

starman

AS STARMAN

Interim Report of the Group for the First Quarter of 2008

Beginning of financial year: 01.01.2008

End of financial year: 31.12.2008

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Main activities: cable television and data communication services

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EXPLANATORY MEMORANDUM TO AS STARMAN'S INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2008

General

Success of Starman continued in the first quarter of 2008. The company maintained its strong position in the spheres of cable-TV and the internet and further strengthened its position in the telephony market. 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 2006, 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.

A consortium of financial investors led by Bancroft Private Equity LLP acquired a majority holding in Starman at the end of 2007. 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 the first quarter of 2008 amounted to 82.4 million EEK, representing a 22% increase compared to the same period a year ago. EBITDA for the first quarter of 2008 amounted to 28.3 million EEK and net profit attributable to shareholders to 14.4 million EEK – respectively a 10% and 8% increase compared to the first quarter of the previous 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 7.4 million EEK in EBITDA – Starman's main performance indicator – is directly attributable to ZUUMtv, plus certain indirect costs whose amount cannot be determined precisely as they were allocated to a number of different products. The negative impact of ZUUMtv on the financial results of the Group is anticipated to continue also in the near future. However, in the long run the new product is expected to strengthen the company's market position and profitability.

Financial ratios

A selection of ratios for evaluating the economic activities in the first quarter of 2008:

	2006	2007	2008 Q1
Sales increase	25%	19%	22%
EBITDA margin	40%	33%	34%
Gross margin	21%	13%	15%
Net margin	19%	13%	17%
Revenue/average assets	0.72	0.73	0.80
Equity ratio	58%	57%	59%
Debt to equity	0.56	0.57	0.52
Debt/EBITDA	1.19	1.41	1.12
Investments/EBITDA	0.83	1.15	0.79
Current ratio	1.09	0.91	1.02*
Invoice turnover rate (annual)	20.0	21.5	25.4

Definitions:

Sales increase = increase compared to the same period last year

EBITDA = operating profit + depreciation and amortisation

EBITDA margin = EBITDA / total revenue

Gross margin = operating profit / total revenue

Net margin = net profit attributable to shareholders / total revenue

Revenue / average assets – for comparison purposes, the revenue for the first quarter of 2008 has been multiplied by 4

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Debt to EBITDA – for comparison purposes, EBITDA for the first quarter of 2008 has been multiplied by 4

Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period; for comparison purposes, revenue for the first quarter of 2008 has been multiplied by 4

* As to this ratio, it should be borne in mind that because of the special nature of the accounting principles applied in preparing this report, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of the first quarter, loan payments due within the following nine months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for the first quarter is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first quarter of 2008, the current ratio amounts to 0.91.

Group structure

Starman Group consists of AS Starman being the parent company and, starting from October 2006, Eesti Digitaaltelevisiooni AS being a subsidiary company. 66% of shares in Eesti Digitaaltelevisiooni AS are held by Starman and 34% of the shares by AS Levira. The financial results of Eesti Digitaaltelevisiooni AS have been consolidated into the Group report on a line-by-line basis, separately indicating the minority share.

Revenue and expenses

As usual, cable television and internet services contributed the majority of Starman's total revenue for the first quarter of 2008, accounting for 45% and 30% of total revenue, respectively. The share of telephony service was 17% and that of the DTT service, growing much faster than the others services, was 5%.

Revenue from cable television services increased 18% compared to the first quarter of 2007. Organic growth in the market has mostly been achieved at the expense of price increase in recent years. In the first quarter of 2008 the prices of Starman's cable television services further approached those of countries with a similar living standard. 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 March 2008, the company had a total of 133 thousand cable television customers, 6.1% of which were digital television users. The number of cable television customers at the end of the quarter exceeded the last year's relevant figure by 1.1%, quite a good result given the saturated market and tightened competition. In the first quarter of 2008 Starman launched its own television channel called Neljas. Only Starman's customers can view the channel whose aim is to enhance the range of products offered to customers.

