

starman

AS STARMAN

Interim Report of the Group for the First Quarter of 2007

Beginning of financial year: 01.01.2007
End of financial year: 31.12.2007

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Main activities: cable television and data communication services

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EXPLANATORY MEMORANDUM TO AS STARMAN'S INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2007

General

Success of Starman continued in the first quarter of 2007. Telephone services rendered a considerable additional impact on the strong market position in the spheres of cable-TV and the internet. Starman is currently offering the best bundled triple play service in the home user sector. 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. In December last year, the product portfolio of Starman was supplemented with a DTT (digital terrestrial television) service. ZUUMtv, which was positioned separately, is based on a different technological platform and Starman's cable network is not used for delivering this product. ZUUMtv is expected to attract a considerable number of new customers already in the near future, especially in those regions of Estonia where Starman was not present thus far.

Starman Group's total revenue for the first quarter of 2007 amounted to 67.5 million EEK, representing a 17% increase compared to the same period a year ago. EBITDA for the first quarter of 2007 amounted to 25.7 million EEK and net profit attributable to shareholders to 13.4 million EEK – respectively an 8% and 15% increase compared to the first quarter of the previous year. Such a good performance is built on the company's successful long-term activities relating to traditional services. As expected, the starting ZUUMtv had a negative impact on Starman's profit figures. A drop of 4.6 million EEK 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 first quarter of 2007:

	2005	2006	Q1 2007
Sales increase	26%	25%	17%
EBITDA margin	33%	40%	38%
Gross margin	15%	21%	18%
Net margin	12%	19%	20%
Revenue/average assets	0.67	0.72	0.74
Equity ratio	54%	58%	57%
Debt to equity	0.69	0.56	0.55
Debt/EBITDA	1.76	1.19	1.17
Investments/EBITDA	1.16	0.83	1.21
Current ratio	0.67	1.09	1.23*
Invoice turnover rate (annual)	20.2	20.0	23.8

Definitions:

Sales increase = increase compared to the same period last year

EBITDA = operating profit + depreciation and amortisation

EBITDA margin = EBITDA / total revenue

Gross margin = operating profit / total revenue

Net margin = net profit attributable to shareholders / total revenue

Revenue / average assets – for comparison purposes, the revenue for the first quarter of 2007 has been multiplied by 4

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Debt to equity – for comparison purposes, EBITDA for the first quarter of 2007 has been multiplied by 4
Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period; for comparison purposes, revenue for the first quarter of 2007 has been multiplied by 4

* As to this ratio, it should be borne in mind that because of the special nature of the accounting principles applied in preparing this report, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of the first quarter, loan payments due within the following nine months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for the first quarter is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first quarter of 2007, the current ratio amounts to 1,13.

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 line-by-line separately indicating the minority share.

Revenue and expenses

As usual, cable television and internet services contributed the majority of Starman's total revenue for the first quarter of 2007, accounting for 47% and 33% of total revenue, respectively. Telephone services, growing faster than the latter two, made up 17% of the total revenue for the first quarter. The digital terrestrial television (DTT) service had practically no effect on the revenue yet.

Revenue from cable television services increased 14% compared to the first quarter of 2006. 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 remain rather low. In addition to the regular price increase, the ARPU (average revenue per user) is also supported by structural changes. As regards structural changes, the triple packages that do not contain smaller programme ranges and the new possibilities such as digital television should be mentioned. As to the digital television service launched in autumn 2005, a major improvement was introduced in the first quarter of 2007 when the company piloted a video on demand service. The service is currently going through a test phase with nearly 500 customers – it was taken to market cautiously, being still under constant development. At the end of March 2007, the company had a total of 132 thousand cable television customers, 4.3% of which were digital television users. The number of cable television customers at the end of the quarter exceeded the last year's relevant figure by 1.5%, quite a good result given the saturated market and tightened competition.

Revenue from internet services was up 9% on the first quarter of 2006. At the end of March 2007, the company had 41 thousand internet customers, representing a 24% growth year on year. 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 the first quarter of 2007 dropping 13% compared to the last year's relevant figure. Starman's popular triple packages in which the internet services are cheaper have a growing impact on the internet ARPU. However, the supporting influence of the triple packages on other services and, hence, also on the average aggregate revenue per user cannot be disregarded.

