

starman

AS STARMAN

Interim Report of the Group for the First 9 Months 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 THE INTERIM REPORT OF AS STARMAN'S GROUP FOR THE FIRST NINE MONTHS OF 2007

General

Success of Starman continued for the first nine months of the year. 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. 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 EEK, the share price offered to all shareholders today exceeds that of the IPO by 72%, the aggregate value of the company thus amounting to 1.17 billion EEK. This deal certifies Starman's current success and good prospects for the future. Currently, after having acquired the initial 54.04% of the company's shares, a consortium of financial investors led by Bancroft Private Equity LLP has made a mandatory takeover bid to all shareholders. If the takeover bid is successful for the bidder, delisting of Starman from Tallinn Stock Exchange will be applied for.

Starman Group's total revenue for the first nine months of 2007 amounted to 207.0 million EEK, representing a 17% increase compared to the same period a year ago. EBITDA for the first nine months of 2007 amounted to 71.4 million EEK and net profit attributable to shareholders to 29.4 million EEK – respectively a 4% and 18% 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. As expected, the starting ZUUMtv had a negative impact on Starman's profit figures. A drop of 15.8 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 nine months of 2007:

	2005	2006	9 months 2007
Sales increase	26%	25%	18%
EBITDA margin	33%	40%	34%
Gross margin	15%	21%	14%
Net margin	12%	19%	14%
Revenue/average assets	0.67	0.72	0.72
Equity ratio	54%	58%	57%
Debt to equity	0.69	0.56	0.57
Debt/EBITDA	1.76	1.19	1.36
Investments/EBITDA	1.16	0.83	1.14
Current ratio	0.67	1.09	1.41*
Invoice turnover rate (annual)	20.2	20.0	24.7

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 nine months of 2007 has been multiplied by 4/3

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Debt / EBITDA – for comparison purposes, EBITDA for the first nine months of 2007 has been multiplied by 4/3

Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period; for comparison purposes, revenue for the first nine months of 2007 has been multiplied by 4/3

* As to this ratio, it should be borne in mind that because of the special nature of the accounting principles applied in preparing this report, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of nine months, loan payments due within the following three months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for nine months is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first nine months of 2007, the current ratio amounts to 0.98.

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.

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.

Revenue and expenses

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for the first nine months of 2007, accounting for 46% and 33% of total revenue, respectively. Telephony service, growing faster than the latter two, accounted for 17% of the total revenue for the period. The digital terrestrial television (DTT) service has no notable effect on the revenue yet.

Revenue from cable television services increased 14% compared to the first nine months 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 September 2007, the company had a total of 132 thousand cable television customers, 5.2% of which were digital television users. The number of cable television customers at the end of September exceeded the last year's relevant figure by 1.5%, quite a good result given the saturated market and tightened competition.

Revenue from the internet services increased 10% in comparison with the first nine months of 2006. At the end of September 2007, the company had 45 thousand internet customers – a 25% increase compared 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 the first nine months 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.

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 the first nine months of 2007 having increased 33% in comparison with the same period a year ago. As of the end of September 2007 the company had 39 thousand telephony clients, i.e. 50% more than at the same time last 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 the first nine months of 2007 decreased 16% when compared to the corresponding figure of the previous year.

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, separate analysis of the respective segments might not give the most accurate picture. In the first nine months of 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 September, Eesti Digitaaltelevisiooni AS had 6.5 thousand customers.

Starman's operating expenses amounted to 135.6 million EEK in the first nine months of 2007, having grown 33% in comparison with the same period in 2006. 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 13%. 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 nine months 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 46%) 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 nine months of 2007, personnel expenses increased 23% 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 225 in the first nine months of 2007 (208 in the first nine months of 2006). As of 30 September 2007, the company employed 233 people. Part-time employees accounted for 21% of the staff. The average number of employees translated to the full employment equivalent was 199 in the first nine months of 2007, having grown only 3% compared to the same figure a year ago.

As to expenses related to asset valuation, the provision for bad debts amounted to 832 thousand EEK, i.e. to merely 0.4% of the period turnover just like in the corresponding period a year ago. Loss of inventories and discounts totalled 462 thousand EEK in the first nine months of 2007 (1,070 thousand EEK in the first nine months of 2006).

EBITDA for the first nine months of 2007 amounted to 71.4 million EEK. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to 43%. Hence, the first nine months of 2007 were record-breaking in terms of profitability of traditional services.