Revenue from internet services was up 13% on the first quarter of 2007. At the end of March 2008, the company had 49 thousand internet customers, representing a 21% growth year on year. Starman maintained its position as the market leader of broadband internet for private customers in its footprint. In line with the general impacts of the market, the ARPU continued to show a downward trend. However, lately there has been a certain deceleration of the decline rate – the average figure of the first quarter of 2008 dropped 5% compared to the same figure a year ago. Starman's popular triple packages in which the internet services are cheaper have a major 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.

As expected, the period of accelerated growth of the telephony service has ended; however, the revenue for the first quarter of 2008 has still increased 20% in comparison with the same period a year ago. As at the end of March 2008 the company had 45 thousand telephony clients, i.e. 36% more than at the same time last year. The ARPU of the telephony service, which has been quite stable in first years, has been declining significantly from the beginning of 2007. A similar trend continued in the first quarter of 2008 – the quarter's average figure decreased 11% compared to the last year's relevant figure.

Starman views its cable television, internet and telephony services as a single integrated service. Since the provision of the integrated service has remained a part of the corporate strategy for a long period of time, and the services are designed to support each other, a separate analysis of the respective segments might not give the most accurate picture. In the first quarter of 2008, the average aggregate revenue from the given services per customer was 12% higher in comparison with the same period a year ago.

Important positive developments regarding ZUUMtv occurred at the beginning of 2008. By now, eight Estonian-language TV channels, including the three main local channels, are available on the digital platform. The fact that not all of the main local channels were available on the digital platform affected the whole of the first year of operation of ZUUMtv, constituting a major divergence from the initial business plan. Given also the possible positive developments relating to the fact that the switchover to digital broadcasting will take place earlier, not in 2012 as first planned, Eesti Digitaaltelevisiooni AS has much better chances of making up for the initial setback. Revenue from the DTT service was up 8.9 times on the first quarter of 2007; compared to the fourth quarter of 2007, the growth was 64%. In March 2008 the DTT service already constituted 6.1% of the company's total revenue, and this share is expected to increase significantly in the near future. At the end of March 2008, Eesti Digitaaltelevisiooni AS had 12.5 thousand customers and ZUUMtv covered 97% of Estonian households.

Starman's operating expenses amounted to 54.1 million EEK in the first quarter of 2008, having grown 30% compared to the same period in 2007. 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 15%. The impact of ZUUMtv is most notable among expenses reported under "Services purchased" which include the transmission charge payable to Levira as a major expense item. The amount of the transmission charge depends primarily on coverage, and therefore its impact on profit figures after the product has just been introduced and customer figures are far from the company's long-term targets is quite substantial. In relation to the launch of Starman's own TV channel, the growth in programme costs has been much greater than the growth in revenue. Of major expense items, transportation expenses (increases in the price of fuel and insurance, and new vehicles added to the fleet), internet traffic expenses (a steady growth in the volumes of data used by customers), personnel and office expenses (a need for more office space due to an increase in the number of employees) have also shown fast growth compared to the same period a year ago. However, in respect of certain expense items growth figures have been quite modest and in some cases even negative. While the reduction in marketing expenses in comparison with the first quarter of 2007 can be regarded as somewhat accidental, as to the rental of communication ducts, for instance, a considerable reduction in the charges payable to Elion Ettevõtte AS compared to 2007 can be expected (for further information, see Note 14).

In the first quarter of 2008, personnel expenses rose 29% 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 258 in the first quarter of 2008 (222 in the first quarter of 2007). As at 31 March 2008, the company employed 261 people. Part-time employees accounted for 18% of the staff. The average number of employees translated to the full employment equivalent was 227 in the first quarter of 2008, up 15% compared to the same figure a year ago. The latter figure has not changed notably in comparison with December 2007.

As to expenses related to asset valuation, the provision for bad debts amounted to 455 thousand EEK, i.e. just 0.6% of the turnover for the period (0.8% in the first quarter of 2007). Losses and discounts of inventories totalled 367 thousand EEK in the first quarter of 2008 (279 thousand EEK in the first quarter of 2007).