Telephone services continue to grow rapidly, although the growth rate has somewhat decelerated, with the revenue for the first quarter of 2007 having increased 42% in comparison with the same period in 2006. As of the end of March 2007 the company had 33 thousand telephone clients, i.e. 57% more than at the same time last year. There has been a decline in the ARPU of the telephone services lately, partly due to the fact that the services are being offered on more and more favourable terms in the post subscription phase.

Starman views its cable television, internet and telephone services as a single integrated service. Since provision of the integrated service has remained a part of the corporate strategy for a long period of time, and the services are designed to support each other, separate analysis of the

respective segments might not give the most accurate picture. In the first quarter of 2007, the total 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 coverage and improving the selection of programmes. As at the end of April the coverage area has indeed grown substantially covering already 83% 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. At the end of March, Eesti Digitaaltelevisiooni AS had 3.6 thousand customers.

Starman's operating expenses amounted to 41.8 million EEK in the first quarter of 2007, having grown 23% compared to the same period in 2006. The fact that the operating expenses grew faster than the revenue can mostly be attributable to ZUUMtv – when eliminating the direct costs attributable to this newly launched product, the increase in operating expenses would amount to 7%. The influence of ZUUMtv is most notable under "Services purchased" and "Marketing expenses". Under "Services purchased", a transmission charge payable to Levira has been recorded as a new 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. Of major expense items, expenses on the rental of communication ducts (a growth of 47%) and personnel expenses have also shown fast growth compared to the same period a year ago. All in all, 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.

In the first quarter of 2007, personnel expenses rose 25% year on year. As regards personnel expenses, we must take into consideration that the given indicator includes 81% of the total wage fund, since the remainder is capitalised in accordance with the corporate accounting rules. The average number of employees was 222 in the first quarter of 2007 (202 in the first quarter of 2006). As of 31 March 2007, the company employed 225 people. The staff has mostly grown on account of part-time employees – while at the end of the first quarter of 2006 part-time employees formed 11% of the staff, a year later they accounted for 17% of the staff. The average number of employees translated to the full employment equivalent was 197 in the first quarter of 2007, up 3% compared to the same figure a year ago.

As to expenses related to asset valuation, the provision for bad debts amounted to 530 thousand EEK, i.e., 0.8% of the turnover for the period. Loss of inventories and discounts totalled 279 thousand EEK in the first quarter of 2007.

EBITDA for the first quarter of 2007 amounted to 25.7 million EEK. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to as much as 46%. Hence, the first quarter of 2007 was record-breaking in terms of profitability of traditional services. Besides the fact that telephony service has moved to mature phase, seasonal factors also contributed to excellent results, for it is usual that the first quarter is good in terms of profitability.

Depreciation costs increased 28% compared to the first quarter of 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.

The net profit attributable to shareholders for the first quarter of 2007 amounted to 13.4 million EEK. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 2.2 million EEK negative.

Balance sheet, investments and financing

In the first quarter of 2007, Starman's investments in fixed assets amounted to 31.1 million EEK. The company made the following investments: 11.4 million EEK in cable network renovation and construction, 6.2 million EEK in internet Head-Ends, 5.2 million EEK in STBs (incl. 4.2 million EEK

for provision of ZUUMtv), 3.1 million EEK in analogue cable television Head-Ends, 2.2 million EEK in telephone modems, and 3.0 million EEK in other spheres.

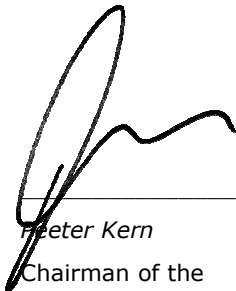
Upgrading and enhancement of the data communication capability of the existing network continued to make up the majority of the investments in the cable network. However, in comparison with earlier years, more projects aimed at network expansion were launched. While at the end of 2006 Starman covered 251 thousand households with 225 thousand – i.e. 90% – of the households being served by a network with the data communication facility, the respective numbers as of 31.03.2007 were 253 thousand and 231 thousand (the data communication capability increased to 91%). Investments in the telephone modems and STBs are directly related to the growth in the number of customers. Investments in the internet and cable television equipment primarily enhanced quality in the environment of ever growing data communication volumes.

