

starman

AS STARMAN

Interim Report of the Group for 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 2007

General

The success of Starman continued in 2007. Telephony service rendered a considerable additional impact on the strong market position in the spheres of cable-TV and the internet. Starman is currently offering the best bundled triple play service in the home user sector. The triple play service is now available to the majority of the company's customers. Through its cable network, Starman is currently represented in most of Estonia's major cities, predominantly in densely populated areas. 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 in the takeover bid exceeded that of the IPO by almost 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. After having acquired the initial 54.04% of the company's shares, a consortium of financial investors led by Bancroft Private Equity LLP has acquired more shares in both the mandatory takeover bid and a number of separate market transactions. At the moment, Baltic Moontech Investments Holding AS representing the above financial investors holds a total of 8,505,727 shares in Starman, i.e. 65.16% of the company's share capital. Given the current structure of shareholders, delisting of the company from Tallinn Stock Exchange will probably be applied for in the near future.

Starman Group's total revenue for 2007 amounted to 281.8 million EEK, representing a 19% increase on the same period a year ago. EBITDA for 2007 amounted to 93.2 million EEK and net profit attributable to shareholders to 37.5 million EEK – respectively a 1% and 15% decrease compared to the same figures last year. The good performance is built on the company's successful long-term activities relating to traditional services, where the best-ever results were achieved both in terms of volume and profitability. As expected, the starting ZUUMtv had a negative impact on Starman's profit figures. A drop of 24.8 million 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.

The results for the fourth quarter were affected by seasonal factors, for it is usual that a number of special offers are made in the autumn which result in a decline in profitability. At the same time, success of the autumn sales expanded the company's clientele and thus created better premises for the increase of revenue in the near future.

Financial ratios

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

	2005	2006	2007
Sales increase	26%	25%	19%
EBITDA margin	33%	40%	33%
Gross margin	15%	21%	13%
Net margin	12%	19%	13%
Revenue/average assets	0.67	0.72	0.73

Equity ratio	54%	58%	57%
Debt to equity	0.69	0.56	0.57
Debt/EBITDA	1.76	1.19	1.41
Investments/EBITDA	1.16	0.83	1.15
Current ratio	0.67	1.09	0.91
Invoice turnover rate (annual)	20.2	20.0	21.5

Definitions:

Sales increase = increase compared to the same period last year

EBITDA = operating profit + depreciation and amortisation

EBITDA margin = EBITDA / total revenue

Gross margin = operating profit / total revenue

Net margin = net profit attributable to shareholders / total revenue

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period

Group structure

Starman Group consists of AS Starman being the parent company and, starting from October 2006, Eesti Digitaaltelevisiooni AS being a subsidiary company. 66% of shares in Eesti Digitaaltelevisiooni AS are held by Starman and 34% of the shares by AS Levira. The financial results of Eesti Digitaaltelevisiooni AS have been consolidated into the Group report 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 2007, accounting for 45% and 33% of the 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 the cable television services increased 14% in comparison with the 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. At the end of December 2007, the company had a total of 133 thousand cable television customers, 5.8% of which were digital television users. The number of cable television customers at the end of December exceeded the last year's relevant figure by 1.1%, quite a good result given the saturated market and tightened competition.

Revenue from the internet services increased 12% year-on-year. At the end of December 2007, the company had 48 thousand internet customers, representing a 22% increase in comparison with the same period a year ago. Starman maintained its position as the market leader of

broadband internet for private customers in its footprint. In line with the general impacts of the market, the ARPU continued to show a downward trend, with the average figure of 2007 dropping 11% compared to the last year's relevant figure. Starman's popular triple packages in which the internet services are cheaper 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. In the second half of the year, a slowdown of the internet ARPU's decrease rate could be observed.

Of the three primary services, the telephony service continues to show the best growth figures, although the growth rate has somewhat decelerated, with the revenue for 2007 having increased 32% in comparison with the same period a year ago. As at the end of December 2007, the company had 43 thousand telephony clients, i.e. 41% more than at the same time last year. The ARPU of the telephony service, which has been quite stable so far, has been declining significantly from the beginning of 2007. The average ARPU for 2007 decreased 15% when compared to the corresponding figure of the previous year.