EBITDA for the first quarter of 2008 amounted to 28.3 million EEK. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to an excellent 46%. Hence, the first quarter of 2008 was record-breaking in terms of profitability of traditional services. Besides the fact that today's main services have moved to a mature phase, seasonal factors also contributed to the excellent results, for it is usual that the first quarter is good in terms of profitability.

Depreciation costs increased 20% compared to the first quarter of 2007. Owing to the extensive investing activities carried out in recent years, the depreciation costs continued to have a considerable impact on the profit figures. However, a deceleration of the growth of depreciation costs can be noted for the first time in recent years. Considering the fact that traditional services have reached a mature stage, the continuation of this trend could only be hindered by an extremely successful growth in the sphere of the DTT service.

The net profit attributable to shareholders for the first quarter of 2008 amounted to 14.4 million EEK. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 3.5 million EEK negative.

Balance sheet, investments and financing

In the first quarter of 2008, Starman's investments in fixed assets amounted to 22.2 million EEK, representing a 28% decrease compared to the same period a year ago. One quarter is too short a period to assess the volume of investments, and the reduction in investments should be regarded as accidental. The company made the following investments: 12.9 million EEK in cable network renovation and construction, 4.5 million EEK in STBs (incl. 4.1 million EEK for provision of ZUUMtv), 1.7 million EEK in telephone modems, 1.4 million EEK in internet equipment (incl. 1.4 million in Head-Ends), and 1.7 million EEK in other spheres.

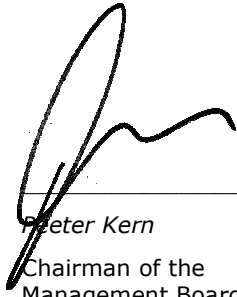
Just as in previous year, projects aiming at network expansion are notable among investments in the cable network. There are still some locations in Estonia where cable network expansion should be feasible, given the company's current success in providing telecommunications services. While a few years ago work aimed at the modernisation and enhancement of the data communication capability of the existing network constituted a major part of network investments, the relative share of that particular type of network investments is diminishing, given the high level already achieved. As at 31 March 2008, Starman's network covered 268 thousand households with 254 thousand – i.e. 95% – of the households being served by a network with the data communication facility (as at 31 March 2007 the comparable figures were 253 thousand, 231 thousand and 91%, respectively). As regards Starman's major network investments in the first quarter of 2008, the continuation of network expansion projects in the Kalamaja region in Tallinn, in Haapsalu and Võru as well as projects aimed at enhancement of the network's data communication capability in Kuressaare and Valga should be mentioned; in addition, network modernisation was started in Paide.

Investments in telephone modems and STBs are directly related to the growth in the number of customers. Investments in internet 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. As to financing, the company's own resources were used in the first quarter of 2008 since external funding decreased to a certain extent (by 4.7 million EEK). The level of inventories decreased by 4.9 million EEK in the first quarter of 2008; however, the level was still rather high as at 31 March 2008, mainly owing to the network expansion projects to be launched in the near future. As at 31 March 2008, the number of STBs designated for the ZUUMtv offer included in the balance sheet of Eesti Digitaaltelevisiooni AS was rather small due to the cyclical nature of their delivery schedule. Yet, considering the long delivery schedule of the STBs and the anticipated market capacities for the new product, the level of these inventories will probably be rather high in the future.

Confirmation


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



Peter Kern
Chairman of the
Management Board



Randy Hütsi
Member of the
Management Board

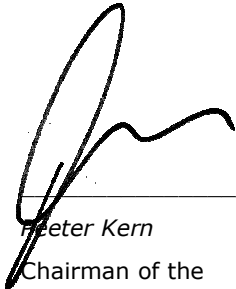


Henri Treude
Member of the
Management Board

DECLARATION OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2008

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:

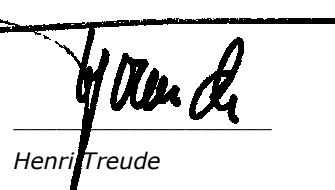
1. the accounting principles applied in the preparation of the consolidated interim accounts comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated interim accounts give a true and fair view of the financial position of the company, as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

