

starman

AS STARMAN

Interim Report of the Group for the First Half-Year 2007

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Main activities: cable television and data communication services

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EXPLANATORY MEMORANDUM TO THE INTERIM REPORT OF AS STARMAN'S GROUP FOR THE FIRST HALF-YEAR 2007

General

Success of Starman continued in the first half-year 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 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 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 half-year 2007 amounted to 8.75 million euros, representing a 17% increase compared to the same period a year ago. EBITDA for the first half-year 2007 amounted to 3.16 million euros and net profit attributable to shareholders to 1.33 million euros – respectively an 1% and 14% decrease compared to the first half of the previous year. The 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 0.63 million euros 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 half-year 2007:

	2005	2006	2007 H1
Sales increase	26%	25%	17%
EBITDA margin	33%	40%	36%
Gross margin	15%	21%	16%
Net margin	12%	19%	15%
Revenue/average assets	0.67	0.72	0.72
Equity ratio	54%	58%	54%
Debt to equity	0.69	0.56	0.61
Debt/EBITDA	1.76	1.19	1.35
Investments/EBITDA	1.16	0.83	1.17
Current ratio	0.67	1.09	1.28*
Invoice turnover rate (annual)	20.2	20.0	26.7

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 half-year 2007 has been multiplied by 2

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Debt to equity – for comparison purposes, EBITDA for the first half-year 2007 has been multiplied by 2

Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period; for comparison purposes, revenue for the first half-year 2007 has been multiplied by 2

* 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 half-year, loan payments due within the following six months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for the first half-year is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first half-year 2007, the current ratio amounts to 1.07.

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

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for the first half-year 2007, accounting for 46% and 33% of total revenue, respectively. Telephone services, growing faster than the latter two, accounted for 17% of the total revenue for the half-year. The digital terrestrial television (DTT) service had practically no effect on the revenue yet.

Revenue from cable television services increased by 14% compared to the first half-year 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 June 2007, the company had a total of 132 thousand cable television customers, 4.7% of which were digital television users. The number of cable television customers at the end of June exceeded the last year's relevant figure by 1.9%, which is quite a good result given the saturated market and tightened competition.

Revenue from internet services increased by 10%, compared to the first half of the previous year. At the end of June 2007, the company had 43 thousand internet customers – a 27% increase compared to 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 the first half-year 2007 dropping by 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.

Of the three primary services, the telephone service continues to show the best growth figures, although the growth rate has somewhat decelerated, with the revenue for the first half-year 2007 having increased 33% in comparison with the same period a year ago. As of the end of June 2007 the company had 36 thousand telephone clients, i.e. 56% 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 increasingly favourable terms in the post-subscription phase. The average ARPU for the first half-year 2007 decreased by 18% when compared to the corresponding figure of the previous year.

Starman views its cable television, internet and telephone services as a single integrated service. Since the provision of the integrated service has remained a part of the corporate strategy for a

long period of time, and the services are designed to support each other, separate analysis of the respective segments might not give the most accurate picture. In the first half-year 2007, the average aggregate revenue from the given services per client was 13% 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. At the end of June, Eesti Digitaaltelevisiooni AS had 4.3 thousand customers.

Starman's operating expenses amounted to 5.59 million euros in the first half-year 2007, having grown by 30% compared to the same period in the previous year. 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 12%. The impact of ZUUMtv is most notable among expenses reported under "Services purchased" which include the transmission charge payable to Levira 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. In addition to the impact of ZUUMtv, the increase of marketing expenses by 68% when compared to the first half of the previous year 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 50%) 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 half-year 2007, personnel expenses increased 25% 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. The average number of employees was 223 in the first half-year 2007 (206 in the first half-year 2006). As of 30 June 2007, the company employed 223 people. Part-time employees accounted for 16% of the staff. The average number of employees translated to the full employment equivalent was 199 in the first half-year 2007, up 4% compared to the same figure a year ago.

