activities of the management board. According to the articles of association, consent of the supervisory board is required for conclusion of transactions and activities in all areas and issues which are beyond Starman's daily business (e.g. major changes in Starman's activities, conclusion of agreements with the shareholders and companies associated with them, etc.).

According to the articles of association, the supervisory board of Starman consists of five to eight members elected by the general meeting of shareholders for a term of three years. Up to 24 October 2007, the supervisory board of Starman had the following members: Nigel Philip Williams, Roman Babka, Jaak Ennuste, Indrek Kuivallik, Hans Larsson, Rain Lõhmus and Sven Illimar Oksaar. Starting from 25 October 2007, the supervisory board members are: Tamas Szalai, Indrek Kuivallik, Fred Martin, Krisztina Havas and Rain Lõhmus. The term of office of the current supervisory board members expires on 25 October 2010.

The supervisory board members shall elect a chairman from among themselves. Until 24.10.2007 the chairman of the supervisory board was Nigel Philip Williams. At the meeting of the supervisory board held on 06.12.2007 the supervisory board elected Krisztina Havas as their new chairman.

The supervisory board members have been remunerated according to a resolution of the 2006 annual general meeting of shareholders. In 2007, the chairman of the supervisory board was paid 1,869 euros and the members of the supervisory board were paid 1,430 euros per meeting of the supervisory board. No remuneration was paid to members who did not attend. No other payments have been made to the members of the supervisory board.

In 2007, the supervisory board of Starman held all in all 4 meetings. The supervisory board approved the Annual Report for 2006, analysed financial plans and adopted resolutions on the future financial plans. Furthermore, the supervisory board adopted resolutions on the company's prospective developments, new potential lines of business and many other issues. The management board submitted regular overviews of the performance and financial position of Starman Group.

Pursuant to the law and the articles of association, the general meeting is competent to decide on conclusion of transactions between supervisory board members and Starman. Consent of the general meeting is also required for a supervisory board member to engage in activities competing with Starman. As of the date of this Report the members of the supervisory board have not advised the management board of Starman of any conflict of interest in 2007.

Hence, the supervisory board of Starman followed the Principles in 2007.

MANAGEMENT BOARD

The management board is a directing body of Starman, which directs the daily business of Starman and represents the company. According to the articles of association of Starman the management board has three to six members elected by a resolution of the supervisory board for a term of three years. Starman may be represented in all legal acts by the chairman of the supervisory board alone or by two management board members acting jointly. The chairman of the management board shall be elected by the supervisory board.

To achieve the goals set by Starman the management board analyses the risks entailed in the activities and financial objectives of Starman. By its resolution, the management board of Starman has established the Inside Information Rules along with other internal rules and regulations for Starman Group. The management board shall adhere to lawful orders of the supervisory board. In 2007, the management board and supervisory board of Starman constantly exchanged information, which among other things included regular overviews of Starman Group's performance and financial position submitted by the management board to the supervisory board.

In 2007, the management board members of Starman were the chairman of the management board, Peeter Kern (CEO), Rändy Hütsi as CFO and Henri Treude as CMO.

The remuneration payable to the management board members and the terms of payment have been specified in a contract of services signed with each management board member. The incentive plan for the management board members has been approved by a resolution of the supervisory board. In 2007, Starman diverged from clause 2.2.7 of the Principles which stipulates that the bonuses and other benefits of management board members shall be published on Starman's website and in this report and that the principles of remuneration of management board members be presented at the general meeting of shareholders. At the moment, publication of such information would not serve Starman Group's interests.

However, in its Annual Report for 2007, Starman discloses the remuneration paid to its management and supervisory board members during the period in question. The total remuneration (including bonuses) paid to the management board members in 2007 amounted to 414,978 euros, whilst the total remuneration paid to the supervisory board members amounted to 18,726 euros. According to the management incentives plan approved by the supervisory board option rights have been vested in the management board members which entitles the management board members to acquire the total of 600,000 shares in Starman. In the event of removal or failed re-election of a management board member, the member shall be paid compensation also in the event where the member has not breached the contract of services signed with him or her. The amount of compensation due to the management board members under the contracts signed with them would total 62,900 euros.

Pursuant to the law and the articles of association, the supervisory board shall approve of a transaction between a management board member and Starman. Consent of the supervisory board is also required for a management board member to engage in activities competing with Starman. As of the date of this Report the members of the management board have not advised the supervisory or management board of Starman of any conflict of interest in 2007. Hence, the management board of Starman followed the Principles in 2007, except for the rule stipulated in clause 2.2.7 of the Principles.

DISCLOSURE OF INFORMATION

The information required by the Principles is available on Starman's website at www.starman.ee, including the articles of association, financial statements, data on the supervisory and management board members and other information.

The website does not disclose the times and venues of meetings with analysts, presentations made to and press conferences held with analysts and investors (see the Principles, clause 5.6). According to the Tallinn Stock Exchange Rules, Starman shall publish all essential and sensitive information first via the Stock Exchange system and the information disclosed at the meetings and press conferences is limited to the information that has already been disclosed. The information disclosed is available in its entirety also on the website of Starman. The website publishes contacts for the shareholders to request further information. At the moment, Starman does not consider it necessary to disclose the schedule of its meetings on its website.

Starman has not published a separate account of its development strategies approved by the supervisory board (see the Principles, clause 5.3). At the same time, all interim and annual reports which explicitly set out the development strategies of Starman, have been disclosed on Starman's website.

Hence, in disclosure of information in 2007 Starman complied with the Principles, except for clauses 5.3 and 5.6, which were followed in part.

FINANCIAL REPORTING AND AUDITING

Starman prepares its accounting reports in accordance with the international financial reporting standards applied in the European Union (IFRS). In disclosure of financial reporting, Starman follows the provisions of the law and the regulations of the Tallinn Stock Exchange.

According to the articles of association of Starman, the general meeting of shareholders shall elect an auditor. The auditor of Starman in 2007 was Ernst & Young Baltic AS. Ernst & Young Baltic AS audited the consolidated financial statements of Starman and its subsidiaries and submitted an independent auditor's report to the general meeting of shareholders. The payments to the auditor were made under the contract signed between the auditor and Starman. The contract signed with the auditor complies with the requirements of the Principles.

Although the auditor in 2007 was the same as the year before, the supervisory board of Starman did not render an evaluation of the auditor's performance to be submitted along with the notice calling the general meeting (see the Principles, clause 6.2.1). At the same time, the supervisory board did not find it necessary to render a separate evaluation of the performance of an internationally recognised auditor in the case of its re-election.

Hence, in 2007 Starman conducted its financial reporting and auditing in compliance with the Principles, except for clause 6.2.1, which was followed in part.

Additional information that must be included in the 2007 Activity Report of AS Starman according to the Accounting Act.

Structure of capital and restrictions on transfer of shares

The share capital of AS Starman (hereinafter "Starman") divides into registered shares of one class, each with a par value of ten (10) EEK. The shares of Starman are freely transferable. Each share grants its holder one vote at the general meeting of shareholders and entitles the shareholder to participate in the general meeting, in the distribution of profit, and in the distribution of the assets remaining upon Starman's liquidation, as well as other rights provided by law. The share capital of Starman does not include securities that are not admitted to trading on a regulated securities market in a contracting state.

The articles of association of Starman do not prescribe any restrictions on the transfer of shares.

Starman has not entered into any agreements with shareholders for restricting the transfer of shares, neither is the management board of Starman aware of any such agreements having been entered into between the shareholders.

As of 31.03.2008, the following shareholders have a qualifying holding in Starman: Baltic Moontech Investments Holding AS (65.16%), OÜ Com Holding (17,82%) and OÜ Constock (15.45%).

Starman has not issued securities granting special controlling interest.

Starman has not set up any employee share schemes.

The management board of Starman is unaware of any agreements on voting rights between the shareholders. The voting rights regulated in the articles of association of Starman do not in any diverge from law. The shareholders of Starman do not hold preferred shares.

Management

Election of management board members. The management board of Starman has three (3) to six (6) members. According to the articles of association, the members of the management board are elected by the supervisory board for a term of three (3) years. The articles of association may not prescribe a term of office longer than five years for the members of the management board. The members of the management board must be residents of Estonia. In order to elect a member of the management board, his or her consent is required.

The management board members shall elect a chairman from among themselves.

Extension of the term of office of a member of the management board may not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the articles of association. A decision for extension of the term of office of a member of the management board entered in the commercial register must be immediately sent to the registrar of the commercial register.

Appointment of management board members. With good reason, a court may appoint a new member of the management board to replace a withdrawn member of the management board on the petition of the supervisory board, a shareholder or other interested person. The authority of the court-appointed member of the management board will expire with the appointment of a new member of the management board by the supervisory board. A member of the management board appointed by a court has the right, at the company's expense, to be compensated for his or her costs to a reasonable extent and to receive a reasonable fee, the amount of which shall be established, in the case of dispute, by a court ruling.

Resignation of management board members. A member of the management board may resign from the management board with good reason if he or she gives notice of his or her resignation to the supervisory board and, if this is impossible, submits a relevant application to the registrar of the commercial register.

Removal of management board members. The supervisory board may remove a member of the management board regardless of the reason, but the rights and obligations arising from a contract concluded with him or her will terminate pursuant to the contract.

The chairman of the supervisory board or a person authorised by him or her must sign a petition for entry of expiry of the authority of a member of the management board or for entry of a new member of the management board in the register. The corresponding minutes of the meeting of the supervisory board must be appended to the petition.

The general meeting of shareholders of Starman is competent to amend the articles of association. A resolution on amendment of the articles of association is adopted by the general meeting if at least two-thirds of the votes represented at the general meeting are in favour. A resolution on amendment of the articles of association will enter into force as of the making of a corresponding entry in the commercial register.