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 2007, the average aggregate revenue from the given services per client was 14% higher in comparison with the same period a year ago.

ZUUMtv was launched with content slightly weaker than planned. Eesti Digitaaltelevisiooni AS is trying to make up for the initial setback by expanding the coverage area and improving the selection of programmes. The coverage area changed notably in the second quarter; by the end of the quarter ZUUMtv covered as much as 93% of Estonian households. Although the relevant figure was 60% at the launch of the product, it encompassed mainly densely populated areas such as Tallinn and Tartu where the traditional cable television is more economically feasible and where the potential of ZUUMtv is thus relatively modest. While until now the three main local channels were available to ZUUMtv clients in analogue format, then from the end of April the first of them – *Eesti Televisioon* – is available digitally. At the end of December, Eesti Digitaaltelevisiooni AS had 10 thousand customers and ZUUMtv covered 97% of Estonian households.

Starman's operating expenses amounted to 188.6 million EEK in 2007, representing a 32% growth year-on-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 14%. 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 annual increase of marketing expenses by 40% resulted from the continuing aggressive competition in promoting of telecommunications services. Of major expense items, expenses on the rental of communication ducts (a growth of 34%) and personnel expenses have also shown fast growth compared to the same period a year ago. 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.

Personnel expenses increased 24% year-on-year. As regards personnel expenses, it should be noted that this indicator includes 81% of the total wage fund, since the remainder is capitalised in accordance with the corporate accounting rules. The average number of employees was 231 in 2007 (as compared to 210 in 2006). As at 31 December 2007, the company employed 256 people. Part-time employees accounted for 19% of the staff. The average number of employees translated to the full employment equivalent was 203 in 2007, having grown only 5% compared to the same figure a year ago. While the number of employees translated to the full employment equivalent remained stable at just below 200 during the first nine months of 2007, the fourth quarter witnessed a significant growth and, by the end of December, the relevant figure had risen to as much as 226. The rise in the number of employees is related to both the expected increase in business volumes and a reduction of certain outsourced activities.

As to expenses related to asset valuation, the provision for bad debts amounted to 1,019 thousand EEK, i.e. to merely 0.4% of the period turnover just like year ago. In 2007, losses and discounts of inventories amounted to 752 thousand EEK (in 2006, to 995 thousand EEK).

EBITDA for the year 2007 amounted to 93.2 million EEK. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to an excellent 43%. Hence, 2007 was record-breaking in terms of profitability of traditional services.

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

The net profit attributable to shareholders for 2007 amounted to 37.5 million EEK. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 10.2 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 2007, Starman's investments in fixed assets amounted to 106.9 million EEK, representing a 37% increase on the last year's figure. The company made the following investments: 51.1 million EEK in cable network construction and renovation; 16.9 million EEK in STBs (incl. 14.2 million for provision of ZUUMtv), 11.1 million EEK in internet equipment (incl. 8.6 million EEK in Head-Ends); 9.1 million EEK in telephone modems; 7.4 million EEK in analogue cable television Head-Ends; and 11.3 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, Pärnu, and Haapsalu in 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 at 31 December 2007, Starman's network covered 266 thousand households with 251 thousand – i.e. 94% – of the households being served by a network with the data communication facility (as at 31 December 2006 the comparable figures were 251 thousand, 225 thousand and 90%, respectively). At the beginning of 2007 cable networks in Rapla and Kehra were upgraded to support data communication, and in the second half of the year respective work was started in Kuressaare and Valga; minor network modernisation works continued also in Tallinn and Ida-Virumaa.

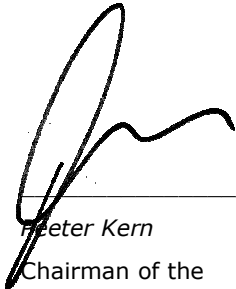
Investments in telephone modems and STBs are directly related to the growth in the number of customers. Investments in the internet and cable television equipment primarily enhanced quality in the environment of ever growing data communication volumes. As regards cable television equipment, a substantial part of investments is also 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 2007, external funding was increased by 18.9 million EEK as well. The high level of inventories as at 31 December 2007 is mainly due to the network expansion projects to be launched in the near future and the STBs designated for the ZUUMtv offer included in the balance sheet of Eesti Digitaaltelevisiooni AS. Considering the delivery schedule of the STBs designated for the ZUUMtv offer and the anticipated market capacities for the new product, the level of these inventories will probably remain high also in the future.