Starman's balance sheet structure continues to be characterised by high capitalisation, a relatively low debt level and a sufficient liquidity. The larger-than-usual share of cash in the balance sheet as of 31.03.2007 is to be regarded as of a somewhat incidental nature and is associated with payments for investments already made and to be made in the near future. The level of "Payables" in the balance sheet is higher than usual for a similar reason. The high level of inventories as of 31.03.2007 is mainly due to the value of STBs designated for the ZUUMtv offer amounting to 10.8 million EEK in the balance sheet of Eesti Digitaaltelevisiooni AS. Considering the anticipated market capacities for the new product and the delivery schedule of the STBs the level of these inventories will probably remain high also in the future.

DECLARATION OF THE MANAGEMENT BOARD RESPECTING THE INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2007

The management board hereby declares its responsibility for the preparation of the interim accounts as presented on pages 6 to 17 hereof and assures the following:

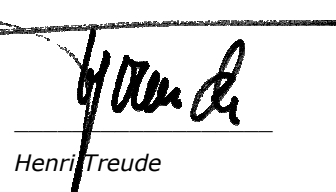
1. the accounting principles applied upon preparation of the consolidated interim accounts comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated interim accounts give a true and fair view of the financial position of the company, as well as of the results of its operations and cash flows;
3. the Group and its parent company are going concerns.



Peter Kern
Chairman of the
Management Board



Randy Hütsi
Member of the
Management Board



Henri Treude
Member of the
Management Board

CONSOLIDATED INCOME STATEMENT

(in thousands of EEK)

	Q1 2007	Q1 2006	Notes
Revenue	67,105	57,171	2
Other income	393	570	3
Goods, raw materials and services	-22,047	-17,557	3
Other operating expenses	-8,755	-7,524	3
Personnel expenses	-10,828	-8,646	3
Depreciation, amortisation and impairments	-13,318	-10,412	
Other operating charges	-120	-258	
Operating profit	12,430	13,344	
Net financial items	-1,254	-1,660	4
Profit before income tax	11,176	11,684	
Net profit	11,176	11,684	
Minority interest	-2,204	0	
Parent company's share of net profit	13,380	11,684	
Basic EPS (in EEK)	1.02	0.90	13
Diluted EPS (in EEK)	1.00	0.90	13

CONSOLIDATED BALANCE SHEET

(in thousands of EEK)

	31.03.2007	31.12.2006	Notes
ASSETS			
Current assets			
Cash	21,802	11,716	
Receivables	12,248	12,308	5
Prepayments	914	2,943	6
Inventories	29,168	23,471	
Total current assets	64,132	50,438	
Non-current assets			
Property, plant and equipment	316,374	298,826	
Intangible assets	601	600	
Total non-current assets	316,975	299,426	
TOTAL ASSETS	381,107	349,864	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	13,676	15,375	7
Payables	35,726	28,639	8
Prepayments and deferred income	2,587	2,209	
Total current liabilities	51,988	46,223	
Non-current liabilities			
Long-term borrowings	106,965	97,188	7
Other long-term liabilities	4,683	4,374	9
Total non-current liabilities	111,648	101,562	
Total liabilities	163,637	147,785	
OWNERS' EQUITY			
Minority interest			
	5,263	3,252	
Share capital	130,536	130,536	
Legal reserve	2,607	2,607	
Retained earnings	79,064	65,684	
Total owners' equity held by the shareholders of the parent company	212,207	198,827	
Total owners' equity	217,470	202,079	10
TOTAL LIABILITIES AND OWNERS' EQUITY	381,107	349,864	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of EEK)

	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	1,465	27,436	159,437	0	159,437
Contributions by minority shareholders	0	0	0	0	4,080	4,080
Dividends announced	0	0	-4,568	-4,568	0	-4,568
Transfers to legal reserve	0	1,142	-1,142	0	0	0
Net profit for the financial year	0	0	43,958	43,958	-828	43,130
31.12.2006	130,536	2,607	65,684	198,827	3,252	202,079
Contributions by minority shareholders	0	0	0	0	4,215	4,215
Profit for the period	0	0	13,380	13,380	-2,204	11,176
31.03.2007	130,536	2,607	79,064	212,207	5,263	217,470