The management board of Starman is a directing body of the company that represents and directs the company. The management board must, in directing, adhere to the lawful orders of the supervisory board. The management board is required to act in the most economically purposeful manner. Transactions that are beyond the scope of everyday economic activities may only be concluded by the management board with the consent of the supervisory board; however, the lack of such consent does not render the concluded transactions invalid.

Either the chairman of the management board alone or two members of the management board jointly may represent Starman and sign documents on behalf of Starman.

Issue and buyback of shares

Members of the management board of Starman do not have the authority to issue shares; only the general meeting of shareholders is entitled to issue shares. The management board may represent Starman in a transaction whereby the shares of Starman are acquired

upon a resolution of the general meeting, provided that:

this occurs within one year after adoption of a resolution of the general meeting which specifies the terms and conditions and term for the acquisition or taking as security of shares and the sums to be paid for the shares;

the sum of the nominal values of the shares held or taken as security by the company does not exceed one-tenth of the share capital; and

the shares are paid for from assets exceeding the share capital, reserve capital and premium;

upon a resolution of the supervisory board without a resolution of the general meeting if the acquisition of shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances surrounding and the details of the acquisition of shares at the next general meeting of shareholders;

without the restrictions set forth above if the shares are acquired by succession.

Effects of takeover bids

Starman has not entered into agreements with the management board or employees containing provisions on payment of compensation in the case of a takeover bid.

Starman has not entered into agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid in accordance with the provisions of chapter 19 of the Securities Market Act.

Confirmation

The Group's management board confirms that the management report presents fairly the development, performance and financial position of the company and the Group and provides an overview of the main risks and uncertainties

Peeter Kern

Chairman of the Management Board

Rändy Hütsi

Member of the Management Board

Henri Treude

Member of the Management Board

7. aprill 2008. a.


CONSOLIDATED FINANCIAL STATEMENTS**MANAGEMENT REPRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

We hereby take responsibility for the preparation of the financial statements set out on pages 17 to 52, and confirm that:

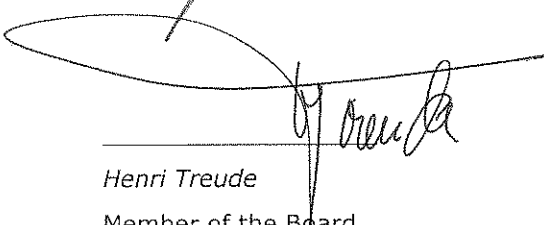
1. the accounting principles used in preparing the consolidated financial statements are in compliance with the IFRS, as adopted by the European Union;
2. the consolidated financial statements give a true and fair view of the financial position of the Group, as well as the results of its operations and cash flow;
3. the Group and its parent company are a going concern.



Peeter Kern
Chairman of the Board



Rändy Hütsi
Member of the Board



Henri Treude
Member of the Board

7 April 2008

CONSOLIDATED INCOME STATEMENT

in thousands of kroons, per annum

	2007	2006	Notes
Revenue	279,908	234,732	2
Other income	1910	2129	3
Goods, raw materials and services	-98,260	-67,378	3
Other operating expenses	-42,975	-35,103	3
Personnel expenses	-46,711	-37,770	3
Depreciation, amortisation and impairments	-57,509	-45,395	10,11
Other operating charges	-659	-2110	
Operating profit	35,704	49,105	
Net financial items	-5825	-4610	4
Profit before income tax	29,879	44,495	
Income tax	-2577	-1365	5
Net profit	27,302	43,130	
Minority interest	-10,165	-828	
Parent company's share of net profit	37,467	43,958	
Basic EPS (EEK)	2.87	3.37	21
Diluted EPS (EEK)	2.85	3.37	21

CONSOLIDATED BALANCE SHEET

in thousands of kroons, as of December 31

	2007	2006	Notes
ASSETS			
Current assets			
Cash	14,943	11,716	6
Receivables	13,734	12,308	7
Prepayments	1558	2943	8
Inventories	28,685	23,471	9
Total current assets	58,920	50,438	
Non-current assets			
Property, plant and equipment	347,333	298,826	10
Intangible assets	975	600	11
Total non-current assets	348,308	299,426	
TOTAL ASSETS	407,228	349,864	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	25,049	15,375	12
Payables	37,184	28,639	13
Prepayments	2498	2209	14
Total current liabilities	64,731	46,223	
Non-current liabilities			
Long-term borrowings	106,388	97,188	12
Other long-term liabilities	4305	4374	14
Total non-current liabilities	110,693	101,562	
Total liabilities	175,424	147,785	
OWNERS' EQUITY			
Minority interest	4647	3252	
Share capital	130,536	130,536	
Legal reserve	4805	2607	
Retained earnings	91,816	65,684	
Total owners' equity held by the shareholders of the parent company	227,157	198,827	
Total owners' equity	231,804	202,079	15
TOTAL LIABILITIES AND OWNERS' EQUITY	407,228	349,864	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in thousands of kroons, per annum

	Owners' equity held by the shareholders of the parent company				Minority interest	Total owners' equity
	Share capital	Legal reserve	Retained earnings	Total		
31.12.2005	130 536	1465	27 436	159 437	0	159 437
Contributions by minority shareholders	0	0	0	0	4080	4080
Dividends announced	0	0	-4568	-4568	0	-4568
Transfers to legal reserve	0	1142	-1142	0	0	0
Net profit for the financial year	0	0	43,958	43,958	-828	43,130
31.12.2006	130,536	2607	65,684	198,827	3252	202,079
Contributions by minority shareholders	0	0	0	0	11,560	11,560
Dividends announced	0	0	-9137	-9137	0	-9137
Transfers to legal reserve	0	2198	-2198	0	0	0
Net profit for the financial year	0	0	37,467	37,467	-10,165	27,302
31.12.2007	130,536	4805	91,816	227,157	4647	231,804

For additional information on transfers to owners' equity, please see Note 15.

CONSOLIDATED CASH FLOW STATEMENT

in thousands of kroons, per annum

	2007	2006	Notes
Cash flow from operations			
Net profit	27,302	43,130	
Adjustments of net profit	66,989	52,261	19
Change in current assets related to operating activities:			
Short-term receivables and prepayments other than loans and interest	-1060	-5284	7,8
Change in inventories	-5216	-11,228	
Change in liabilities and prepayments related to operating activities:			
Payables	8545	7017	13
Prepayments	220	1385	14
Total cash flow from operations	96,780	87,281	
Cash flow from investing activities			
Purchase of tangible and intangible assets	-95,460	-75,814	19
Proceeds on disposals of tangible and intangible assets	665	2799	
Interest received	450	336	
Total cash flow from investing activities	-94,345	-72,679	
Cash flow from financing activities			
Loan repayments	-751	-751	12
Repayment of finance lease principal	-21,015	-27,144	
Interest paid	-6458	-5108	
Proceeds on sale and leaseback transactions	29,170	27,565	
Contributions by minority shareholders to owners' equity	11,560	4080	
Dividends paid	-9137	-4568	
Income tax on dividends paid	-2577	-1365	
Total cash flow from financing activities	792	-7291	
TOTAL CASH FLOW	3227	7311	
Cash and cash equivalents at the beginning of the period	11,716	4405	
Change in cash and cash equivalents	3227	7311	
Cash and cash equivalents at the end of the period	14,943	11,716	6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Note 1 Basis of preparation****General information**

The financial statements of AS Starman for the year ended 31 December 2007 were approved with the Resolution of the Management Board on 7. aprill 2008. Pursuant to the Commercial Code of the Republic of Estonia, the Annual Report, which has been prepared by the Management Board and approved by the Supervisory Board and which also includes the financial statements, must be approved by the General Shareholders' Meeting. The shareholders shall have the right not to approve the Annual Report prepared and approved by the Management Board, and demand from the Management Board preparation of a new Annual Report.

AS Starman has been registered and is operating in Estonia. The company and its subsidiary employed an average of 231 people in 2007 (2006: 210).

The Group includes AS Starman and its subsidiary, Eesti Digitaalteleviooni AS. Starman owns 66% share in the subsidiary.

The Group's main activity is the provision of cable television and data communication services.

The consolidated financial statements have been prepared in accordance with the international financial reporting standards, as adopted by the European Union, on a historical cost basis, unless otherwise indicated in the accounting principles below. The financial statements have been prepared in thousands of Estonian kroons.

New IFRS standards adopted during the financial year

Starting from 1 January 2007, several amendments of the texts of effective standards and new IFRS standards and IFRIC interpretations took effect: IFRS 7 *Financial Instruments: Disclosures*; IAS 1 *Presentation of Financial Statements – Disclosures About Capital*; IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; IFRIC 10 *Interim Financial Reporting and Impairment*.

Where necessary, the Group has adopted the standards that took effect during the financial year and brought the comparative data into conformity with the manner of presentation of this Annual Report (e.g. IFRS 7 related disclosures in note 23).

The adoption of new and amended standards does not affect the owners' equity as of 31 December 2007.