Depreciation costs increased 27% in comparison with the first nine months 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 nine months of 2007 amounted to 29.4 million EEK. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 6.8 million EEK negative. When assessing profit figures one should note that the results include the income tax expenditure of 2.6 million EEK related to disbursement of dividends.

Balance sheet, investments and financing

In the first nine months of 2007, Starman's investments in fixed assets amounted to 81.2 million EEK, representing a 37% increase compared to the same period a year ago. The company made the following investments: 37.7 million EEK in cable network construction and renovation; 11 million EEK in STBs (incl. 9.1 million for provision of ZUUMtv), 9.7 million EEK in internet equipment (incl. 7.3 million EEK in Head-Ends); 6.8 million EEK in analogue cable television Head-Ends; 6.5 million EEK in telephone modems; and 9.5 million EEK in other spheres.

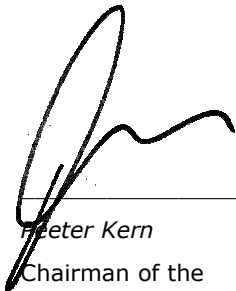
When compared to earlier years, projects aiming at network expansion are notable among investments in the cable network. There are still some locations in Estonia where cable network expansion should be feasible, given the company's current success in providing telecommunications services. In addition 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 and Pärnu in the first nine months of 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 high level already achieved. As of 30 September 2007, Starman's network covered 261 thousand households with 242 thousand – i.e. 93% – 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. As regards cable television equipment, a substantial part of investments is attributable to the network expansion mentioned above.

Starman's balance sheet structure continues to be characterised by high capitalisation, a relatively low debt level and a sufficient liquidity. As to the company's financing needs, dividend payments amounting to 11.7 million EEK 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 the first nine months 2007, external funding was increased to a certain extent as well. The high level of inventories as of 30 September 2007 is mainly due to the value of STBs designated for the ZUUMtv offer amounting to 13.2 million EEK in the balance sheet of Eesti Digitaaltelevisiooni AS. In addition, several network expansion projects to be undertaken in the near future have an impact on the level of inventories. 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.

DECLARATION OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST NINE MONTHS 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 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 concern.



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)

	9 months 2007	9 months 2006	Q3 2007	Q3 2006	Notes
Revenue	205,543	174,591	69,635	58,533	2
Other income	1,437	1,673	483	606	3
Goods, raw materials and services	-71,230	-49,644	-25,306	-16,230	3
Other operating expenses	-30,225	-23,363	-11,328	-8,655	3
Personnel expenses	-33,777	-27,368	-11,463	-9,551	3
Depreciation, amortisation and impairments	-42,032	-33,053	-14,740	-11,663	
Other operating charges	-339	-1,685	-73	-448	
Operating profit	29,377	41,151	7,208	12,592	
Net financial items	-4,165	-3,756	-1,521	-810	4
Profit before income tax	25,212	37,395	5,687	11,782	
Income tax	-2,577	-1,365	0	0	10
Net profit	22,635	36,030	5,687	11,782	
Minority interest	-6,782	0	-2,844	0	
Parent company's share of net profit	29,417	36,030	8,531	11,782	
Basic EPS (EEK)	2.25	2.76	0.65	0.90	13
Diluted EPS (EEK)	2.24	2.76	0.65	0.90	13

CONSOLIDATED BALANCE SHEET

(in thousands of EEK)

	30.09.2007	31.12.2006	Notes
ASSETS			
Current assets			
Cash	8,761	11,716	
Receivables	11,947	12,308	5
Prepayments	2,682	2,943	6
Inventories	32,857	23,471	
Total current assets	56,247	50,438	
Non-current assets			
Property, plant and equipment	337,305	298,826	
Intangible assets	993	600	
Total non-current assets	338,298	299,426	
TOTAL ASSETS	394,545	349,864	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	5,752	15,375	7
Payables	32,302	28,639	8
Prepayments and deferred income	1,976	2,209	
Total current liabilities	45,139	46,223	
Non-current liabilities			
Long-term borrowings	123,257	97,188	7
Other long-term liabilities	5,109	4,374	9
Total non-current liabilities	123,257	101,562	
Total liabilities	168,396	147,785	
OWNERS' EQUITY			
Minority interest	7,043	3,252	
Share capital	130,536	130,536	
Legal reserve	4,804	2,607	
Retained earnings	83,766	65,684	
Total owners' equity held by the shareholders of the parent company	219,106	198,827	
Total owners' equity	226,149	202,079	10
TOTAL LIABILITIES AND OWNERS' EQUITY	394,545	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	10,573	10,573
Dividends announced	0	0	-9,137	-9,137	0	-9,137
Transfers to legal reserve	0	2,198	-2,198	0	0	0
Profit for the accounting period	0	0	29,417	29,417	-6,782	22,635
30.09.2007	130,536	4,804	83,766	219,106	7,043	226,149