	Q1 2008	Q1 2007	Notes
Revenue	81,798	67,105	2
Other income	630	393	3
Goods, raw materials and services	-30,997	-22,047	3
Other operating expenses	-9,045	-8,755	3
Personnel expenses	-13,968	-10,828	3
Depreciation, amortisation and impairments	-15,935	-13,318	
Other operating charges	-121	-120	3
Operating profit	12,362	12,430	
Net financial items	-1,483	-1,254	4
Profit before income tax	10,879	11,176	
Net profit	10,879	11,176	
Minority interest	-3,536	-2,204	
Parent company's share of net profit	14,415	13,380	
Basic EPS (EEK)	1.10	1.02	13
Diluted EPS (EEK)	1.10	1.02	13

CONSOLIDATED BALANCE SHEET

(in thousands of EEK)

	31.03.2008	31.12.2007	Notes
ASSETS			
Current assets			
Cash	15,510	14,943	
Receivables	13,526	13,734	5
Prepayments	5,416	1,558	6
Inventories	23,775	28,685	
Total current assets	58,227	58,920	
Non-current assets			
Property, plant and equipment	352,818	347,333	
Intangible assets	1,020	975	
Total non-current assets	353,838	348,308	
TOTAL ASSETS	412,065	407,228	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	19,160	25,049	7
Payables	35,275	37,184	8
Prepayments and deferred income	2,825	2,498	
Total current liabilities	57,260	64,731	
Non-current liabilities			
Long-term borrowings	107,574	106,388	7
Other long-term liabilities	4,549	4,305	9
Total non-current liabilities	112,123	110,693	
Total liabilities	169,383	175,424	
OWNERS' EQUITY			
Minority interest			
	1,110	4,647	
Share capital	130,536	130,536	
Legal reserve	4,805	4,805	
Retained earnings	106,231	91,816	
Total owners' equity held by the shareholders of the parent company	241,572	227,157	
Total owners' equity	242,682	231,804	10
TOTAL LIABILITIES AND OWNERS' EQUITY	412,065	407,228	

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		
31.12.2006	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
Net profit for the financial year	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
Profit for the accounting period	0	0	14,415	14,415	-3,536	10,879
31.03.2008	130,536	4,805	106,231	241,572	1,110	242,682

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of EEK)

	Q1 2008	Q1 2007	Notes
Cash flow from operating activities			
Net profit	10,879	11,176	
Adjustments of net profit:			
Depreciation, amortisation and impairments	15,935	13,318	
Gains on disposals and write-offs of non-current assets	-60	-17	
Losses on disposals and write-offs of non-current assets	25	0	
Allowance for doubtful receivables	455	530	
Interest income	-178	-132	
Interest expenses	1,889	1,373	
Change in current assets related to operating activities:			
Short-term receivables other than loans and interest	-4,104	1,559	5,6
Change in inventories	4,939	-5,495	
Change in liabilities and prepayments related to operating activities:			
Payables	-1,909	7,087	8
Prepayments and deferred income	571	687	
Total cash flow from operating activities	28,442	30,086	
Cash flow from investing activities			
Purchase of tangible and intangible assets	-20,526	-25,607	
Proceeds from disposals of tangible and intangible assets	807	17	
Interest received	178	132	
Total cash flow from investing activities	-19,541	-25,458	
Cash flow from financing activities			
Loan repayments	-188	-188	
Repayment of finance lease principal	-6,257	-4,839	
Interest paid	-1,889	-1,373	
Proceeds from sale and leaseback transactions	0	7,643	
Contributions by minority shareholders to owners' equity	0	4,215	
Total cash flow from financing activities	-8,334	5,458	
TOTAL CASH FLOW	567	10,086	
Cash and cash equivalents at the beginning of the period	14,943	11,716	
Change in cash and cash equivalents	567	10,086	
Cash and cash equivalents at the end of the period	15,510	21,802	
Non-monetary transactions			
Non-current assets acquired under finance lease	1,741	5,462	

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 2007.