New IFRS standards and interpretation

The Group has decided not to apply early the following standards and interpretations that have been or will soon be adopted by the European Union:

- IFRS 8 *Operating Segments* (effective for financial years beginning on or after 1 January 2009);
- amended IAS 23 *Borrowing Costs* (effective for financial years beginning on or after 1 January 2009); this standard has not been approved by the European Union yet;
- amended IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009); this standard has not been approved by the European Union yet;
- amended IFRS 3 *Business Combinations* (effective for financial years beginning on or after 1 July 2009); this standard has not been approved by the European Union yet;

- amended IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009); this standard has not been approved by the European Union yet;
- amended IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* (effective for financial years beginning on or after 1 January 2009); these amendments have not been approved by the European Union yet;
- amended IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation* (effective for financial years beginning on or after 1 January 2009); these amendments have not been approved by the European Union yet;
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* (effective for financial years beginning on or after 1 March 2007);
- IFRS 12 *Service Concession Arrangements* (effective for financial years beginning on or after 1 January 2008); this interpretation has not been approved by the European Union yet;
- IFRS 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008); this interpretation has not been approved by the European Union yet;
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2008); this interpretation has not been approved by the European Union yet.

The Group will still have to assess the practical consequences of the new standards and interpretations for the financial statements.

A. Basis of consolidation

The consolidated financial statements comprise the financial statements of AS Starman and its subsidiaries, consolidated on a line-by-line basis. Subsidiaries are consolidated from the date on which control is transferred to the Group, and cease to be consolidated from the date on which the control is transferred out of the Group.

Subsidiaries are companies controlled by the parent company. Control is presumed to exist, if the parent company directly or indirectly holds over 50% of the voting shares of the subsidiary, or is otherwise able to control the operating or financial policies of the subsidiary.

A subsidiary uses the same principles of accounting in its reporting as the parent company. All intra-group transactions, receivables and liabilities, including unrealised profits and losses arising from intercompany transactions, have been eliminated in full in the annual financial statements. Unrealised losses are not eliminated, if these losses essentially represent impairment in the value of assets.

Minority interest, i.e. the share of the subsidiaries' profit, loss and net assets which does not belong to the Group, is recorded under a separate entry in the consolidated income statement and balance sheet (under owners' equity).

New subsidiaries are recognised in the consolidated financial statements based on the purchase method. The acquisition cost of subsidiaries is allocated to the fair values of assets, liabilities and contingent liabilities on the acquisition date. The portion of the acquisition cost which exceeds the fair value of the acquired assets, liabilities and contingent liabilities is recognised as goodwill (see accounting principle I). If the fair value exceeds the cost, the difference will immediately be fully charged to the income of the period (under "Other income" in the income statement).

B. Additional disclosures on the parent entity of the Group

To comply with the requirements of the Estonian Accounting Act, the separate principal reports of the parent company should be disclosed together with the consolidated financial statements even though this financial information is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. The main accounts of the parent company, disclosed in Notes 24-27, have been prepared using

the same accounting methods and principles which have been used in the preparation of the consolidated accounts.

In the parent company's unconsolidated balance sheet (Note 25), investments in subsidiaries have been reported on a historical cost basis. This means that an investment is initially recognised at acquisition cost, consisting of the fair value of the consideration given, adjusted thereafter by impairment losses arising from the impairment in the value of the investment. The carrying values of investments will be reviewed when certain events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. If the estimated recoverable amount is smaller than the carrying amount, the investment will be written down to its recoverable amount (the higher of the value-in-use and fair value, less sales expenses). The amount of write-down is charged to the financial expenses of the period.

Dividends paid by subsidiaries are recorded when the parent company's right to receive the dividends (as financial income) is established, except for the portion of dividends payable at the expense of available shareholders' equity generated by the subsidiary before the Group acquires the company. The respective portion of the dividends is recorded as a reduction of the investment.

See accounting principle F for additional information on investments recorded at acquisition cost.

C. Foreign currency transactions

The Estonian kroon is the functional currency of the parent company, and the reporting currency of the consolidated financial statements of the Group and the unconsolidated financial statements of the parent company. All other currencies are considered foreign currencies.

Transactions denominated in foreign currencies are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Assets and liabilities denominated in foreign currencies have been translated into Estonian kroons on the basis of the currency exchange rates of the Bank of Estonia officially valid on the balance sheet date.

Foreign exchange gains and losses resulting from revaluation are recorded in the income statement of the reporting period as net financial items.

D. Revenue recognition

Revenue is recognised at the fair value of the received/receivable income. In case of extraordinary payment conditions, revenue is recognised at the net present value of the receivable income.

Revenue from the sales of goods (i.e. hire-purchase of goods) is recognised when all material risks related to the ownership of the asset have been transferred to the purchaser, and the amount of revenue and expenses related to the transaction can be reliably measured. Revenue from the sales of services is recorded upon rendering of the service.

Interest income is recorded on an accrual basis, based on the effective interest rate of the asset item. Dividend income is reported when the right to claim dividends is created.

Recognising revenue from connection fees

Connection fees are recognised as the revenue, based on the useful life of the fixed assets related to the connection and on the management's estimates on the consistency of new clients. Revenue from connection fees is recorded under revenue within 7 years.

E. Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents are short-term (with a term of up to three months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value. Cash and cash equivalents include cash in hand and at bank, cash in transit, short-term deposits with an original maturity of three months or less and money market fund units and units of other funds with equally high liquidity and low interest risk.

F. Financial assets

Financial assets are initially recognised at cost, being the fair value of the consideration given. The acquisition cost includes all expenditures directly related to the purchase of the financial asset, including service charges payable to brokers and advisors, non-refundable taxes and other similar expenditures, except for expenses related to the acquisition of financial assets measured at fair value with changes in fair value recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date – i.e. the day that the Group commits (e.g. concludes a contract) to purchase or sell the particular financial asset item. Regular way transactions are purchases and sales transactions that require delivery of the financial asset to be purchased or sold by the seller to the buyer within the time frame generally established by regulation or convention in the market.

Following initial recognition, financial assets are divided into the following groups:

- financial assets measured at fair value with changes in fair value recognised in profit or loss (shares held for trade and bonds which are not intended to be held to maturity, as well as other securities and derivative instruments with a positive value);
- investments intended to be held to maturity (bonds which have a fixed maturity date and are intended to be held to maturity);
- loans and receivables (loans granted, accounts receivable and other receivables);
- available-for-sale financial assets (all other financial assets not specified above).

Subsequent to initial recognition, financial assets are measured at their fair value, except for:

- a) receivables, which the group has not purchased for resale, or financial assets intended to be held to maturity by the group are measured at amortised cost;
- b) investments in shares and other equity instruments the fair value of which cannot be reliably measured (incl. derivative instruments related to such assets) are recognised at cost.

Financial assets measured at fair value

Financial assets that are measured at fair value are revaluated on each balance sheet date into their fair value, which includes the possible transaction costs related to the disposal of the asset. The fair value of listed securities is based on the closing price of the security, as well as the official exchange rate of the Bank of Estonia on the balance sheet date. Unlisted securities are measured at their fair value on the basis of the information available to the group on the value of the investment.

Gains and losses on changes in the fair value of financial assets measured at fair value with changes in fair value recognised in profit or loss, proceeds and losses on disposals of financial assets measured at fair value, as well as interests and dividends on the respective securities, are recognised under "Net financial items" in the income statement.

Available-for-sale financial assets are measured at fair value, except for investments in shares and other equity instruments the fair value of which cannot be reliably measured and which are measured at cost. Any gains and losses arising from changes in the fair value of available-for-sale financial assets are recorded under "Revaluation reserve" in owners' equity. The revaluation reserve is charged to the income statement upon disposal of assets or drop in the value of assets. The impairment loss reclassified from owners' equity to the income statement is the difference between the acquisition cost (less any principal repaid, and amortisation) and the current fair value of the financial asset, less any impairment losses of the financial assets previously measured in the income statement.

Receivables and financial assets intended to be held to maturity

Receivables which the group has not purchased for resale, including financial assets that are intended to be held to maturity are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, as well as expenses directly related to the transaction, over the year to maturity.

Financial assets measured at amortised cost will be written down, if it is probable that their recoverable amount is lower than their carrying amount. The recoverable amount of a financial asset measured at amortised cost is the net present value of future cash flows from the financial asset, discounted, upon its initial recognition, with the effective interest rate. The write-down of financial assets related to operating activities is charged to expenses in the income statement (under "Other operating expenses") while the write-down of financial assets related to investing activities is charged to financial expenses in the income statement.

Impairment of financial assets is presented separately for each item, if the item is material. If individual evaluation is not possible due to a large number of the trade receivables, only essential trade receivables are evaluated. Other receivables are evaluated as a set of receivables, considering the information available regarding the customer's previous debts. Accounts receivable whose collection proves impossible or financially unreasonable are deemed bad debts and are written off from the balance sheet. The allowance will be established for doubtful receivables earlier, if certain events indicate that the recoverable amount of the receivable has fallen below its carrying amount.

In case of collection of receivables previously written down, or other events indicating that the write-down is no longer justifiable, the previous write-down will be reversed in the income statement as a reduction of the expense item to which the write-down was initially charged.

Financial assets measured at acquisition cost

Financial assets measured at acquisition cost must be written down to their recoverable amount if the recoverable amount has fallen below the carrying amount. The recoverable amount of financial assets measured at cost consists of the estimated future cash flow from the financial asset, discounted with the average rate of return from similar financial assets on the market. The amount of write-down is charged to the financial expenses of the period.

The derecognition of financial assets will take place when the group no longer controls the right over the cash flow attributable to the financial asset, or when the cash flow attributable to the asset, and a majority of the risks and benefits related to the financial asset are transferred to a third party.

G. Inventories

Inventories are recorded at acquisition cost, consisting of the purchase price, customs duties, other non-refundable taxes and direct transportation costs related to the purchase, less possible discounts. The acquisition cost of inventories is calculated by using the weighted average acquisition cost method.

Inventories are measured on the balance sheet according to the lower of the acquisition cost or net realisable value. The amount of write-down of inventories to their net realisable value is recorded as expenses of the reporting period, under "Goods, raw materials and services".