DECLARATION OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR 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:

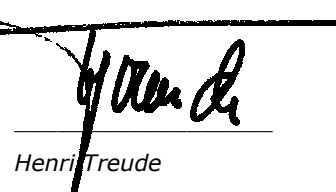
1. the accounting principles applied in the preparation of the consolidated interim accounts comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated interim accounts give a true and fair view of the financial position of the company, as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

	2007	2006	Q4 2007	Q4 2006	Notes
Revenue	279,908	234,732	74,365	60,141	2
Other income	1,910	2,129	472	457	3
Goods, raw materials and services	-98,260	-67,378	-27,030	-17,733	3
Other operating expenses	-42,975	-35,103	-12,750	-11,739	3
Personnel expenses	-46,711	-37,770	-12,934	-10,403	3
Depreciation, amortisation and impairments	-57,509	-45,395	-15,476	-12,343	
Other operating charges	-659	-2,110	-319	-425	3
Operating profit	35,704	49,105	6,328	7,955	
Net financial items	-5,825	-4,610	-1,660	-855	4
Profit before income tax	29,879	44,495	4,668	7,100	
Income tax	-2,577	-1,365	0	0	10
Net profit	27,302	43,130	4,668	7,100	
Minority interest	-10,165	-828	-3,383	-828	
Parent company's share of net profit	37,467	43,958	8,051	7,928	
Basic EPS (EEK)	2.87	3.37	0.62	0.61	13
Diluted EPS (EEK)	2.85	3.37	0.61	0.61	13

CONSOLIDATED BALANCE SHEET

(in thousands of EEK)

	31.12.2007	31.12.2006	Notes
ASSETS			
Current assets			
Cash	14,943	11,716	
Receivables	13,734	12,308	5
Prepayments	1,558	2,943	6
Inventories	28,685	23,471	
Total current assets	58,920	50,438	
Non-current assets			
Property, plant and equipment	347,333	298,826	
Intangible assets	975	600	
Total non-current assets	348,308	299,426	
TOTAL ASSETS	407,228	349,864	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	25,049	15,375	7
Payables	37,184	28,639	8
Prepayments and deferred income	2,498	2,209	
Total current liabilities	64,731	46,223	
Non-current liabilities			
Long-term borrowings	106,388	97,188	7
Other long-term liabilities	4,305	4,374	9
Total non-current liabilities	110,693	101,562	
Total liabilities	175,424	147,785	
OWNERS' EQUITY			
Minority interest	4,647	3,252	
Share capital	130,536	130,536	
Legal reserve	4,805	2,607	
Retained earnings	91,816	65,684	
Total owners' equity held by the shareholders of the parent company	227,157	198,827	
Total owners' equity	231,804	202,079	10
TOTAL LIABILITIES AND OWNERS' EQUITY	407,228	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	11,560	11,560
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	37,467	37,467	-10,165	27,302
31.12.2007	130,536	4,805	91,816	227,157	4,647	231,804

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of EEK)