As to expenses related to asset valuation, the provision for bad debts amounted to 32 thousand euros, i.e. to merely 0.4% of the period turnover just like in the corresponding period a year ago. Losses and write-downs of inventories totalled 26 thousand euros in the first half-year 2007 (64 thousand euros in the first half-year 2006).

EBITDA for the first half-year 2007 amounted to 3.16 million euros. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to 44%. Hence, the first half-year 2007 was record-breaking in terms of profitability of traditional services.

Depreciation costs increased by 28% compared to the first half-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.

The net profit attributable to shareholders for the first half-year 2007 amounted to 1.34 million euros. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 0.25 million euros negative. When assessing profit figures one should note that expenses for the second quarter include the income tax expenditure of 0.17 million euros resulting from the disbursement of dividends.

Balance sheet, investments and financing

In the first half-year 2007, Starman's investments in fixed assets amounted to 3.69 million euros. The company made the following investments: 1.58 million euros in cable network construction and renovation; 0.62 million euros in internet equipment (incl. 0.47 million euros in Head-Ends); 0.44 million euros in STBs (incl. 0.35 million euros for provision of ZUUMtv); 0.36 million euros in analogue cable television Head-Ends; 0.29 million euros in telephone modems; and 0.40 million euros in other spheres.

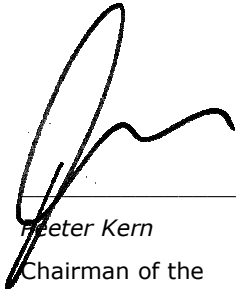
When compared to earlier years, projects aiming at network expansion are notable among investments in the cable network. There are still some locations in Estonia where cable network expansion should be profitable, given the company's current success in providing telecommunications services. In addition 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 and Pärnu in the first half-year 2007. While work aimed at the modernisation and enhancement of the data communication capability of the existing network is continued, the relative share of that particular type of network investments is diminishing, given the level already achieved. As of 30 June 2007, Starman's network covered 258 thousand households with 237 thousand – i.e. 92% – of the households being served by a network with the data communication facility (as of 31 December 2006 the comparable figures were 251 thousand, 225 thousand and 90%, respectively). Investments in 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. Due to dividend payments made at the beginning of July, a higher than average level of both "Payables" and "Cash" can be observed on the Balance Sheet prepared as of 30 June 2007. While most of the investments made in the first half-year 2007 were financed out of the company's own resources, the volumes of borrowed funds were increased to a certain extent, as well. The high level of inventories as of 30 June 2007 is mainly due to the value of STBs designated for the ZUUMtv offer amounting to 1.11 million euros 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 HALF-YEAR 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:

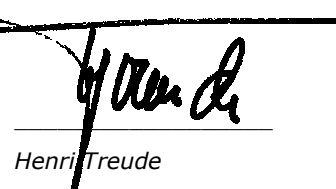
1. the accounting principles applied in the preparation of the consolidated interim accounts comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated interim accounts give a true and fair view of the financial position of the company, as 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 euros)

	2007 H1	2006 H1	2007 Q2	2006 Q2	Notes
Revenue	8,686	7,417	4,397	3,764	2
Other income	61	68	36	32	3
Goods, raw materials and services	-2,936	-2,136	-1,526	-1,014	3
Other operating expenses	-1,207	-940	-648	-459	3
Personnel expenses	-1,426	-1,139	-734	-586	3
Depreciation, amortisation and impairments	-1,744	-1,367	-893	-702	
Other operating charges	-17	-79	-9	-63	
Operating profit	1,417	1,825	623	972	
Net financial items	-169	-188	-89	-82	4
Profit before income tax	1,248	1,637	534	890	
Income tax	-165	-87	-165	-87	10
Net profit	1,083	1,550	369	803	
Minority interest	-252	0	-111	0	
Parent company's share of net profit	1,335	1,550	480	803	
Basic EPS (euros)	0.10	0.12	0.04	0.06	13
Diluted EPS (euros)	0.10	0.12	0.04	0.06	13