H. Property, plant and equipment (PPE)

Assets with an expected useful life of more than one year are considered to be PPE, if it is probable that future economic benefits associated with the asset will flow to the company.

PPE are recorded at cost, consisting of the purchase price and expenditures directly related to the acquisition.

Following initial recognition, an item of PPE is carried on the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses. If the recoverable amount of the non-current asset item drops below its carrying amount, the asset is written down to its

recoverable amount (the higher of the fair value, less sales expenses, or the value-in-use). Impairment tests are conducted, if there is any indication that the carrying amount may not be recoverable. The write-down is charged to the expenses of the period, under "Other expenses" in the income statement.

On each balance sheet, the group assesses whether there is any indication that the previous impairment is no longer justified. If there is any such indication, the Group assesses the recoverable amount and, if necessary, reverses the previous write-down. The reversal of the write-down is recorded as a reduction of the expenses during the period when the reversal occurred.

Expenses incurred on PPE after their recognition (e.g. replacement of a part of the asset item) are added to the book value of the item, provided it meets the following criteria: (a) the asset item is likely to generate economic benefits for the Group in the future; and (b) the acquisition cost can be reliably measured. Replaced parts are written off from the balance sheet. All other costs are charged to the expenses of the period when incurred.

If the PPE item consists of distinguishable components with different useful lives, these components are separately recorded under assets, and their depreciation rates specified separately thereof in accordance with their useful lives.

Depreciation of PPE is calculated on a straight-line basis. Depreciation rates are determined for each PPE item individually, depending on its useful life.

The following annual depreciation rates apply for PPE groups:

• Buildings and facilities	2.5%
• Cable transmission networks	8%
• Head-Ends	12.5-14.29%
• Modems	20-25%
• STBs	20%
• Machinery and equipment	20-25%
• Other equipment; fixtures, fittings and tools	20-40%
• Equipment used for service provision	16.67-50%

Land is not depreciated.

PPE will no longer be depreciated if its residual value (i.e. the amount the group would currently receive, if the PPE were as old as and in the same condition as it is estimated to be at the end of its useful life) exceeds its carrying amount.

The depreciation methods, depreciation rates and residual values of PPE are reviewed at least at the end of each financial year. If the new figures differ from previous figures, the changes will be recorded as changes in accounting estimates (proactively).

PPE is derecognised upon disposal of the asset, or if the company can expect no financial benefits from use or disposal of the asset. Any profits and losses arising from derecognition of PPE are charged to "Other income" or "Other expenses" in the income statement of the period when the PPE were derecognised.

PPE items which are likely to be sold within 12 months are reclassified as held-for-sale non-current assets, and recorded as a separate entry on the balance sheet. Held-for-sale assets will no longer be depreciated, and will be recorded at the lower of the net book value or fair value (less sales expenses).

I. Intangible assets

Intangible assets acquired separately from a business combination are recognised only if the following conditions are met:

- a) the asset item can be identified by the group;
- b) generation of future economic benefits from the object is likely;
- c) the acquisition cost of the item can be reliably measured.

Intangible assets acquired from a business combination are recognised separately from goodwill, if the asset items are distinguishable or arise from contractual or other legal rights, and their fair value can be reliably measured on the date of acquisition.

Intangible assets are initially recorded at acquisition cost, consisting of purchase price and expenses directly related to the acquisition. Following initial recognition, an item of intangible assets is carried on the balance sheet at its cost, less accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either infinite or definite. Amortisation of intangible assets with a definite useful life is calculated on a straight-line basis. The following annual amortisation rates are used:

- Purchased licenses, trade marks and similar items 20-33%

Amortisation of intangible assets with a definite useful life is recorded under "Depreciation, amortisation and impairments" in the income statement. The amortisation period and amortisation methods of definite intangible assets are reviewed at the end of each financial year. Changes in estimated useful life or future economic benefits over time are recorded as changes in the amortisation period and amortisation methods (i.e. as changes in accounting estimates).

If there is any indication that the recoverable amount of definite intangible assets has fallen below its carrying amount, the asset is tested for impairment and, if necessary, written down to its recoverable amount (see accounting principle H).

Infinite intangible assets are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not depreciated. The useful life of infinite intangible assets is reviewed on an annual basis to make sure the useful life has remained infinite. Adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Intangible assets from development projects are recognised as assets only if the group is able to validate (1) its technical capacities for making the assets available for use or sale; (2) its intent to complete the development project and the ability to use or dispose of the asset; (3) availability of future economic benefits from the asset; (4) availability of financial resources for completing the development project; and (5) that the costs related to the development project can be reliably measured.

Following initial recognition, development projects are measured at cost, less accumulated amortisation and any accumulated impairment losses. Any expenditure carried forward is amortised over the year of expected future sales from the related project.

The assets related to the development projects will be tested for impairment on an annual basis, until the development project is available for use or sales. The assets will be tested for impairment more frequently, if there is any indication of a drop in their value.

Goodwill

Goodwill is initially measured at cost, being the excess of the cost of acquisition over the fair value of the acquired net assets, liabilities and contingent liabilities on the date of acquisition. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

In order to determine the impairment, any goodwill acquired is allocated to each cash-generating units expected to benefit from the combination's synergies, or groups of such units. Allocation of goodwill between cash-generating units is based on intra-group reporting – goodwill is allocated to the lowest level, where it is monitored by the management within the framework of internal accounting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses are recorded as expenses under "Depreciation, amortisation and impairments" in the income statement. Impairment losses will not be reversed, if the recoverable amount of goodwill rises above its carrying amount (see accounting principle H).

J. Financial liabilities

Financial liabilities are initially recognised at their acquisition cost, consisting of the fair value of the amounts received thereof. Following initial recognition, financial liabilities are measured at their amortised cost by using the effective interest rate method.

Interest expenses of financial liabilities are recognized on accrual basis in profit or loss as the expense of the period.

The financial liability will be derecognised when the obligation under the liability is discharged or cancelled or expires.

K. Provisions and contingent liabilities

Provisions are recognised on the balance sheet when the group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The management's judgements and experience as well as evaluations of independent experts (if necessary) are taken as basis for evaluating the provisions. The provisions are recorded on the balance sheet in the amount required to settle the obligation as at the balance sheet date.

Promises and other commitments that in certain circumstances may become liabilities, but only have a lower than 50% probability of becoming liabilities (according to the management of the company), are disclosed as contingent liabilities in the notes to the financial statements.

L. Corporate income tax

Pursuant to the Income Tax Act, Estonian companies are not subjected to pay income tax on the profit. Instead, they are liable to pay income tax on dividends paid. The established tax rate was 22/78 on the net dividend paid until 31 December 2007 and 21/79 from 1 January 2008. According to the applicable Income Tax Act the income tax rate will be reduced 1% a year until 20/80 is calculated on the dividends paid after 1 January 2009. Since the object of income tax is constituted by the dividends, not the profit, of a company, no differences exist between the carrying amounts and taxable amounts of assets and liabilities, which would entail assets or liabilities relating to deferred or prepaid income tax.

The company's potential income tax liability related to the distribution of its retained earnings as dividends is not recorded on the balance sheet. The maximum possible tax liability related to the payment of the company's retained earnings as dividends is disclosed in Note 15.

Income tax from payment of dividends is recorded under expenses in the income statement at the moment of announcing the dividends. The payable income tax is recorded under current liabilities.

M. Legal reserve

Pursuant to the Commercial Code of the Republic of Estonia, at least 5% of the net profit must be transferred to the reserve capital each financial year, until the reserve capital amounts to at least 10% of the share capital. The mandatory reserve cannot be paid out as dividends. Still, it can be used for covering the loss, if loss cannot be covered from the available shareholder's equity. Mandatory reserve can also be used for increasing the share capital of the company.

N. Accounting for leases

Lease transactions, where all material risks and benefits from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating leases.

Assets leased under finance lease are recorded in the lessee's balance sheet at the present value of the minimum lease payment or if lower at fair value. The depreciation periods of assets acquired under finance leases are equal the useful lives of the assets. Assets leased out under finance leases are recorded on the balance sheet as receivables in the amounts of the net investments in the finance leases. Rental payments are divided into financial expenses and income, and rental payable/receivable so that the interest rate would be the same at any given moment.

In case of operating leases, the assets are recorded in the lessor's balance sheet. Operating lease payments are recorded during the lease period as income (by lessor) and expenses (by lessee) based on the straight-line method.

O. Derivative instruments

Derivatives (forward, future, swap or option contracts) are measured on the balance sheet at fair value by using a quotation. Derivative instruments are recorded as assets, if their value is positive, and as liabilities, if the value is negative. Gains and losses arising from the revaluation are recorded under "Net financial items" in the income statement. The differences between the exercise exchange rates of the derivatives, which the company has acquired for the purpose of hedging currency risks, and respective exchange rates of the Bank of Estonia on the settlement date are recorded in the income statement as "Other" under "Other income"/"Other expenses".

P. Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

In situations where some or all of the goods or services received by the Group as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payments and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model. For further details please refer to Note 20.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or it is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested in the amount that would have recorded if the award and any expense not yet recognised for the award were recognised immediately. However, if a new award substitutes for the cancelled award and it is treated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is recorded as an additional share dilution in the computation of earnings per share (for further details please see Note 21).