According to the company's management, the interim report of AS Starman Group for the first quarter of 2008 gives a true and fair view of the results of the company's operations. This interim report has not been audited or otherwise reviewed by auditors. This interim report has been prepared in thousands of EEK.

Note 2 Revenue

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

Fields of activity	Q1 2008	Q1 2007
Cable television services	37,230	31,685
Internet services	25,089	22,206
Telephony service	13,761	11,452
Sales of goods and materials	1,974	1,340
DTT service*	3,744	422
Total	81,798	67,105

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	Q1 2008	Q1 2007
Other income		
Gains on disposals and write-offs of non-current assets	60	17
Revenue from fines for delay	406	265
Revenue from revaluation of liabilities	109	66
Other	55	45
Total other income	630	393
Goods, raw materials and services		
Services purchased	-27,988	-19,665
Materials	-237	-451
Goods purchased for resale	-1,924	-996
Maintenance expenses	-421	-656
Other	-427	-279
Total goods, raw materials and services	-30,997	-22,047
Other operating expenses		
Consulting and advisory expenses	-224	-397
Marketing expenses	-3,447	-3,957
Customer information expenses	-1,565	-1,301
Office expenses	-1,225	-978
Allowance for doubtful receivables	-455	-530
Transportation expenses	-1,097	-806
Other	-1,032	-786
Total other operating expenses	-9,045	-8,755
Personnel expenses		
Wages and salaries	-10,456	-8,130
Social tax	-3,512	-2,698
Total personnel expenses	-13,968	-10,828
Other expenses		
Losses on disposals and write-offs of non-current assets	-25	0
Other	-96	-120
Total other expenses	-121	-120

Note 4 Net financial items

	Q1 2008	Q1 2007
Interest income	178	132
Interest expenses	-1,889	-1,374
Foreign exchange gains/losses	235	12
Other financial income and expenses	-7	-24
Total net financial items	-1,483	-1,254

Note 5 Receivables

	31.03.2008	31.12.2007
Accounts receivable	14,622	14,594
Allowance for doubtful receivables	-1,751	-1,565
Other short-term receivables	655	705
Total receivables	13,526	13,734

Note 6 Prepayments

	31.03.2008	31.12.2007
Prepaid services	5,145	1,255
Prepaid taxes	271	303
Total prepayments	5,416	1,558

Note 7 Borrowings

	31.03.2008	31.12.2007
Short-term borrowings		
Current portion of long-term bank loans	563	751
Current portion of finance lease liabilities	18,597	24,298
Total short-term borrowings	19,160	25,049
Long-term borrowings		
Non-current portion of long-term bank loans	2,244	2,244
Non-current portion of finance lease liabilities	105,330	104,144
Total long-term borrowings	107,574	106,388

Outstanding loans raised by the company as at 31 March 2008

Creditor	Loan amount	Loan balance	Monthly payment	Average interest rate	Repayment term	Collateral
Nordea Finance	833	409	16	4.8%	2008	Leased assets
SEB Liising	347	78	7	4.4%	2008	Leased assets
Nordea Finance	1,404	986	27	4.5%	2009	Leased assets
Nordea Bank						Mortgage +
Finland Plc	6,500	2,807	80	6.5%	2009	commercial pledge
Nordea Finance	755	687	14	5.2%	2010	Leased assets
SEB Liising	1,807	1,555	36	4.9%	2010	Leased assets
SEB Liising	48,479	29,868	846	5.7%	2011	Leased assets
SEB Liising	1,411	1,102	26	5.3%	2012	Leased assets
SEB Liising						Leased assets+
	135,713	89,240	1,620	5.7%	2013	commercial pledge
TOTAL	197,250	126,733	2,672			

Note 8 Payables

	31.03.2008	31.12.2007
Accounts payable	16,940	20,394
Taxes payable	6,907	6,716
Employee-related liabilities	5,546	4,853
Other payables	5,882	5,221
Total payables	35,275	37,184

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 seven years. The long-term portion of said income is reported in this subsection. The short-term portion, which amounted to 475 thousand EEK as at 31 March 2008 (718 thousand EEK as at 31 December 2007), is reported as "Prepayments and deferred income" in the balance sheet.