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of EEK)

	9 months 2007	9 months 2006
Cash flow from operating activities		
Net profit	22,635	36,030
Adjustments of net profit:		
Depreciation, amortisation and impairments	42,032	33,053
Gains from disposal of property, plant and equipment	-175	-156
Allowance for doubtful receivables	832	143
Interest income	-343	-190
Interest expenses	4,622	3,861
Income tax on dividends	2,577	1,365
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-210	-4,408
Change in inventories	-9,453	-3,230
Change in liabilities and prepayments related to operating activities:		
Payables	3,663	24,439
Prepayments and deferred income	502	931
Total cash flow from operations	66,682	91,838
Cash flow from investing activities		
Purchase of tangible and intangible assets	-72,196	-57,653
Proceeds from disposals of tangible and intangible assets	591	2,795
Interest received	343	191
Total cash flow from investing activities	-71,262	-54,667
Cash flow from financing activities		
Loan repayments	-563	-563
Repayment of finance lease principal	-15,108	-140,243
Interest paid	-4,622	-3,861
Proceeds from sale and leaseback transactions	23,059	144,240
Contributions by minority shareholders to owners' equity	10,573	0
Dividends paid	-9,137	-4,568
Paid income tax on dividends	-2,577	-1,365
Total cash flow from financing activities	1,625	-6,360
TOTAL CASH FLOW	-2,955	30,811
Cash and cash equivalents at the beginning of the period	11,716	4,405
Change in cash and cash equivalents	-2,955	30,811
Cash and cash equivalents at the end of the period	8,761	35,216
Non-monetary transactions – non-current assets acquired under finance lease	9,058	1,706

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 first nine months 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	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Cable television services	95,505	83,999	31,974	28,135
Internet services	67,935	61,630	22,981	20,612
Telephony service	35,091	26,395	11,818	8,959
DTT services*	3,276	0	1,555	0
Sales of goods and materials	3,736	2,567	1,307	827
Total	205,543	174,591	69,635	58,533

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Other income				
Gains on disposals of non-current assets	177	156	25	0
Revenue from fines for delay	823	1,106	260	461
Revenue from revaluation of liabilities	300	282	154	98
Other	137	129	44	47
Total other income	1,437	1,673	483	606
Goods, raw materials and services				
Services purchased	-64,800	-45,036	-23,265	-14,980
Materials	-1,245	-744	-367	-374
Goods purchased for resale	-2,958	-1,908	-1,105	-620
Maintenance expenses	-1,765	-886	-537	-193
Other	-462	-1,070	-32	-63
Total goods, raw materials and services	-71,230	-49,644	-25,305	-16,230
Other operating expenses				
Consulting and advisory expenses	-1,115	-2,411	-261	-887
Marketing expenses	-15,627	-9,321	-6,115	-3,675
Customer information expenses	-4,032	-3,454	-1,408	-1,189
Office expenses	-3,034	-2,612	-1,079	-817
Allowance for doubtful receivables	-832	-712	-334	-258
Transportation expenses	-2,508	-2,385	-852	-766
Other	-3,077	-2,468	-1,279	-1,063
Total other operating expenses	-30,225	-23,363	-11,328	-8,655
Personnel expenses				
Wages and salaries	-25,275	-20,501	-8,590	-7,157
Social tax	-8,502	-6,867	-2,873	-2,394
Total personnel expenses	-33,777	-27,368	-11,463	-9,551

Note 4 Net financial items

	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Interest income and expenses	-4,279	-3,670	-1,622	-1,257
Foreign exchange gains/losses	174	158	108	26
Other financial income and expenses	-60	-244	-7	421
Total net financial items	-4,165	-3,756	-1,521	-810

Note 5 Receivables

	30.09.2007	31.12.2006
Accounts receivable	11,089	11,765
Other short-term receivables	858	543
Total receivables	11,947	12,308

Note 6 Prepayments

	30.09.2007	31.12.2006
Prepaid taxes	407	2,182
Other prepayments	2,275	761
Total prepayments	2,682	2,943

Note 7 Borrowings

Short-term borrowings	30.09.2007	31.12.2006
Current portion of long-term bank loans	188	751
Current portion of finance lease liabilities	5,564	14,624
Total short-term borrowings	5,752	15,375
Long-term borrowings		
Non-current portion of long-term bank loans	2,995	2,995
Non-current portion of finance lease liabilities	120,262	94,193
Total long-term borrowings	123,257	97,188