R. Segment reporting

The Group divides its activities into operating segments that, owing to the existence of an independent infrastructure or investment portfolio, can be treated separately. Therefore, services provided on the basis of the company's cable network are treated separately from the DTT service. Starman views the services rendered on the basis of its cable network (cable television, internet and telephony services) as an integral whole, as the corporate strategy and investment policy build upon the integrated provision of as many services as possible on the basis of the cable transmission network. Since operating expenses and investments have been recognised based on the above factors, their division into separate services rendered on the basis of the cable network with the purpose of getting an accurate overview of segment profitability or an accurate balance sheet proves impossible. With segment reporting it must be borne in mind, inter alia, that while it is relatively easy and rational to divide the total revenues and total investments of the company between the two segments (i.e. the services rendered on the basis of the cable network and the DTT service), the same cannot be said about all expenses, as a large portion of general operating expenses are simultaneously attributable to both segments. The company operates only in the Republic of Estonia. Considering Starman's turnover and the total market volume, the management believes it would prove unreasonable to view different geographical areas as different segments.

The allocation of expenses, assets, liabilities and investments is based on their connection with a segment. These expenses, assets and liabilities that cannot be directly attributed to any segment, because they are attributable to the administration, investments and financing of the Group as a whole, are disclosed as the unallocated expenses, assets and liabilities of the Group.

S. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with the IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to accruals, depreciation and impairment evaluation. Even though these estimates have been made to the best of the management's knowledge, future events may occur which may cause the assumptions used in arriving at the estimates to change. Changes in the management's estimates are reported in the income statement of the period when the changes occur.

T. Events after the balance sheet date

Material circumstances which have an effect on the valuation of assets and liabilities and which became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Subsequent events that have not been taken into consideration when valuating the assets and liabilities but have a material effect on the result of the next financial year, are disclosed in the financial statements.

Note 2 Revenue

in thousands of kroons, per annum

AS Starman's revenues for years 2007 and 2006 were fully generated on the Estonian market, and divided into the following fields of activity and by EMTAK codes:

Fields of activity	2007	2006
Cable television services	127,998	112,034
Internet services	92,100	82,024
Telephony service	48,616	36,894
DTT services*	5556	41
Sales of goods and materials	5638	3739
Total	279,908	234,732

* DTT – Digital Terrestrial Television

2008 EMTAK 61109	2007. a .	2006. a .
Cable services (61109)	127 998	112 034
Internet services (61109)	92 100	82 024
Telephony services (61101)	48 616	36 894
Other wireless services (61209)	5 556	41
Telecommunication equipment retail (47421)	5 638	3 739
Total	279 908	234 732

Note 3 Other income and expenses

in thousands of kroons, per annum

	2007	2006
Other income		
Gains on disposals of non-current assets	181	160
Revenue from fines for delay	1169	1392
Revenue from revaluation of liabilities	371	387
Other	189	190
Total other income	1910	2129

Goods, raw materials and services

Services purchased	-88,377	-61,429
Materials	-1699	-997
Goods purchased for resale	-4887	-2733
Maintenance expenses	-2545	-1224
Other	-752	-995
Total goods, raw materials and services	-98,260	-67,378

Other operating expenses

Consulting and advisory expenses	-1460	-3007
Marketing expenses	-22,494	-16,090

Customer information expenses	-5779	-4711
Office expenses	-4192	-3674
Allowance for doubtful receivables (see Note 7)	-1019	-891
Transportation expenses	-3570	-3264
Other	-4461	-3466
Total other operating expenses	-42,975	-35,103

Personnel expenses

Wages and salaries	-34,808	-28,280
Social tax	-11,903	-9490
Total personnel expenses	-46,711	-37,770

Other expenses

Loss from sales of fixed assets	-53	0
Other	-606	-2 110
Total other expenses	-659	-2 110

Note 4 Net financial items

in thousands of kroons, per annum

	2007	2006
Interest income	447	336
Interest expenses	-6 458	-5 106
Foreign exchange gains	250	244
Other financial income and expenses	-64	-84
Total net financial items	-5825	-4610

Note 5 Income tax

The Group's income tax expense for 2007 in the amount of 2577 thousand kroons (2006: 1365 thousand kroons) is made up of income tax calculated on dividends (see Note 15).

Note 6 Cash

in thousands of kroons, as of December 31

	2007	2006
Cash in hand and at bank	14,359	10,674
Cash in transit	584	1042
Total cash and cash equivalents	14,943	11,716

Note 7 Receivables

in thousands of kroons, as of December 31

	2007	2006
Accounts receivable	14,594	13,485
Allowance for doubtful receivables ¹	-1565	-1720
Other short-term receivables	705	543
Total receivables	13,734	12,308

¹ The following changes occurred in the allowance for doubtful receivables (per annum):

	2007	2006
Balance at the beginning of the period	-1720	-1397
Additional write-down (see Note 3)	-1019	-891
Uncollectible receivables written off from the balance sheet	1174	568
Balance at the end of the period	-1565	-1720

Receivables divided into the following fields of date of maturity:

	2007. a.	2006. a.
Due date not reached yet	6 698	4 773
Overdue:		
Up to 3 months	5 222	5 653
3-6 months	750	658
7-12 months	524	456
1-2 years	540	768
Total receivables	13 734	12 308

Note 8 Prepayments

in thousands of kroons, as of December 31

	2007	2006
Prepaid taxes	303	2,182
Prepaid services	1255	761
Total prepayments	1558	2943

Prepaid taxes include VAT prepayment of Eesti Digitaaltelevisiooni AS. See Note 13 for taxes payable.

Note 9 Inventories

in thousands of kroons, as of December 31

	2007	2006
Raw materials	18,905	11,828
Goods and customer equipment purchased for resale	9733	11,643
Prepayments for inventories	47	0
Total inventories	28,685	23,471

A total of 134 thousand kroons of inventories were written down in 2007 (2006: 846 thousand kroons) in connection with the drop of the acquisition cost of goods and customer equipment purchased for resale below their net realisable value (sales price, less expenses incurred for the purpose of making the products available for sale and selling costs).

Note 10 Property, plant and equipment

in thousands of kroons

	Land and buildings	Machinery and equipment	Other non- current assets	Prepayment s	Total PPE
Net book value 31.12.2005	224,303	42,811	2166	0	269,280
Purchases and additions	44,580	31,109	875	1076	77,640
Reclassification ¹	0	-349	0	0	-349
Sales and write-offs	-2640	0	-5	0	-2645
Amortisation charge	-27,113	-17,180	-807	0	-45,100
Net book value 31.12.2006	239,130	56,391	2229	1076	298,826
Purchases and additions	62,440	43,762	1012	-1076	106,138
Reclassification	0	-181	0	0	-181
Sales and write-offs	-23	-270	-64	0	-357
Amortisation charge	-31,845	-24,346	-902	0	-57,093
Net book value 31.12.2007	269,702	75,356	2275	0	347,333

As of 31.12.2006

Acquisition cost	349,898	99,150	6538	1076	456,662
Accumulated depreciation, amortisation and impairments	-110,768	-42,759	-4309	0	-157,836

As of 31.12.2007

Acquisition cost	411,931	141,007	7406	0	560,344
Accumulated depreciation, amortisation and impairments	-142,229	-65,651	-5131	0	-213,011

¹ Reclassification involves the transfer of machinery and equipment and other non-current assets to inventories, under "Goods and customer equipment purchased for resale".

As of 31 December 2007, the acquisition cost of fully amortised non-current assets still used by the company amounted to 24,823 thousand kroons (2006: 16,952 thousand kroons). The acquisition cost of non-current assets written off in 2007 amounted to 877 thousand kroons and net book value to 0 kroons (2006: 1851 thousand kroons and 0 kroons, respectively). Information on PPE items established as collateral to borrowings has been disclosed in Note 12.

Note 11 Intangible assets

in thousands of kroons

	Licences	Total intangible assets
Net book value 31.12.2005	409	409
Purchases and additions	486	486
Amortisation charge	-295	-295
Net book value 31.12.2006	600	600
Purchases and additions	791	791
Amortisation charge	-416	-416
Net book value 31.12.2007	975	975
As of 31.12.2006		
Acquisition cost	1368	1368
Accumulated depreciation, amortisation and impairments	-768	-768
As of 31.12.2007		
Acquisition cost	2159	2159
Accumulated depreciation, amortisation and impairments	-1184	-1184

Note 12 Borrowings

in thousands of kroons, as of December 31

2007	Current portion	Non-current portion		Total borrowings
		1-5 years	over 5 years	
Long-term bank loans ¹	751	2244	0	2995
Finance lease liability ² (Note 16)	24,298	90,602	13,542	128,442
Total borrowings	25,049	92,846	13,542	131,437

2006	Current portion	Non-current portion		Total borrowings
		1-5 years	over 5 years	
Long-term bank loans ¹	751	2995	0	3746
Finance lease liability ² (Note 16)	14,624	63,311	30,882	108,817
Total borrowings	15,375	66,306	30,882	112,563

¹ In 2002, the company concluded with Nordea Bank Finland Plc Estonia Branch a new loan agreement to replace the previous overdraft agreement. The loan, in the initial amount of 6,500 thousand kroons, has been denominated in euros and has an interest rate of 6-month Euribor+2%. The loan will be repaid in equal monthly instalments, with the consideration that, upon maturity of the loan term in 2009, the last instalment would amount to 2056 thousand kroons.

AS Starman has established a 1st-rank mortgage in the amount of 4500 thousand kroons on the company's real estate located at Akadeemia tee 28 in Tallinn as collateral for the long-term loan from Nordea Bank Finland Plc. Estonia Branch. As of 31 December 2007, the net book value of the real estate amounted to 7705 thousand kroons (31 December 2006: 7071 thousand kroons). In addition, the company has established a 1st-rank commercial pledge on AS Starman's immovables in the amount of 2200 thousand kroons as collateral for the above loan.

² Finance lease transactions are secured by the leased assets, except for one transaction, where the company has established for the benefit of SEB Ühisliising AS a 2nd-rank commercial pledge on AS Starman's immovables in the amount of 12,000 thousand kroons.

