

starman

AS STARMAN

Interim Report of the Group for the First Half-Year 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 THE INTERIM REPORT OF AS STARMAN'S GROUP FOR THE FIRST HALF-YEAR 2008

General

Success of Starman continued in the first half-year 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 half-year 2008 amounted to 10.7 million euros, representing a 22% increase compared to the same period a year ago. EBITDA for the first half-year 2008 amounted to 3.5 million euros and net profit attributable to shareholders from ordinary business operations to 1.7 million euros – respectively an 12% and 27% increase compared to the first half of the previous year. The good performance is built on the company's successful long-term activities relating to traditional services, 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 1.0 million euros in EBITDA – Starman's main performance indicator – is directly attributable to ZUUMtv, plus certain indirect costs whose amount cannot be determined precisely as they were allocated to a number of different products. The negative impact of ZUUMtv on the financial results of the Group is anticipated to continue also in the near future. However, in the long run the new product is expected to strengthen the company's market position and profitability.

Financial ratios

A selection of ratios for evaluating the economic activities in the first half-year 2008:

	2006	2007	2008 H1
Sales increase	25%	19%	22%
EBITDA margin	40%	33%	33%
Gross margin	21%	13%	13%
Net margin	19%	13%	8%
Revenue/average assets	0.72	0.73	0.79
Equity ratio	58%	57%	54%
Debt to equity	0.56	0.57	0.63
Debt/EBITDA	1.19	1.41	1.36
Investments/EBITDA	0.83	1.15	1.01
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 half-year 2008 has been multiplied by 2

Equity ratio = equity / total assets

Debt = borrowings + long-term borrowings

Debt to EBITDA – for comparison purposes, EBITDA for the first half-year 2008 has been multiplied by 2

Current ratio = current assets / current liabilities

Invoice turnover rate = revenue for the period / accounts receivable at the end of the period; for comparison purposes, revenue for the first half-year 2008 has been multiplied by 2

* As to this ratio, it should be borne in mind that because of the special nature of the accounting principles applied in preparing this report, only loans repayable within the current financial year are recognised as short-term borrowings under current liabilities (i.e. in the case of the first half-year, loan payments due within the following six months) unlike the year-end figures where all loans repayable within the following year are recognised as short-term borrowings. Consequently, the current ratio for the first half-year is somewhat overestimated vis-à-vis the year-end figures. Upon eliminating this difference from the figures of the first half-year 2008, the current ratio amounts to 0.86.

Group structure

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

Revenue and expenses

Traditionally, cable television and internet services contributed the majority of Starman's total revenue for the first half-year 2008, accounting for 45% and 30% of total revenue, respectively. The share of telephony service in total revenues for the half-year was 16% and that of the DTT service, growing much faster than the others services, was 6%.

Revenue from cable television services increased by 17% compared to the first half-year 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 June 2008, the company had a total of 137 thousand cable television customers, 6.2% of which were digital television users. The number of cable television customers at the end of June exceeded the last year's relevant figure by 3.9%, which is quite a good result given the saturated market and tightened competition. The increase in customer numbers in the second quarter of 2008 resulted primarily from the expansion of the cable network. 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 increased by 12%, compared to the first half of the previous year. At the end of June 2008, the company had 51 thousand internet customers – a 19% increase compared to the same period a year ago. Starman maintained its position as the market leader of broadband internet for private customers in its footprint. In line with the general impacts of the market, the ARPU continued to show a downward trend. However, lately there has been a certain deceleration of the decline rate – the average figure of the first half-year 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 half-year 2008 has still increased 17% in comparison with the same period a year ago. As of the end of June 2008 the company had 48 thousand telephone clients, i.e. 31% more than at the same time last year. The ARPU of the telephony service, which had been quite

stable earlier, has been declining significantly from the beginning of 2007. A similar trend continued in the first half-year 2008 – the half-year's average figure decreased 12% 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 half-year 2008, the average aggregate revenue from the given services per client was 14% 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 positive developments relating to the fact that the switchover to digital broadcasting will take place 2 years 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 5.4 times on the first half-year of the previous year, with growth in the second quarter being 50% compared to the first quarter. In June 2008 the DTT service already constituted 7.1% of the company's total revenue, and this share is expected to increase significantly in the near future. At the end of June 2008, Eesti Digitaaltelevisiooni AS had 16.5 thousand customers and ZUUMtv covered 97% of Estonian households.