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of EEK)

	Q1 2007	Q1 2006
Cash flow from operating activities		
Net profit	11,176	11,684
Adjustments of net profit:		
Depreciation, amortisation and impairments	13,318	10,412
Gains from disposal of property, plant and equipment	-17	-130
Allowance for doubtful receivables	530	97
Interest income	-132	-50
Interest expenses	1,373	1,227
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	1,559	-763
Change in inventories	-5,495	-1,617
Change in liabilities and prepayments related to operating activities:		
Payables	7,087	2,352
Prepayments and deferred income	687	1,009
Total cash flow from operations	30,086	24,221
Cash flow from investing activities		
Purchase of tangible and intangible assets	-25,607	-14,916
Proceeds on disposals of tangible and intangible assets	17	2,750
Interest received	132	51
Total cash flow from investing activities	-25,458	-12,115
Cash flow from financing activities		
Loan repayments	-188	-188
Repayment of finance lease principal	-4,839	-4,676
Interest paid	-1,373	-1,227
Proceeds from sale and leaseback transactions	7,643	2,631
Contributions by minority shareholders to share owner's equity	4,215	
Total cash flow from financing activities	5,458	-3,460
TOTAL CASH FLOW	10,086	8,646
Cash and cash equivalents at the beginning of the period	11,716	4,405
Change in cash and cash equivalents	10,086	8,646
Cash and cash equivalents at the end of the period	21,802	13,051
Non-monetary transactions		
Non-current assets acquired under finance lease	5,462	1,221

NOTES TO THE INTERIM REPORT**Note 1 Accounting principles and bases of estimation used in the preparation of the interim report**

This interim report has been prepared in accordance with the requirements for abbreviated interim reports, set forth in the International Accounting Standards (IAS 34: "Interim Financial Reporting"), and in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting principles used in the preparation of the interim report are the same as applied in the preparation of the Annual Report for the year ended on 31.12.2006.

According to the company's management, the interim report of AS Starman Group for the first quarter of 2007 gives a true and fair view of the results of the company's operations. This interim report has not been audited or otherwise reviewed by auditors. This interim report has been prepared in thousands of EEK.

Note 2 Revenue

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

Fields of activity	Q1 2007	Q1 2006
Cable television services	31,685	27,791
Internet services	22,206	20,290
Telephone service	11,452	8,072
Sales of goods and materials	1,340	1,018
DTT services*	422	0
Total	67,105	57,171

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	Q1 2007	Q1 2006
Other income		
Gains on disposals of non-current assets	17	130
Revenue from fines for delay	265	313
Revenue from client prepayments	66	85
Other	45	42
Total other income	393	570
Goods, raw materials and services		
Services purchased	-19,665	-15,763
Materials	-451	-171
Goods purchased for resale	-996	-745
Maintenance expenses	-656	-338
Other	-279	-540
Total goods, raw materials and services	-22,047	-17,557
Other operating expenses		
Consulting and advisory expenses	-397	-680
Marketing expenses	-3,957	-3,062
Customer information expenses	-1,301	-1,194
Office expenses	-978	-910
Allowance for doubtful receivables	-530	-275
Transportation expenses	-806	-773
Other	-786	-630
Total other operating expenses	-8,755	-7,524
Personnel expenses		
Wages and salaries	-8,130	-6,474
Social tax	-2,698	-2,172
Total personnel expenses	-10,828	-8,646

Note 4 Net financial items

	Q1 2007	Q1 2006
Interest expenses and -income	-1,242	-1,177
Foreign exchange gains/losses	12	9
Other financial income and expenses	-24	-492
Total net financial items	-1,254	-1,660

Note 5 Receivables

	31.03.2007	31.12.2006
Accounts receivable	11,654	11,765
Other short-term receivables	594	543
Total receivables	12,248	12,308

Note 6 Prepayments

	31.03.2007	31.12.2005
Prepaid taxes	235	2,182
Prepaid services	679	761
Total prepayments	914	2,943