Outstanding loans raised by the company as at 31 December 2007:

Creditor	Loan amount	Loan balance	Monthly payment	Interest rate	Repayment term	Collateral
Nordea Finance	833	450	16	4.8%	2008	Leased assets
SEB Ühisliising	347	158	10	4.4-4.9%	2008	Leased assets
Nordea Finance	1404	1056	20	4.4-4.6%	2009	Leased assets
Nordea Bank Finland Plc	6500	2995	80	6.7%	2009	Mortgage + commercial pledge
Nordea Finance	755	720	11	4.6-5.4%	2010	Leased assets
SEB Ühisliising	1807	1641	27	4.6-5.4%	2010	Leased assets
SEB Ühisliising	45,451	31,628	770	5.3-5.8%	2011	Leased assets
SEB Ühisliising	135,713	92,788	1570	5.7%	2013	Leased assets+ commercial pledge
TOTAL	192,811	131,437	2504			

12.05.2008
For identification purposes only
EY ERNST & YOUNG

Outstanding loans raised by the company as at 31 December 2006:

Creditor	Loan amount	Loan balance	Monthly payment	Interest rate	Repayment term	Collateral
Nordea Finance	287	127	7	5.2%	2007	Leased assets
SEB Ühisliising	273	166	5	4.9%	2007	Leased assets
Nordea Finance	833	611	16	4.8%	2008	Leased assets
SEB Ühisliising	347	264	10	4.5%	2008	Leased assets
Nordea Finance	1165	1082	19	4.5%	2009	Leased assets
Nordea Bank Finland Plc	6500	3746	81	5.8%	2009	Mortgage + commercial pledge Leased assets+ commercial pledge
SEB Ühisliising	135,713	106,567	1534	4.6%	2013	pledge
TOTAL	145,118	112,563	1672			

Note 13 Payables

in thousands of kroons, as of December 31

	2007	2006
Accounts payable ¹	20,394	16,405
Taxes payable ²	6716	5743
Employee-related liabilities	4853	3631
Other payables	5221	2860
Total payables	37,184	28,639

¹ All accounts payables have due date less than 30 days

² Taxes payable are divided as follows:

	2007	2006
VAT	2655	2568
Social tax	2234	1755
Withheld income tax	1654	1277
Other taxes	173	143
Total taxes payable	6716	5743

Prepayments of taxes are set out in Note 8.

Note 14 Prepayments

in thousands of kroons, as of December 31

	2007	2006
Prepayments received ¹	1780	1480
Deferred income ²	718	729
Total prepayments	2498	2209

¹ Prepayments received consist of prepayments received from customers for goods and services in the course of daily business operations.

² Deferred income consists of subscription fees, which are to be charged to expenses over a term of 7 years. As of 31 December 2007, the long-term portion in the amount of 4305 thousand kroons (2006: 4374 thousand kroons) was recorded under "Other long-term liabilities" on the balance sheet.

Note 15 Owners' equity

As of 31 December 2007 the company's share capital amounts to 130,535,700 kroons (31.12.2006: 130 535 700), divided into 13,053,570 registered shares with a nominal value of 10 kroons per share. The shares have been paid for in full.

Pursuant to the articles of association, the company's Supervisory Board has the right to increase the share capital by 6,900,000 kroons (i.e. 5.3%) within 3 years after the introduction of amendments to the articles of association on 15 June 2007. The Supervisory Board can use this right for exercising the stock options granted to the management (see Note 21: "Earnings per share"). 17. The resolution of the shareholders' meeting held on 17 May 2005 excluded 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. 0.35 kroons per share, was paid to shareholders as net dividends on 21 June 2006. Starman paid 4,568 thousand kroons in net dividends, transferred 1142 thousand kroons into the legal reserve and retained the rest of the net profit for 2005. The announcement of dividends entailed the income tax liability of 1365 thousand kroons.

In accordance with the resolution of the annual general meeting of shareholders held on 15 June 2007, approximately 20% of the net profit for the year 2006, i.e. 0.70 kroons per share, was paid to shareholders as net dividends on 6 July 2007. Starman paid 9137 thousand kroons in net dividends, transferred 2198 thousand kroons into the legal reserve and retained the rest of the net profit for 2006. Therefore, the retained earnings of the company amount to 54,349 thousand kroons. The announcement of dividends entailed the income tax liability of 2577 thousand kroons.

The company's potential income tax liability

As of 31 December 2007, the Group's retained earnings amounted to 91,816 thousand kroons (31 December 2006: 65,684 thousand kroons). After the 1873-thousand-kroon transfer to legal reserve (31 December 2006: 2198 thousand kroons), the maximum possible income tax liability related to the payment of the company's retained earnings as dividends is 18,888 thousand kroons (31 December 2006: 13,967 thousand kroons). Hence, 71,055 thousand kroons could be disbursed as dividends (31 December 2006: 49,519 thousand kroons).

The maximum possible income tax liability has been calculated based on the assumption that the net dividends to be paid and the related total income tax expenses would not exceed the distributable profit as of 31 December 2007.

Note 16 Finance lease and operating lease

The Group has made investments into cable networks, machinery and equipment under finance leases (see also Note 10), incurring the following liabilities from these transactions (in thousands of kroons as of December 31):

	2007	2006
Current portion - payable within 1 year	24,298	14,624
Non-current portion - payable within 1-5 years	90,602	63,311
Non-current portion - payable in over 5 years	13,542	30,882
Total finance lease liability (Note 12)	128,442	108,817
Repayment due date	2013	2013
Interest rate	4.4-5.8%	4.6-5.2%
Underlying currency	EEK, EUR	EEK, EUR

Contents, terms and conditions of sales and leaseback transactions

The company has raised most of its external funding through some major sales and leaseback transactions.

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, Starman's current external financing terms were reviewed together with the creditors in the second half of 2006. The best offer was made by the hitherto main financier SEB Ühisliising. On 22 September 2006, Starman concluded yet another sales and leaseback transaction, selling to SEB Ühisliising the cable network of Tallinn and its vicinity together with the signal conveying Head-Ends located at Akadeemia tee 28 for 135,613 thousand kroons, and subsequently taking the sold non-current assets on finance lease for 110,000 thousand kroons. The new lease contract was concluded for a term of 7 years, repayable in equal monthly instalments at an interest rate of 6-month Euribor + 1%. 105,417 thousand kroons of the funds thus made available were used for premature termination of other previous finance lease contracts concluded with SEB Ühisliising (most of these contracts comprised the funding of previous years' investments into cable networks in the form of sales and leaseback transactions). Thus all the respective collaterals related to terminated contracts were released, except for the 2nd-rank commercial pledge in the amount of 12,000 thousand kroons, which was deemed non-material and required additional administrative proceedings. As of 31 December 2007, the finance lease balance of the new contract amounted to 92,788 thousand kroons (31 December 2006: 106,567 thousand kroons).

Other sales and leaseback transactions concluded by AS Starman do not substantially differ from other finance lease transactions concluded by AS Starman – it simply proved more reasonable for the parties involved (the equipment seller, buyer and leasing company) to register, in certain cases, AS Starman as the vendor of the goods in the leasing company. This involved financing of the equipment used for service provision.

The group has acquired the following assets under finance leases (in thousands of kroons as of December 31):

	Land and buildings	Machinery and equipment	Total
2006			
Acquisition cost	198,946	3387	202,333
Net book value	145,023	2202	147,225
2007			
Acquisition cost	198,946	14,856	213,802
Net book value	129,107	11,739	140,846

R. O. 2007
For identification purposes only
EY ERNST & YOUNG

The Group has leased out, under operating leases, machinery and equipment with the following cost and net book value as of December 31 (in thousands of kroons):

	2007	2006
Acquisition cost of assets leased out under operating lease ¹	64,016	38,176
Net book value of assets leased out under operating lease ¹	43,435	28,861
Revenue from operating lease	5283	3139

¹Among other things, the above assets include telephone modems which have been granted into the use of customers and which have an acquisition cost of 39,213 thousand kroons and a net book value of 22,580 thousand kroons in 2007 (30,179 thousand kroons and 22,082 thousand kroons in 2006, respectively).

The company has acquired vehicles under operating lease terms (as of December 31, in thousands of kroons).

	2007	2006
Operating lease payments in the period	457	764
Operating lease payments arising from non-rescindable contracts in future periods:	2085	565
<i>incl. payable within 1 year</i>	505	390
<i>1 - 5 years</i>	1580	175

Note 17 Segment information

2007	Cable distribution services	DTT services	Unallocated	Total
Segment sales	272,243	7665	0	279,908
Other operating revenue of segment	1863	47	0	1910
Internal sales				
Consolidated sales revenue and other operating revenue	274,106	7712	0	281,818
Consolidated expenses	-81,996	-34,152	-129,966	-246,114
Segment result	192,110	-26,440	-129,966	35,704

Inter-segment assets

Assets	365,871	25,250	16,107	407,228
--------	---------	--------	--------	---------

Inter-segment liabilities

Liabilities	6709	5367	163,348	175,424
-------------	------	------	---------	---------

Investments	86,489	15,643	4780	106,912
Depreciation costs	-52,056	-1674	-3779	-57,509

12.05.2008
For identification purposes only
EY ERNST & YOUNG

2006

Segment sales	234,502	230	0	234,732
Other operating revenue of segment	2129	0	0	2129
Consolidated sales revenue and other operating revenue	236,631	230	0	236,861
Consolidated expenses	-87,217	-4968	-95,571	-187,756
Segment result	149,414	-4738	-95,571	49,105
Assets	327,114	10,773	11,977	349,864
Liabilities	6584	4022	137,180	147,786
Investments	73,474	2041	2590	78,105
Depreciation costs	-42,671	-7	-2717	-45,395

Segment revenue is revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment and which is received from sales to external customers. There is no revenue between segments.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of the Group's expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers.