	2007	2006
Cash flow from operating activities		
Net profit	27,302	43,130
Adjustments of net profit:		
Depreciation, amortisation and impairments	57,509	45,395
Gains from disposal of property, plant and equipment	-127	-160
Allowance for doubtful receivables	-1,019	891
Interest income	-447	-336
Interest expenses	6,458	5,106
Income tax on dividends	2,577	1,365
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	978	-5,284
Change in inventories	-5,216	-11,228
Change in liabilities and prepayments related to operating activities:		
Payables	8,545	7,017
Prepayments and deferred income	220	1,385
Total cash flow from operations	96,780	87,281
Cash flow from investing activities		
Purchase of tangible and intangible assets	-95,460	-75,814
Proceeds from disposals of tangible and intangible assets	668	2,799
Interest received	447	336
Total cash flow from investing activities	-94,345	-72,679
Cash flow from financing activities		
Loan repayments	-751	-751
Repayment of finance lease principal	-21,015	-27,144
Interest paid	-6,458	-5,108
Proceeds from sale and leaseback transactions	29,170	27,565
Contributions by minority shareholders to owner's equity	11,560	4,080
Dividends paid	-9,137	-4,568
Paid income tax on dividends	-2,577	-1,365
Total cash flow from financing activities	792	-7,291
TOTAL CASH FLOW	3,227	7,311
Cash and cash equivalents at the beginning of the period	11,716	4,405
Change in cash and cash equivalents	3,227	7,311
Cash and cash equivalents at the end of the period	14,943	11,716
Non-monetary transactions – non-current assets acquired under finance lease	11,469	2,312

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 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	2007	2006	Q4 2007	Q4 2006
Cable television services	127,998	112,034	32,493	28,036
Internet services	92,100	82,024	24,165	20,393
Telephony service	48,616	36,894	13,525	10,499
DTT services*	5,556	41	2,280	41
Sales of goods and materials	5,638	3,739	1,902	1,172
Total	279,908	234,732	74,365	60,141

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	2007	2006	Q4 2007	Q4 2006
Other income				
Gains on disposals of non-current assets	181	160	4	4
Revenue from fines for delay	1,169	1,392	343	287
Revenue from revaluation of liabilities	371	387	72	105
Other	189	190	53	61
Total other income	1,910	2,129	472	457
Goods, raw materials and services				
Services purchased	-88,377	-61,429	-23,576	-16,394
Materials	-1,699	-997	-455	-252
Goods purchased for resale	-4,887	-2,733	-1,929	-825
Maintenance expenses	-2,545	-1,224	-780	-337
Other	-752	-995	-290	75
Total goods, raw materials and services	-98,260	-67,378	-27,030	-17,733
Other operating expenses				
Consulting and advisory expenses	-1,460	-3,007	-345	-596
Marketing expenses	-22,494	-16,090	-6,867	-6,768
Customer information expenses	-5,779	-4,711	-1,747	-1,257
Office expenses	-4,192	-3,674	-1,158	-1,062
Allowance for doubtful receivables	-1,019	-891	-187	-179
Transportation expenses	-3,570	-3,264	-1,062	-879
Other	-4,461	-3,466	-1,384	-998
Total other operating expenses	-42,975	-35,103	-12,750	-11,739
Personnel expenses				
Wages and salaries	-34,808	-28,280	-9,533	-7,780
Social tax	-11,903	-9,490	-3,401	-2,623
Total personnel expenses	-46,711	-37,770	-12,934	-10,403

Note 4 Net financial items

	2007	2006	Q4 2007	Q4 2006
Interest expenses	-6,011	-4,770	-1,732	-1,100
Foreign exchange gains/losses	250	244	76	85
Other financial income and expenses	-64	-84	-4	160
Total net financial items	-5,825	-4,610	-1,660	-855

Note 5 Receivables

	31.12.2007	31.12.2006
Accounts receivable	13,029	11,765
Other short-term receivables	705	543
Total receivables	13,734	12,308

Note 6 Prepayments

	31.12.2007	31.12.2006
Prepaid taxes	303	2,182
Prepaid services	1,255	761
Total prepayments	1,558	2,943

Note 7 Borrowings

Short-term borrowings	31.12.2007	31.12.2006
Current portion of long-term bank loans	751	751
Current portion of finance lease liabilities	24,298	14,624
Total short-term borrowings	25,049	15,375
Long-term borrowings		
Non-current portion of long-term bank loans	2,244	2,995
Non-current portion of finance lease liabilities	104,144	94,193
Total long-term borrowings	106,388	97,188