Note 10 Owners' equity

The company's share capital amounts to 130,535,700 EEK, divided into 13,053,570 registered shares with a nominal value of 10 EEK per share. The shares have been paid for in full.

Pursuant to the articles of association, the company's supervisory board has the right to increase the share capital by 6,900,000 EEK (i.e. 5.3%) within three 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"). A 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 a 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 an 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 at a price of 89.97 EEK (5.75 EUR) per share.

As at 31 March 2008, interests in the company were divided as follows: Baltic Moontech Holding – 65.16%, Com Holding – 17.82%, Constock – 15.45%, and the remaining 262 shareholders – 1.58%.

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 (whose fund manager 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:

	Q1 2008	Q1 2007
Companies related to members of Supervisory Board	0	150

As at 31 March 2008 and 31 December 2007, 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 quarter of 2008 amounted to 1,836 thousand EEK (1,684 thousand EEK in the first quarter of 2007). No remuneration was paid to the members of the supervisory board for said periods.

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 Digitaalteleviseiooni AS are held by Starman and 34% 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 to 50,000. Since the activities of Eesti Digitaalteleviseiooni 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 March 2008, 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 14,684 thousand EEK as at 31 March 2008. The loss of Eesti Digitaalteleviseiooni AS for the first quarter of 2008 amounted to 10,400 thousand EEK, the balance sheet as at 31 March 2008 was 24,378 thousand EEK and owners' equity was 3,266 thousand EEK.

Note 13 Earnings per share

	Q1 2008	Q1 2007
Shareholders' share of net profit (thousand EEK)	14,415	13,380
Weighted average number of shares (thousands of units)	13,054	13,054
Basic EPS	1.10	1.02
Shareholders' share of net profit (thousand EEK)	14,415	13,380
Weighted average number of shares (thousands of units)	13,054	13,054
Dilutive effect of options (thousands of units)*	104	27
Weighted average number of shares adjusted with options (thousands of units)	13,158	13,081
Diluted EPS	1.10	1.02

* The dilutive effect of options in the first quarter of 2007 has been calculated as follows: $200,040 * (75.89 - 65.56) / 75.89 = 27,222$ shares; incl. 200,040 = number of contingently issuable shares of A series having dilutive effect, 75.89 = market value of shares as at 31 March 2007, 65.56 = share price upon exercise of option in case of A series.

* The dilutive effect of options in the first quarter of 2008 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 March 2008 (the price of the takeover bid has been used as the market value of the share since further movement of the share's price in the market cannot be reliably predicted), 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 third to the eighth 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 first quarter of 2006, plus 15%, and for the C series the option exercise price is equal to the average trade price applicable during the first 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 are calculated by dividing the shareholders' share of net profit by the number of shares adjusted with dilutive effect of options.

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

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. In January 2008, Elion Ettevõtte AS reduced the rental charges payable for the use of communication ducts. Based on the invoices issued by Elion Ettevõtte AS it can be said that the rental charges were reduced to a level which is even lower than that effective before the price increase on 1 February 2006; the subscription fee was abolished, as well. The fate of the dispute is unknown at this time, as are its consequences for the company's economic activities. AS Starman is currently waiting for the response of the Competition Board to the complaint.

On 7 April 2006, AS Starman filed a statement of claim with Harju County Court against AS Telset for recognition of the right of ownership and reclamation of things from illegal possession. The action for 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 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. In March 2007 Telset transferred to Starman a part of the assets being claimed, reducing the initial value of the action by 294 thousand EEK. During the period from October 2006 to March 2008 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 due to different objections raised by the defendant. The third session is currently scheduled for May 2008. Expenses relating to the action amount to less than 150 thousand EEK at the moment.


SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF THE GROUP FOR THE FIRST QUARTER OF 2008



Peeter Kern
Chairman of the
Management Board



Rando Hütsi
Member of the
Management Board



Henri Treude
Member of the
Management Board