Starman's operating expenses amounted to 7.2 million euros in the first half-year 2008, having grown 28% compared to the same period in the previous year. The fact that the operating expenses grew faster than the revenue is attributable to ZUUMtv to a notable extent – 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 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), office expenses (a need for more office space due to an increase in the number of employees) and personnel expenses 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. A decrease of expenses related to the rental of communication ducts should also be mentioned. These expenses have a further potential from previous periods (see Note 14 for more details).

In the first half-year 2008, personnel expenses increased 28% 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 268 in the first half-year 2008 (223 in the first half-year 2007). As at 30 June 2008, the company employed 287 people. Part-time employees accounted for 25% of the staff. The average number of employees translated to the full employment equivalent was 231 in the first half-year 2008, up 16% compared to the same figure a year ago. The figure grew in the second quarter of 2008 in connection with the expansion of the cable network and a continuing decrease in some outsourced services.

As to expenses related to asset valuation, the provision for bad debts amounted to 67 thousand euros, i.e. just 0.6% of the turnover for the period (0.4% in the first half-year 2007). Losses and discounts of inventories totalled 46 thousand euros in the first half-year 2008 (28 thousand euros in the first half-year 2007).

EBITDA for the first half-year 2008 amounted to 3.5 million euros. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to an excellent 45%. Hence, the first half-year 2008 was record-breaking in terms of profitability of traditional services when compared to similar periods in previous years.

Depreciation costs increased by 19%, compared to the first half-year 2006. Owing to the extensive investing activities carried out in recent years, the depreciation costs continued to have a considerable impact on the profit figures. 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 half-year 2008 amounted to 0.9 million euros. The result for minority shareholders – their share in the loss of Eesti Digitaaltelevisiooni AS – was 0.4 million euros negative. The net profit was adversely influenced by expenses not related to ordinary business operations, which amounted to 0.8 million euros (see Notes 3, 8 and 11 for more details).

Balance sheet, investments and financing

In the first half-year 2008, Starman's investments in fixed assets amounted to 3.6 million euros, representing a 4% decrease compared to the same period a year ago. The company made the following investments: 2.0 million euros in cable network construction and renovation; 0.7 million euros in STBs (incl. 0.68 million for provision of ZUUMtv), 0.3 million euros in internet equipment (incl. 0.27 million euros in Head-Ends); 0.2 million euros in telephone modems; and 0.3 million euros in other spheres.


Among investments in the cable network, projects aiming at network expansion stand out even more than in the previous year. 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 30 June 2008, Starman's network covered 276 thousand households with 260 thousand – i.e. 94% – of the households being served by a network with the data communication facility (as at 30.06.07 the comparable figures were 258 thousand, 237 thousand and 92%, respectively). In the first half-year 2008, the acquisition of cable networks from AS NOM was the major network investment. As a result, the coverage of Starman's network now includes Paldiski and Kohila; in addition, the market position was strengthened in Kristiine district in Tallinn, and in Kadrina. The acquisition of the out-of-date network temporarily reduced the share of Starman's network with data communication capacity; however, the company has started to upgrade the network and customers receiving the signal from the network will be able to use all the major telecommunication services of Starman in the near future. As regards major network investments, the continuation of network expansion projects in Tallinn, particularly in the Kalamaja district of Tallinn, in Haapsalu and Võru as well as projects aimed at enhancement of the network's data communication capability and expansion of the state-of-the-art network in Kuressaare, Paide and Valga should be mentioned.

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.

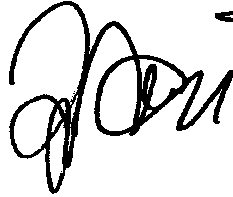
Starman's balance sheet structure continues to be characterised by high capitalisation, a relatively low debt level and a sufficient liquidity. As to financing, mostly the company's own resources were used in the first half-year 2008. External funding increased by 1.2 million euros which accounted for approximately one-third of investments in fixed assets during the period. The high level of inventories as at 30 June 2008 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.

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.