Note 7 Borrowings

	31.03.2007	31.12.2006
Short-term borrowings		
Current portion of long-term bank loans	563	751
Current portion of finance lease liabilities	13,113	14,624
Total short-term borrowings	13,676	15,375
Long-term borrowings		
Non-current portion of long-term bank loans	2,995	2,995
Non-current portion of finance lease liabilities	103,970	94,193
Total long-term borrowings	106,965	97,188

Outstanding loans raised by the company as of 31.03.2007

Creditor	Interest rate	Loan amount	Loan balance	Monthly payment	Repayment term	Collateral
Nordea Finance	5,2%	287	107	7	2007	Leased assets
Nordea Finance	4,8%	833	572	16	2008	Leased assets
Ühisliising	4,8%	620	390	15	2008	Leased assets
Nordea Finance	4,4%	1,165	1,024	20	2009	Leased assets
Nordea Bank Finland Plc	5,7%	6,500	3,558	80	2009	Mortgage + commercial pledge
Nordea Finance	4,6%	427	405	3	2010	Leased assets
Ühisliising	4,7%	778	531	11	2010	Leased assets
Ühisliising	4,9%	14,043	10,889	530	2011	Leased assets
Ühisliising	4,6%	135,713	103,165	1,399	2013	Leased assets+ commercial pledge
TOTAL		160,365	120,641	2,081		

Note 8 Payables

	31.03.2007	31.12.2006
Accounts payable	20,024	16,405
Taxes payable	5,150	5,743
Employee-related liabilities	4,255	3,631
Other payables	6,297	2,860
Total payables	35,726	28,639

Note 9 Other long-term liabilities

Other long-term liabilities comprise deferred income consisting of subscription fees, which are to be charged to income over a term of 7 years. The long-term portion of said income is reported in this subsection. The short-term portion, which amounted to 528 thousand EEK as of 31.03.2007 (729 thousand EEK as of 31.12.2006), is reported as "Prepayments and deferred income" in the balance sheet.

Note 10 Owners' equity

The company's share capital amounts to 130,535,700 EEK, divided into 13,053,570 registered shares with a nominal value of 10 EEK 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 EEK (i.e. 5.3%) within 3 years after the introduction of amendments to the articles of association on 17 May 2005. The supervisory board can exercise this right for realisation of the stock options granted to the management (see Note 13: "Earnings per share"). The resolution of the shareholders' meeting held on 17 May 2005 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. EEK 0.35 per share, was paid to shareholders as net dividends on 21 June 2006. Starman paid 4,568 thousand EEK in net dividends, transferred 1,142 thousand EEK into the legal reserve, and retained the rest of the profit.

The management board has proposed to announce dividends in the amount of 0.70 EEK per share in 2007, i.e. about 20% of the company's net profit for 2006. According to the profit allocation proposal presented to the annual general meeting of shareholders, 9,137 thousand EEK would be paid in net dividends and 2,198 thousand EEK would be transferred into the legal reserve, leaving 54,349 thousand EEK as the retained earnings of the company. The announcement of dividends would subject the company to an income tax liability of 2,577 thousand EEK.

As of 31.03.2007, the following shareholders held over 1% of the shares in the company:

Royalton Capital Investors	- 33,4%
OÜ Constock	- 19,1%
OÜ Com Holding	- 17,8%
Hansa Ida-Euroopa Aktsiafond	- 7,5%
Nordea Bank Finland PLC Clients	- 5,2%
ING Luxembourg S.A.	- 4,0%
AS Lõhmus Holdings	- 2,6%
Hansa Balti Kasvufond	- 1,8%
OKO Bank Plc Client	- 1,1%
SEB Ab Clients	- 1,1%
RBC Dexia Investor Services	- 1,0%

Note 11 Related party transactions

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

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

Services were purchased from the following related parties during the accounting period:

	Q1 2007	Q1 2006
Companies related to members of supervisory board	150	562

As a result of these transactions, the company had the following liabilities to related parties as of 31.03.2007:

	31.03.2007	31.03.2006
Companies related to members of supervisory board	0	221

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

Non-capitalized wages and salaries (incl. bonuses) of management board members in the first quarter of 2007 amounted to 1,684 thousand EEK (1,092 thousand EEK in the first quarter of 2006); no remuneration was paid to the members of the supervisory board for said period (0 EEK in the first quarter of 2006).