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	30.06.2007	31.12.2006	Notes
ASSETS			
Current assets			
Cash	1,299	749	
Receivables	706	787	5
Prepayments	325	188	6
Inventories	2,320	1,500	
Total current assets	4,650	3,224	
Non-current assets			
Property, plant and equipment	21,015	19,098	
Intangible assets	61	38	
Total non-current assets	21,076	19,137	
TOTAL ASSETS	25,726	22,360	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	716	983	7
Payables	2,748	1,830	8
Prepayments and deferred income	155	141	
Total current liabilities	3,620	2,954	
Non-current liabilities			
Long-term borrowings	7,834	6,211	7
Other long-term liabilities	316	280	9
Total non-current liabilities	8,150	6,491	
Total liabilities	11,770	9,445	
OWNERS' EQUITY			
Minority interest			
Share capital	8,343	8,343	
Legal reserve	307	307	
Retained earnings	4,808	4,198	
Total owners' equity held by the shareholders of the parent company	13,458	12,707	
Total owners' equity	13,955	12,915	10
TOTAL LIABILITIES AND OWNERS' EQUITY	25,726	22,360	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	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	8,343	94	1,753	10,190	0	10,190
Contributions by minority shareholders	0	0	0	0	261	261
Dividends announced	0	0	-292	-292	0	-292
Transfers to legal reserve	0	73	-73	0	0	0
Net profit for the financial year	0	0	2,809	2,809	-53	2,757
	0	0	0	0	0	0
31.12.2006	8,343	167	4,198	12,707	208	12,915
Contributions by minority shareholders	0	0	0	0	541	541
Dividends announced	0	0	-584	-584	0	-584
Transfers to legal reserve	0	140	-140	0	0	0
Profit for the accounting period	0	0	1,335	1,335	-252	1,083
30.06.2007	8,343	307	4,808	13,458	497	13,955

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euros)

	2007 H1	2006 H1
Cash flow from operating activities		
Net profit	1,083	1,550
Adjustments of net profit:		
Depreciation, amortisation and impairments	1,744	1,367
Gains from disposal of property, plant and equipment	-10	-10
Allowance for doubtful receivables	30	5
Interest income	-15	-8
Interest expenses	185	162
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-87	-247
Change in inventories	-828	-364
Change in liabilities and prepayments related to operating activities:		
Payables	334	491
Prepayments and deferred income	51	50
Total cash flow from operations	2,488	2,997
Cash flow from investing activities		
Purchase of tangible and intangible assets	-3,164	-2,030
Proceeds from disposals of tangible and intangible assets	32	179
Interest received	15	8
Total cash flow from investing activities	-3,117	-1,843
Cash flow from financing activities		
Loan repayments	-24	-24
Repayment of finance lease principal	-626	-529
Interest paid	-185	-162
Proceeds from sale and leaseback transactions	1,474	168
Dividends paid	0	-292
Contributions by minority shareholders to owner's equity	541	0
Total cash flow from financing activities	1,179	-839
TOTAL CASH FLOW	550	315
Cash and cash equivalents at the beginning of the period	749	282
Change in cash and cash equivalents	550	315
Cash and cash equivalents at the end of the period	1,299	596
Non-monetary transactions		
Non-current assets acquired under finance lease	533	92

NOTES TO THE INTERIM REPORT

Note 1 Accounting principles and bases of estimation used in the preparation of the interim report

This interim report has been prepared in accordance with the requirements for abbreviated interim reports, set forth in the International Accounting Standards (IAS 34: "Interim Financial Reporting"), and in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting principles used in the preparation of the interim report are the same as applied in the preparation of the Annual Report for the year ended on 31 December 2006.

According to the company's management, the interim report of AS Starman Group for the second 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 euros.