Peeter Kern
Chairman of the Board



Rändy Hütsi
Member of the Board

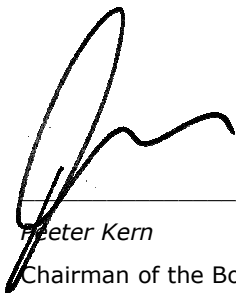


Henri Treude
Member of the Board

**DECLARATION OF THE MANAGEMENT BOARD RESPECTING THE INTERIM
REPORT OF THE GROUP FOR THE FIRST HALF-YEAR 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:

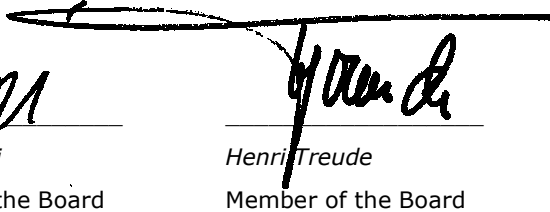
1. the accounting principles applied in the preparation of the consolidated interim accounts comply with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated interim accounts give a true and fair view of the financial position of the company, as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



Randy Hütsi
Member of the Board



Henri Treude
Member of the Board

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)

	2008 H1	2007 H1	2008 Q2	2007 Q2	Notes
Revenue	10,625	8,686	5,397	4,397	2
Other income	80	61	40	36	3
Goods, raw materials and services	-3,991	-2,936	-2,010	-1,526	3
Other operating expenses	-1,341	-1,207	-763	-648	3
Personnel expenses	-1,831	-1,426	-938	-734	3
Depreciation, amortisation and impairments	-2,084	-1,744	-1,065	-893	
Other expenses	-14	-17	-6	-9	3
Operating profit	1,445	1,417	655	623	
Net financial items	-1,059	-169	-964	-89	4
Profit before income tax	386	1,248	-310	534	
Income tax	0	-165	0	-165	10
Net profit	386	1,083	-310	369	
Minority interest	-486	-252	-260	-111	
Parent company's share of net profit	872	1,335	-50	480	
Basic EPS (EUR)	0.07	0.10	-0.00	0.04	13
Diluted EPS (EUR)	0.07	0.10	-0.00	0.04	13

CONSOLIDATED BALANCE SHEET

(in thousands of euros)

	30.06.2008	31.12.2007	Notes
ASSETS			
Current assets			
Cash	1,064	955	
Receivables	943	878	5
Prepayments	523	100	6
Inventories	1,821	1,833	
Total current assets	4,351	3,766	
Non-current assets			
Property, plant and equipment	23,606	22,199	
Intangible assets	68	62	
Total non-current assets	23,674	22,261	
TOTAL ASSETS	28,025	26,027	
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Current liabilities			
Borrowings	972	1,601	7
Payables	2,799	2,376	8
Prepayments	161	160	
Total current liabilities	3,932	4,137	
Non-current liabilities			
Long-term borrowings	8,591	6,799	7
Other long-term liabilities	301	275	9
Total non-current liabilities	8,892	7,075	
Total liabilities	12,824	11,212	
OWNERS' EQUITY			
Minority interest			
	-189	297	
Share capital	8,343	8,343	
Legal reserve	427	307	
Retained earnings	6,620	5,868	
Total owners' equity held by the shareholders of the parent company	15,390	14,518	
Total owners' equity	15,201	14,815	10
TOTAL LIABILITIES AND OWNERS' EQUITY	28,025	26,027	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

	Owners' equity held by the shareholders of the parent company				Minority interest	Total owners' equity
	Share capital	Legal reserve	Retained earnings	Total		
31.12.2006	8,343	167	4,198	12,707	208	12,915
Contributions by minority shareholders	0	0	0	0	739	739
Dividends announced	0	0	-584	-584	0	-584
Transfers to legal reserve	0	140	-140	0	0	0
Net profit for the financial year	0	0	2,395	2,395	-650	1,745
31.12.2007	8,343	307	5,868	14,518	297	14,815
Transfers to legal reserve	0	120	-120	0	0	0
Profit for the accounting period	0	0	872	872	-486	386
30.06.2008	8,343	427	6,620	15,390	-189	15,201

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

CONSOLIDATED CASH FLOW STATEMENT

(in thousands of euros)

	2008 H1	2007 H1
Cash flow from operating activities		
Net profit	386	1,083
Adjustments of net profit:		
Depreciation, amortisation and impairments	2,084	1,744
Gains on disposals and write-offs of non-current assets	-12	-10
Losses on disposals and write-offs of non-current assets	2	0
Interest income	-30	-15
Interest expenses	270	185
Allowance for doubtful receivables	67	30
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-556	-87
Change in inventories	17	-828
Change in liabilities and prepayments related to operating activities:		
Payables	423	334
Prepayments	27	51
Total cash flow from operating activities	2,677	2,488
Cash flow from investing activities		
Purchase of tangible and intangible assets	-3,217	-3,164
Proceeds from disposals of tangible and intangible assets	63	32
Interest received	30	15
Total cash flow from investing activities	-3,124	-3,117
Cash flow from financing activities		
Loan repayments	-24	-24
Repayment of finance lease principal	-886	-626
Interest paid	-270	-185
Proceeds from sale and leaseback transactions	1,736	1,474
Dividends paid	0	0
Contributions by minority shareholders to owners' equity	0	541
Total cash flow from financing activities	556	1,179
TOTAL CASH FLOW	109	550
Cash and cash equivalents at the beginning of the period	955	749
Change in cash and cash equivalents	109	550
Cash and cash equivalents at the end of the period	1,064	1,299
Non-monetary transactions		
Non-current assets acquired under finance lease	337	533

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 the consolidation group of AS Starman for the first half-year 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 euros.