Outstanding loans raised by the company as at 31 December 2007

Creditor	Loan amount	Loan balance	Monthly payment	Interest rate	Repayment term	Collateral
Nordea Finance	833	450	16	4.8%	2008	Leased assets
Ühisliising	347	158	10	4.4-4.9%	2008	Leased assets
Nordea Finance	1,404	1,056	20	4.4-4.6%	2009	Leased assets
Nordea Bank Finland Plc	6,500	2,995	80	6.7%	2009	Mortgage + commercial pledge
Nordea Finance	755	720	11	4.6-5.4%	2010	Leased assets
Ühisliising	1,807	1,641	27	4.6-5.4%	2010	Leased assets
Ühisliising	45,451	31,628	770	5.3-5.8%	2011	Leased assets
Ühisliising	135,713	92,788	1,570	5.7%	2013	Leased assets+ commercial pledge
TOTAL	192,811	131,436	2,504			

Note 8 Payables

	31.12.2007	31.12.2006
Accounts payable	20,394	16,405
Taxes payable	6,716	5,743
Employee-related liabilities	4,853	3,631
Other payables	5,221	2,860
Total payables	37,184	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 718 thousand EEK as at 31 December 2007 (729 thousand EEK as at 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 use this right for exercising 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. 0.35 EEK 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. 0.70 EEK 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. The bid period lapsed on 27 November 2007 and the sale transactions executed in the bid process were settled on 30 November 2007. As a result of the bid, Baltic Moontech Investments Holding acquired altogether 572,292 shares of Starman, representing 4.38% of the issued share capital of the company. Further, since the initial purchase of 54.04% Moontech has acquired altogether 878,834 shares of Starman, representing 6.73% of the company's share capital, in market transactions with the price of 89.97 EEK (5.75 EUR) per share.

As at 31 December 2007, interests in the company were divided as follows: Baltic Moontech Holding – 65.15%, Com Holding – 17.72%, Constock – 15.45%, and the remaining 271 shareholders – 1.68%.

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 the indirect approach, the interests in Baltic Moontech Holding AS can be divided as follows: Bancroft II, LP (the fund manager of which is Bancroft Private Equity LLP) – 70.78%, Askembla Growth Fund – 17.06% and GE Capital Equity Holdings Inc. – 12.16%.

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	2006	Q4 2007	Q4 2006
Companies related to members of supervisory board	659	2,336	94	415

As at 31 December 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 2007 amounted to 6,493 thousand EEK (4,385 thousand EEK in 2006); remuneration paid to the members of the supervisory board for said period amounted to 293 thousand EEK (335 thousand EEK in 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 the activities of Eesti Digitaaltelevisiooni AS have been planned keeping in mind the long-term prospects, and current activities constitute quite an initial phase, it is impossible to reliably determine the value of the option agreement and, therefore, Starman will not assume any additional net assets or incur an additional net liability.

As at 31 December 2007, the owners' contribution to the equity of the company amounted to 46 million EEK. In addition, Starman has made a loan to the company, the loan balance amounting to 5,804 thousand EEK as at 31 December 2007. The loss of Eesti Digitaaltelevisiooni AS for 2007 amounted to 29,897 thousand EEK, the balance sheet total as at 31 December 2007 was 24,678 thousand EEK and owners' equity was 13,666 thousand EEK.

Note 13 Earnings per share

	2007	2006	Q4 2007	Q4 2006
Shareholders' share of net profit (thousand EEK)	37,467	43,958	8,051	7,928
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Basic EPS (EEK)	2.87	3.37	0.62	0.61
Shareholders' share of net profit (thousand EEK)	37,467	43,958	8,051	7,928
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	104	10	104	10
Weighted average number of shares adjusted with options (thousands of units)	13,158	13,063	13,158	13,063
Diluted EPS (EEK)	2.85	3.37	0.61	0.61

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

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

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

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

As at the reporting date all conditions necessary for the exercise of the options of A and B series had been met (in the same period a year ago, all conditions necessary for the exercise of the options of A series had been met). Thus, the dilutive effect of underlying shares has been added to the weighted average number of shares during the period. Diluted earnings per share is calculated

by dividing the shareholders' share of net profit 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 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 December 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 150 thousand EEK at the moment.


**SIGNATURES OF THE MANAGEMENT BOARD TO THE CONSOLIDATED
INTERIM REPORT OF THE GROUP FOR THE YEAR 2007**



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treud
Member of the
Management Board