Segment expense does not include any expenses that arise at the Group level and relate to the Group as a whole. Expenses arising at the Group level are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

Segment result is segment revenue less segment expense.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Additional information about segment reporting is available in Note 1, subsection R ("Segment reporting").

Note 18 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.

The Group has purchased services from the following related parties (in thousands of kroons, for the financial year):

	2007	2006
Companies related to members of Supervisory Board	659	2336

As at 31 December 2007 and 31 December 2006, the company did not have any liabilities to related parties on account of these transactions.

Services were sold to the members of the Management Board and the Supervisory Board and their relatives in the course of ordinary business. The total volume of the above services did not exceed 50 thousand kroons in 2006 and 2007.

Remuneration of Management Board members

The remuneration, including bonuses, paid to the Management Board members in 2007 amounted to 6493 thousand kroons (in 2006: 4385 thousand kroons); the remuneration paid to the Supervisory Board members amounted to 293 thousand kroons (in 2006 to 335 thousand kroons). Options have been issued to the Management Board members under the bonus payment system approved by the company's Supervisory Board, allowing the Management Board members, under certain conditions, to acquire a total of 600,000 of the company's shares (see Note 21 and Note 15).

The members of the Management Board have a right to termination benefits, provided that the member has not violated the board member agreement. According to the agreements the maximum amount of such termination benefits is 984 thousand kroons for all Management Board members.

Note 19 Note to the consolidated cash flow statement

in thousands of kroons, per annum

Adjustments of net profit include the following gains/losses related to non-monetary operating activities, as well as revenue and expenses related to investing and financing activities:

	2007	2006
Depreciation, amortisation and impairments (Note 10, 11)	57,509	45,395
Gains on disposals of non-current assets (Note 3)	-180	-160
Loss from non-current assets write-off (Note 3)	53	0
Allowance for doubtful receivables (Note 7)	1019	891
Interest income (Note 4)	-447	-336
Interest expenses (Note 4)	6458	5106
Income tax on dividends (Note 15)	2577	1365
Total adjustments of net profit	66,989	52,261

Purchase of non-current assets includes the following:

	2007	2006
Purchase of and additions to PPE (Note 10)	-106,138	-77,640
Purchase of and additions to intangible assets (Note 11)	-791	-486
PPE acquired under finance leases (Note 16)	11,469	2312
Total acquisition of non-current assets	-95,460	-75,814

Note 20 Investments in the shares of the subsidiary

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 the 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 kroons 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 the activities of Eesti Digitaaltelevisiooni AS have been planned keeping in mind the long-term prospects, and current activities constitute quite an initial phase, 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 at 31 December 2007, the owners' contribution to the Eesti Digitaaltelevisiooni AS's equity of the company amounted to 46 million kroons (31.12.2006: 12 million kroons), of which the Group paid 30.4 million kroons (31.12.2006: 7,92 million kroons). In addition, Starman has made a loan to subsidiary, the loan balance amounting to 5804 thousand kroons as at 31 December 2007 (31.12.2006: 0). The loss of Eesti Digitaaltelevisiooni AS for 2007 amounted to 29,897 thousand kroons (2006: 2 436 thousand kroons), the balance sheet total as at 31 December 2007 was 24,678 thousand kroons (31.12.2006: 12 733 thousand kroons) and owners' equity was 13,666

thousand kroons (2006: 9 564 thousand kroons). The Group's share of the subsidiary's equity amounts to 9020 (on 31 December 2006: 6312) thousand kroons. The shares of the subsidiary are not listed on a stock exchange.

Note 21 Earnings per share

in thousands of kroons

	2007	2006
Shareholders' share of net profit (thousand EEK)	37,467	43,958
Weighted average number of shares (thousands of units)	13,054	13,054
Basic EPS (EEK)	2.87	3.37
Shareholders' share of net profit (thousand EEK)	37,467	43,958
Weighted average number of shares (thousands of units)	13,054	13,054
Dilutive effect of options (thousands of units)*	104	9
Weighted average number of shares adjusted with options (thousands of units)	13,158	13,063
Diluted EPS (EEK)	2.85	3.37

* The dilutive effect of options in 2006 has been calculated as follows: $200,040 * (68.85 - 65.56) / 68.85 = 9,547$ shares; incl. 200,040 = number of contingently issuable shares of A series having dilutive effect, 68.85 = market value of shares as at 31 December 2006, 65.56 = share price upon exercise of option in case of A series.

* The dilutive effect of options in 2007 has been calculated as follows: $200,040 * (89.97 - 65.56) / 89.97 + 199,980 * (89.97 - 67.59) / 89.97 = 104,006$ shares; incl. 200,040 = number of contingently issuable shares of A series having dilutive effect, 199,980 = number of contingently issuable shares of B series having dilutive effect, 89.97 = market value of shares as at 31 December 2007, 65.56 = share price upon exercise of option in case of A series, 67.59 = share price upon exercise of option in case of B series.

EPS (earnings per share) is calculated by dividing the shareholders' share of net profit for the reporting period by the weighted average number of shares in the respective period.

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 exercise periods: 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 exercise 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 exercise price is equal to the average trade price applicable during the 1st quarter of 2006, plus 15%, and for the C series the option exercise price is equal to the average trade price applicable during the 1st quarter of 2007, plus 15% (dividends paid will be deducted from the exercise price of options of all series). Several other conditions must be met for the options to be exercised – 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.

Outstanding share options	2007	2006
Outstanding at the beginning of the period (thousands of units)	600	600
Granted during the period (thousands of units)	0	0
Outstanding at the end of the period (thousands of units)	600	600

As at the reporting date all conditions necessary for the exercise of the options of A and B series had been met (in the same period a year ago, all conditions necessary for the exercise 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 are calculated by dividing the shareholders' share of net profit by the number of shares adjusted with dilutive effect of options.

Regarding the takeover bid and willingness to acquire all of the shares of Starman AS it can be presumed that the shares based on management option will be acquired as well. purchases all management options. At the reporting date there are no specific agreements signed.

Note 22 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 the case of network expansion and renovation, however, the 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 legal acts. 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 only in terms of the existing leased sites (potential increase of 32%), for 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. As from February 2006, the company's expenses include the price increase proposed by Elion for the existing sites; in addition, the proposed price increase for the existing sites has been applied to network renovation and expansion on several occasions. 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 marginal extent. In January 2008, Elion Ettevõtte AS reduced the rental charges payable for the use of communication ducts. Based on the invoices issued by Elion Ettevõtte AS it can be said that the rental charges were reduced to a level which is even lower than that effective before the price increase on 1 February 2006; the subscription fee was abolished, as well. The fate of the dispute is unknown at this time, as are its consequences for the company's economic activities. AS Starman is currently waiting for the response of the Competition Board to the complaint.

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 for 1534 thousand kroons 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 Kaabeltelevisiooni AS, which was a subsidiary of Tele 2 Group at that time, acquired 100% of the shares in AS Telset Telecommunications Group. By its ruling of 10 April 2006, Harju County Court prohibited all transactions of AS Telset with these assets. During the period from October 2006 to December 2007 two court sessions were held, but the merits of the matter have been considered only to a minimum extent; sessions have been constantly postponed lately and a new date has not been scheduled yet. At the end of March Telset transferred to Starman a part of the assets being claimed, reducing the initial value of the action by 294 thousand kroons. Expenses relating to the action amount to less than 150 thousand kroons as of 31 December 2007.

12.05.2007
For identification purposes only
 ERNST & YOUNG

Note 23 Financial instruments and risk management**Credit risk**

Credit risk stands for contingent damages caused to the company by the failure of its customers and business partners to fulfil their obligations. As of 31 December 2007 the company's maximum possible credit risk amounted to 15,339 thousand kroons (31 December 2006: 16,327 thousand kroons). This indicator is deeply theoretical, since due to the specifics of the company's operations (large number of customers with relatively small single payments), the company has no single material credit risks. In order to manage and hedge the overall credit risk, the company has established procedures for evaluating the solvency and for dealing with debtors. The company's available current assets are invested in highly creditworthy financial instruments.

Currency risk

The company is exposed to fluctuations in the US dollar exchange rate. In 2007 approximately 11% of the monthly expenses were related to the fluctuations in the US dollar exchange rate (20% in 2006). The impact of the US dollar exchange rate subsided in 2007 thanks to the replacement of some US dollar-based contracts with euro-based contracts, and owing to the increase in other operating expenses. Similarly, investments in internet equipment, telephone modems, and STBs necessary for provision of ZUUMtv are US dollar-based. Upon evaluating the currency risk on the background of the company's business activities, we find that the risk has a certain, although minor, effect on the results of operations. We must take into consideration, however, that, under the current market situation regarding the solutions offered, the company can only cover currency risks in a short perspective.

As the US dollar exchange rate had risen to a sufficiently high level for the company, Starman concluded, in the end of November 2005, 26 forward transactions for the purchase of US dollars in the amount of 3383 thousand US\$, with terms of maturity of up to 10 November 2006. These transactions allowed the company to cover short US dollar positions 100% in the 6-month perspective and 50% in the 12-month perspective. As it was obvious that the high US dollar exchange rate no longer bothered the company, with expectations of further weakening of the US dollar, Starman concluded, in May 2006, four forward transactions for sales of US dollars in the total amount of 600 thousand US\$, thus reducing the cover for US\$ short positions in the second half of the year. As of 31 December 2006, the company had no more instruments designed for covering currency risks. Since Starman did not expect the US dollar exchange rate to reach a level too high for the company in 2007, it was decided to not cover the short positions in US dollars in 2007. The current estimation is that the same strategy will be pursued in 2008, too.