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	2007 H1	2006 H1	2007 Q2	2006 Q2
Cable television services	4,060	3,570	2,035	1,794
Internet services	2,873	2,622	1,454	1,325
Telephone service	1,487	1,114	755	598
DTT services*	110	0	83	0
Sales of goods and materials	155	111	70	46
Total	8,686	7,417	4,397	3,764

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	2007 H1	2006 H1	2007 Q2	2006 Q2
Other income				
Gains on disposals of non-current assets	10	10	9	2
Revenue from fines for delay	36	41	19	21
Revenue from revaluation of liabilities	9	12	5	6
Other	6	5	3	3
Total other income	61	68	36	32
Goods, raw materials and services				
Services purchased	-2,655	-1,921	-1,398	-914
Materials	-56	-24	-30	-13
Goods purchased for resale	-118	-82	-52	-35
Maintenance expenses	-78	-44	-37	-23
Other	-28	-64	-9	-30
Total goods, raw materials and services	-2,936	-2,136	-1,526	-1,014
Other operating expenses				
Consulting and advisory expenses	-55	-97	-29	-54
Marketing expenses	-608	-361	-355	-165
Customer information expenses	-168	-145	-84	-68
Office expenses	-124	-115	-62	-57
Allowance for doubtful receivables	-32	-29	2	-11
Transportation expenses	-106	-103	-54	-54
Other	-115	-90	-65	-49
Total other operating expenses	-1,207	-940	-648	-459
Personnel expenses				
Wages and salaries	-1,066	-853	-547	-439
Social tax	-360	-286	-187	-147
Total personnel expenses	-1,426	-1,139	-734	-586

Note 4 Net financial items

	2007 H1	2006 H1	2007 Q2	2006 Q2
Interest expenses and income	-170	-154	-91	-79
Foreign exchange gains/losses	4	8	3	8
Other financial expenses	-3	-42	-2	-11
Total net financial items	-169	-188	-89	-82

Note 5 Receivables

	30.06.2007	31.12.2006
Accounts receivable	651	752
Other short-term receivables	55	35
Total receivables	706	787

Note 6 Prepayments

	30.06.2007	31.12.2006
Prepaid taxes	23	139
Other prepayments	302	49
Total prepayments	325	188

Note 7 Borrowings

	30.06.2007	31.12.2006
Short-term borrowings		
Current portion of long-term bank loans	24	48
Current portion of finance lease liabilities	692	935
Total short-term borrowings	716	983
Long-term borrowings		
Non-current portion of long-term bank loans	191	191
Non-current portion of finance lease liabilities	7,643	6,020
Total long-term borrowings	7,834	6,211

Outstanding loans raised by the company as of 30 June 2007

Creditor	Loan amount	Loan balance	Monthly payment	Interest rate	Repayment term	Collateral
Nordea Finance	18	6	0.4	5.2%	2007	Leased assets
SEB Ühisliising	17	9	0.3	4.4%	2007	Leased assets
Nordea Finance	53	34	1.0	4.9%	2008	Leased assets
SEB Ühisliising	22	13	0.6	4.6%	2008	Leased assets
Nordea Bank Finland Plc	415	215	5.1	4.6%	2009	Mortgage + commercial pledge
Nordea Finance	27	21	0.5	4.8%	2009	Leased assets
Nordea Finance	48	31	1.7	4.8%	2009	Leased assets
Nordea Finance	27	25	0.2	5.7%	2010	Leased assets
SEB Ühisliising	50	46	1.0	4.6%	2010	Leased assets
SEB Ühisliising	2,298	1,775	93.1	4.8%	2011	Leased assets
SEB Ühisliising	8,674	6,375	42.6	4.9%	2013	Leased assets+ commercial pledge
TOTAL	11,650	8,550	147			

Note 8 Payables

	30.06.2007	31.12.2006
Accounts payable	1,230	1,048
Taxes payable	416	367
Employee-related liabilities	259	232
Other payables	258	183
Dividends payable	584	0
Total payables	2,748	1,830

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 20 thousand euros as of 30 June 2007 (47 thousand euros as of 31 December 2006), is reported as "Prepayments and deferred income" on the balance sheet.