Outstanding loans raised by the company as of 30 September 2007

Creditor	Loan amount	Loan balance	Monthly payment	Interest rate	Repayment term	Collateral
Nordea Finance	287	67	7	5.2%	2007	Leased assets
Ühisliising	273	124	5	4.4%	2007	Leased assets
Nordea Finance	833	491	16	4.9%	2008	Leased assets
Ühisliising	347	185	10	4.6%	2008	Leased assets
Nordea Finance	1,592	1,126	24	4.5%	2009	Leased assets
Nordea Finance	6,500	3,183	80	6.1%	2009	Mortgage + commercial pledge
Nordea Finance	755	454	4	4.8%	2010	Leased assets
Ühisliising	1,039	940	21	4.8%	2010	Leased assets
Ühisliising	35,955	26,145	668	5.3%	2011	Leased assets
Ühisliising	135,713	96,295	1,572	5.0%	2013	Leased assets+ commercial pledge
TOTAL	183,294	129,010	2,407			

Note 8 Payables

	30.09.2007	31.12.2006
Accounts payable	18,966	16,405
Taxes payable	5,305	5,743
Employee-related liabilities	4,580	3,631
Other payables	3,451	2,860
Total payables	32,302	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 62 thousand EEK as of 30 September 2007 (729 thousand EEK 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 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 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 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 net profit for 2005. The announcement of dividends entailed the income tax liability of 1,365 thousand EEK.

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. EEK 0.70 per share, was paid to shareholders as net dividends on 6 July 2007. Starman paid 9,137 thousand EEK in net dividends, transferred 2,198 thousand EEK 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 EEK. The announcement of dividends entailed the income tax liability of 2,577 thousand EEK.

On 21 September 2007, a conditional agreement on transfer of 54.04% of all shares in Starman for a price of 89.97 EEK (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 Holding launched a takeover bid for all of the shares in Starman not held by it, which accounted for 43.02% of the company's share capital at the moment of making the takeover bid. The acceptance period for the bid started on 29 October 2007 and will last until 27 November 2007. Starman's shareholders OÜ Constock (18.9% holding) and OÜ Com Holding (17.8% holding) do not participate in the mandatory takeover bid; thus, in essence, the shares being the target of the takeover bid constitute approximately 6.3% of the company's share capital.

Baltic Moontech 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 an 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%.

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:

	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Companies related to members of supervisory board	565	1,873	182	645

As of 30 September 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 nine months of 2007 amounted to 4,870 thousand EEK (3,285 thousand EEK in the first nine months of 2006); remuneration paid to the members of the supervisory board for said period amounted to 270 thousand EEK (118 thousand EEK in the first nine months 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 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 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 30 September 2007, the owners' contribution to the equity of the company amounted to 43.1 million EEK. The loss of Eesti Digitaaltelevisiooni AS for the first nine months of 2007 amounted to 19,948 thousand EEK, the balance sheet total at the end of 30 September 2007 was 25,317 thousand EEK and owners' equity was 20,715 thousand EEK.

Note 13 Earnings per share

	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Shareholders' share of net profit (thousand EEK)	29,417	36,030	8,531	11,782
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Basic EPS (EEK)	2.25	2.76	0.65	0.90
Shareholders' share of net profit (thousand EEK)	29,417	36,060	8,531	11,782
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	103	0	103	0
Weighted average number of shares adjusted with options (thousands of units)	13,157	13,054	13,157	13,054
Diluted EPS (EEK)	2.24	2.76	0.65	0.90

* The dilutive effect of options has been calculated as follows: $200,040 * (89.97 - 65.87) / 89.97 + 199,980 * (89.97 - 67.59) / 89.97 = 103,310$ 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 of 30 September 2007, 65.87 = 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 net profit attributable to shareholders for the reporting period with 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- and B-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 with 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 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 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 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 September 2007 two court sessions have been 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 EEK. Expenses relating to the action amount to less than 100 thousand EEK at the moment.

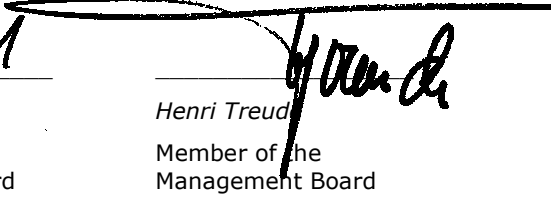
SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST NINE MONTHS OF 2007



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treud
Member of the
Management Board