"Other operating charges" in the income statement for 2006 include a realised loss in the amount of 1782 thousand kroons from forward transactions for purchasing US dollars. However, account should be taken of the fact that thanks to the weakening US dollar the company gained from lower operating expenses (mostly concerns the item "Services purchased") and from being able to make investments on more favourable terms. As positions were covered partially, the net result of the fluctuations in the US dollar exchange rate was positive for the company in 2006 (i.e. by reducing the currency risk, the company just gained less from the favourable fluctuations of dollar that it would have gained if the positions had not been covered). The decision to not cover currency risks and the favourable exchange rate of the US dollar supported the performance result of the company in 2007. If the exchange rate of the US dollar had remained on the same level as it was on 31 December 2007 throughout 2007, the net profit of the company would have been smaller by some 0.8-0.9 million kroons.

Interest risk

Most of the company's loan capital has been tied with the 6-month Euribor. The company is thus exposed to fluctuations in interest rates denominated in euros. As of 31.12.2007 the loan commitments related to 6 months Euribor formed 128 164 thousand kroons (31.12.2006: 110 165 thousand kroons). Instant 1% rise in 6months Euribor would increase the company's interest expense by 1 282 thousand kroons (31.12.2006: 1 102 thousand kroons). Owing to new, more favourable financing terms agreed by the company in September 2006, interest expenses did not

increase significantly in 2007. With euro interest rates soaring, the company's annual average cost of external funding, expressed in interest expense, increased to just 5.17% from the previous 4.62%. By today we can assume that no significant rise of euro interest rates can be expected in the near future; instead the interest rates could even drop. The company monitors the changes in the international money market and compares the financing offers with both floating and fixed interest rates. The effect of the interest risk on the results of Starman's performance is currently very small. According to the management, there is no need for hedging that risk.

Liquidity risk

According to the company's financial policies moderate liquidity risks are taken. As Starman have extensive investments into fixed assets and the effectiveness of the use of capital is considered very important, the company does not hold large liquidity resources. Company's operations follow the cash flow plan approved by the supervisory board. Liquidity risk is held in necessary margins by constant monitoring and in case of need by adjusting it through changes in volumes of investments and loan capital. To manage the unexpected occasions, the company holds a certain liquidity ratio consisting of cash and short term instruments. In addition, the company has a possibility to use credit limits from financial institutions.

Information about the maturity profile of financial liabilities is presented in notes 12, 13 and 16.

Capital management

Capital management has two principles that it follows: maximize the equity productivity and prevent risks that could endanger the company's equity preservation if it would realize. Starman has done a lot of investment business over the last years and that business is financed by the company's internal funds. The council board confirms the company's general investment plan with expected fund sources. All the investments into fixed assets are confirmed by the Investment Committee, which is set by the Managing board. Investment Committee takes into account in its decisions every single projects profitability, risks and guidelines set by the Council board. Capital management financial politics comprises mostly decisions about loans and internal funds relative importance, loans and EBITDA relation and investment and EBITDA relation. Related financial ratios for three previous financial years are disclosed in the management report. The Managing board's proposal for paying dividends to shareholders is in accordance with the foregoing financial politics.

Fair value of assets and liabilities

According to the Management Board, the fair value of the group's financial assets and liabilities does not materially differ from the net book value. The fair value of interest fund units is the market value of the units, and the fair value of cash (incl. term deposits of up to 3 months), bonds and other receivables/payables is calculated based on the discounted cash flow method.

Note 24 Parent company's unconsolidated income statement

in thousands of kroons, per annum

The financial information of the parent company (Notes 24-27) is comprised of separate principal reports of the parent company, disclosure of which is required by the Estonian Accounting Act, even though this financial information is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union.

	2007	2006
Revenue	272,384	234,502
Other income	16,578	3600
Goods, raw materials and services	-77,788	-66,275
Other operating expenses	-42,806	-35,076
Personnel expenses	-46,148	-37,770
Depreciation, amortisation and impairments	-56,011	-45,395
Other operating charges	-656	-2077
Operating profit	65,553	51,509
Net financial items	-27,117	-4578
Profit before income tax	38,436	46,931
Income tax	-2577	-1365
Net profit for the financial year	35,859	45,566

Note 25 Parent company's unconsolidated balance sheet

in thousands of kroons, as of December 31

	2007	2006
ASSETS		
Current assets		
Cash	14,886	11,216
Receivables	20,893	14,118
Prepayments	1220	761
Inventories	21,370	15,521
Total current assets	58,369	41,616
Non-current assets		
Long-term financial investments	9020	7920
Property, plant and equipment	332,760	296,997
Intangible assets	975	600
Total non-current assets	342,755	305,517
TOTAL ASSETS	401,124	347,133
LIABILITIES AND OWNERS' EQUITY		
Liabilities		
Current liabilities		
Borrowings	25,049	15,375
Payables	35,821	27,552
Prepayments	2404	2209
Total current liabilities	63,274	45,136
Non-current liabilities		
Long-term borrowings	106,388	97,188
Other long-term liabilities	4305	4374
Total non-current liabilities	110,693	101,562
Total liabilities	173,967	146,698
Owners' equity		
Share capital	130,536	130,536
Legal reserve	4805	2607
Retained earnings	91,816	67,292
Total owners' equity	227,157	200,435
TOTAL LIABILITIES AND OWNERS' EQUITY	401,124	347,133

Note 26 Parent company's unconsolidated statement of changes in equity

in thousands of kroons, per annum

	Share capital	Legal reserve	Retained earnings	Total owners' equity
31.12.2005	130,536	1465	27,436	159,437
Dividends announced	0	0	-4568	-4568
Transfers to legal reserve	0	1142	-1142	0
Net profit for the financial year	0	0	45,566	45,566
31.12.2006	130,536	2607	67,292	200,435
Dividends announced	0	0	-9137	-9137
Transfers to legal reserve	0	2198	-2198	0
Net profit for the financial year	0	0	35,859	35,859
31.12.2007	130,536	4805	91,816	227,157

Adjusted unconsolidated equity of the parent company which serves as the basis for a profit allocation according to the Estonian Accounting Act (as of December 31):

	2007	2006
Equity in the unconsolidated balance sheet of the parent company	227,157	200,435
Carrying value of the subsidiary in the unconsolidated balance sheet of the parent company	- 9020	-7920
Value of the subsidiary calculated in accordance with equity method of accounting	9020	6312
Total	227,157	198,827

Note 27 Parent company's unconsolidated cash flow statement

in thousands of kroons, per annum

	2007	2006
Cash flow from operations		
Net profit	35,859	45,566
Adjustments of net profit	86,765	52,261
Change in receivables and prepayments related to operating activities	-2432	-4913
Change in inventories	-5852	-3279
Change in liabilities and prepayments related to operating activities	8395	7317
Total cash flow from operations	122,735	96,952
Cash flow from investing activities		
Purchase of tangible and intangible assets	-81,205	-73,985
Proceeds on disposals of tangible and intangible assets	656	2799
Investments in subsidiaries	-22,440	-7920
Loans granted	-5755	0
Interest received	447	336
Total cash flow from investing activities	-108,297	-78,770
Cash flow from financing activities		
Loan repayments	-751	-751
Repayment of finance lease principal	-21,015	-27,144
Interest paid	-6458	-5108
Proceeds from sale and leaseback transactions	29,170	27,565
Dividends paid	-9137	-4568
Income tax on dividends paid	-2577	-1365
Total cash flow from financing activities	-10,768	-11,371
TOTAL CASH FLOW	3670	6811
Cash and cash equivalents at the beginning of the period	11,216	4405
Change in cash and cash equivalents	3670	6811
Cash and cash equivalents at the end of the period	14,886	11,216

R. O. S. 2007
 For identification purposes only
 EY ERNST & YOUNG

Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Starman

Report on the Financial Statements

We have audited the consolidated financial statements of AS Starman and its subsidiaries (hereafter “the Group”), identified by us on the accompanying pages of the Consolidated Annual Report, which comprise the consolidated balance sheet as of 31 December 2007, the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

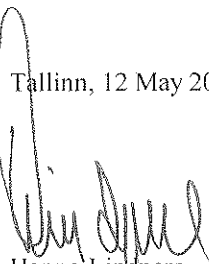
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

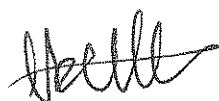
Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of AS Starman as a parent company in Notes 24-27 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 12 May 2008



Hanno Lindpere
Ernst & Young Baltic AS



Urmo Kallakas
Authorised Auditor

PROFIT ALLOCATION PROPOSAL

The Management Board proposes to the General Shareholders' Meeting of AS Starman to allocate the profit as follows:

Retained earnings as of 31 December 2007:	91,816 thousand kroons
Transfer to mandatory reserve:	1873 thousand kroons
Retained earnings after the approval of the Annual Report	89,943 thousand kroons

Peeter Kern

Chairman of the Board

Rändy Hütsi

Member of the Board

Henri Treude

Member of the Board

**SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD
TO THE ANNUAL REPORT 2007**

We hereby confirm the correctness of the data presented in the consolidated Annual Report 2007:

Krisztina Havas
Chairman of the
Supervisory Board

Indrek Kuivallik
Member of the
Supervisory Board

Rain Lõhmus
Member of the
Supervisory Board

Fred Martin
Member of the
Supervisory Board

Tamas Szalai
Member of the
Supervisory Board

Peeter Kern
Chairman of the Board

Rändy Hütsi
Member of the Board

Henri Treude
Member of the Board