Note 12 Subsidiary company

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

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

As of 31.03.2007, the owners' contribution to the equity of the company amounted to 24.4 million EEK. The loss of Eesti Digitaaltelevisiooni AS for the first quarter of 2007 amounted to 6,484 thousand EEK, the balance sheet total at the end of the quarter was 17,760 thousand EEK and owners' equity was 15,480 thousand EEK.

Note 13 Earnings per share

	Q1 2007	Q1 2006
Net profit attributable to shareholders (thousand EEK)	13,380	11,684
Weighted average number of shares (thousands of units)	13,054	13,054
Basic EPS	1.02	0.90
Net profit attributable to shareholders (thousand EEK)	13,380	11,684
Weighted average number of shares (thousands of units)	13,054	13,054
Dilutive effect of options (thousands of units)*	26	0
Weighted average number of shares adjusted with options (thousands of units)	13,080	13,054
Diluted EPS	1.00	0.90

* The dilutive effect of options has been calculated as follows: $200,040 * (75.89 - 65.87) / 68.85 = 8,638$ shares; incl. 200,040 = number of contingently issuable shares having dilutive effect, 75.89 = market value of shares as of 31.03.2007, 65.87 = share price upon exercise of option.

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

The company has contingently issuable shares on account of options granted to management board members. The members of the management board are, subject to certain conditions, entitled to acquire a total of 600,000 shares in the company. The options have been divided into three series on the basis of the periods of realisation: the A series grants the right to acquire 200,040 shares from 1 July 2006 to 30 June 2008; the B series grants the right to acquire 199,980 shares from 1 July 2007 to 30 June 2009, and the C series grants the right to acquire 199,980 shares from 1 July 2008 to 30 June 2010. In the case of the A series, the option realisation price is equal to the average trade price applicable in the 3rd to the 8th week after the first day of trading in the shares on the stock exchange, plus 15%; for the B series the option realisation price is equal to the average trade price applicable during the 1st quarter of 2006, plus 15%, and for the C series the option realisation price is equal to the average trade price applicable during the 1st quarter of 2007, plus 15% (dividends paid will be deducted from the realisation price of options of all series). Several other conditions must be met for the options to be realised – specific criteria have been established for the company's financial results and market capitalisation as well as for the member's employment relation with Starman.

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

Note 14 Pending disputes and legal actions

On 16 January 2006, AS Starman lodged a complaint with the Competition Board and the Communications Board by which it contested the plan of Elion Ettevõtted AS to raise, from 1 February 2006, rental charges payable for the use of communication ducts. The planned price increase for objects already leased out amounts to 32%. In the case of network expansion and renovation, 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 Ettevõtted 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 EEK 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 very marginal extent.

On 7 April 2006, AS Starman filed a statement of claim with Harju County Court against AS Telset for recognition of the right of ownership and reclamation of things from illegal possession. The action to the value of 1,534 thousand EEK relates to the assets which should have been included in the assets of AS Telset Telecommunications Group, a subsidiary acquired by Starman from Tele 2 OÜ in June 2004. The assets being reclaimed should have been transferred from AS Telset to Tele 2 Group when Tallinna Kaabelitelevisiooni AS, which was a subsidiary of Tele 2 Group at that time, acquired 100% of the shares in Telset Telecommunications Group. By its ruling of 10 April 2006, Harju County Court prohibited all transactions of AS Telset with these assets. During the period from October 2006 to March 2007 two court sessions have been held, but the merits of the matter have been considered only to a minimum extent; the next session is scheduled for September 2007. 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 EEK. Expenses relating to the action amount to less than 100 thousand EEK at the moment.

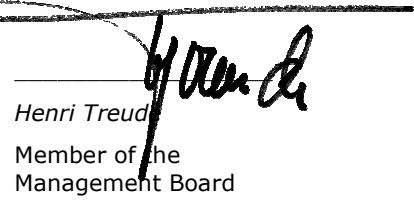
SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2007



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treud
Member of the
Management Board