Note 10 Owners' equity

The company's share capital amounts to 130 535 700 kroons (8,34 million euros), 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 kroons (441 thousand euros; 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 exercise this right for realisation of the stock options granted to the management (see Note 13: "Earnings per share"). The resolution of the shareholders' meeting held on 17 May 2005 excludes the shareholders' preferential right to subscribe for shares subjected to the option scheme.

In accordance with the resolution of the annual general meeting of shareholders held on 25 May 2006, 20% of the net profit for the year 2005, i.e. EUR 0.022 per share, was paid to shareholders as net dividends on 21 June 2006. Starman paid 292 thousand euros in net dividends, transferred 73 thousand euros into the legal reserve and retained the rest of the net profit for 2005. The announcement of dividends entailed the income tax liability of 87 thousand euros.

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. EUR 0.045 per share, was paid to shareholders as net dividends on 6 July 2007. Starman paid 584 thousand euros in net dividends, transferred 140 thousand euros into the legal reserve and retained the rest of the net profit for 2006. Therefore, the retained earnings of the company amount to 3,474 thousand euros. The announcement of dividends entailed the income tax liability of 165 thousand euros.

As of 30 June 2007, the following shareholders held over 1% of the shares in the company:

Royalton Capital Investors	- 33.4%
OÜ Constock	- 18.9%
OÜ Com Holding	- 17.8%
Hansa Ida-Euroopa Aktsiafond	- 7.9%
Nordea Bank Finland PLC Clients	- 5.2%
ING Luxembourg S.A.	- 3.8%
AS Lõhmus Holdings	- 2.6%
Hansa Balti Kasvufond	- 1.4%
OKO Bank Plc Client	- 1.3%
Hansapank	- 1.2%
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:

	2007 H1	2006 H1	2007 Q2	2006 Q2
Companies related to members of supervisory board	25	78	15	43

As of 30 June 2007 and 31 December 2006, the company did not have any liabilities to related parties on account of these transactions.

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 half-year 2007 amounted to 208 thousand euros (140 thousand euros in the first half-year 2006); remuneration paid to the members of the supervisory board for said period amounted to 12 thousand euros (0.4 thousand euros in the first half-year 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 2.94 million euros 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 30 June 2007, the owners' contribution to the equity of the company amounted to 2.36 million euros. The loss of Eesti Digitaaltelevisiooni AS for the first half-year 2007 amounted to 740 thousand euros, the balance sheet total at the end of 30 June 2007 was 1,636 thousand euros and owners' equity was 1,462 thousand euros.

Note 13 Earnings per share

	2007 H1	2006 H1	2007 Q2	2006 Q2
Shareholders' share of net profit (thousand euros)	1,335	1,550	480	803
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Basic EPS (euros)	0.10	0.12	0.04	0.06
Shareholders' share of net profit (thousand euros)	1,335	1,550	480	803
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	32	0	32	0
Weighted average number of shares adjusted with options (thousands of units)	13,086	13,054	13,086	13,054
Diluted EPS (euros)	1,335	1,550	480	803

* The dilutive effect of options has been calculated as follows: $200,040 * (5.01 - 4.21) / 5.01 = 31,943$ shares; incl. 200,040 = number of contingently issuable shares having dilutive effect, 5.01 = market value of shares as of 30 June 2007, 4.21 = 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 Ettevøtted 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 Ettevøtted 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 0.47

million euros 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.

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 98 thousand euros 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 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 June 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 19 thousand euros. Expenses relating to the action amount to less than 7 thousand euros at the moment.

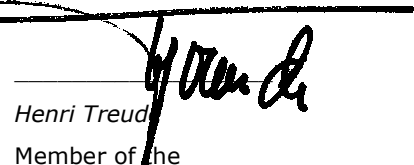
SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST HALF-YEAR 2007



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treud
Member of the
Management Board