Note 2 Revenue

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

Fields of activity	2008 H1	2007 H1	2008 Q2	2007 Q2
Cable television services	4,763	4,060	2,383	2,035
Internet services	3,226	2,873	1,623	1,454
Telephony service	1,742	1,487	862	755
DTT service*	598	110	359	83
Sales of goods and materials	296	155	169	70
Total	10,625	8,686	5,397	4,397

* DTT – Digital Terrestrial Television

Note 3 Other income and expenses

	2008 H1	2007 H1	2008 Q2	2007 Q2
Other income				
Gains on disposals and write-offs of non-current assets	12	10	8	9
Revenue from fines for delay	48	36	22	19
Revenue from revaluation of liabilities	13	9	6	5
Other	7	6	4	3
Total other income	80	61	40	36
Goods, raw materials and services				
Services purchased	-3,551	-2,655	-1,762	-1,398
Materials	-39	-56	-24	-30
Goods purchased for resale	-291	-118	-168	-52
Maintenance expenses	-56	-78	-29	-37
Other	-54	-28	-27	-9
Total goods, raw materials and services	-3,991	-2,936	-2,010	-1,526
Other operating expenses				
Consulting and advisory expenses	-33	-55	-19	-29
Marketing expenses	-579	-608	-358	-355
Customer information expenses	-200	-168	-100	-84
Office expenses	-163	-124	-84	-62
Allowance for doubtful receivables	-67	-32	-38	2
Transportation expenses	-151	-106	-80	-54
Other	-149	-115	-83	-65
Total other operating expenses	-1,341	-1,207	-763	-648
Personnel expenses				
Wages and salaries	-1,370	-1,066	-702	-547
Social tax	-461	-360	-236	-187
Total personnel expenses	-1,831	-1,426	-938	-734
Other expenses				
Losses on disposals and write-offs of non-current assets	-2	0	0	0
Other	-12	-17	-6	-9
Total other expenses	-14	-17	-6	-9

Note 4 Net financial items

	2008 H1	2007 H1	2008 Q2	2007 Q2
Interest expenses and income	-240	-170	-131	-91
Foreign exchange gains/losses	13	4	-2	3
Other financial expenses*	-832	-3	-831	-2
Total net financial items	-1,059	-169	-964	-89

* "Other financial expenses" in the first half-year 2008 and in the second quarter of 2008 include expenses in the amount of 829 thousand euros incurred as a result of agreements signed on 19 June 2008 on the acquisition and cancellation of stock options of members of the management board.

Note 5 Receivables

	30.06.2008	31.12.2007
Accounts receivable	1,053	933
Allowance for doubtful receivables	-150	-100
Other short-term receivables	41	45
Total receivables	943	878

Note 6 Prepayments

	30.06.2008	31.12.2007
Prepaid taxes	4	19
Other prepayments	519	80
Total prepayments	523	100

Note 7 Borrowings

	30.06.2008	31.12.2007
Short-term borrowings		
Current portion of long-term bank loans	24	48
Current portion of finance lease liabilities	948	1,553
Total short-term borrowings	972	1,601
Long-term borrowings		
Non-current portion of long-term bank loans	143	143
Non-current portion of finance lease liabilities	8,448	6,656
Total long-term borrowings	8,591	6,799

Outstanding loans raised by the company as at 30 June 2008

Creditor	Loan amount	Loan balance	Monthly payment	Repayment term	Average interest rate	Collateral
Nordea Finance	36	17	5	2008	4.8%	Leased assets
SEB Liising	9	4	0.3	2008	4.4%	Leased assets
Nordea Finance	90	58	2	2009	4.5%	Leased assets
Nordea Bank Finland Plc	415	167	5	2009	6.8%	Mortgage + commercial pledge
Nordea Finance	48	42	1	2010	5.2%	Leased assets
SEB Liising	115	94	2	2010	5.0%	Leased assets
SEB Liising	3,151	1,955	60	2011	5.9%	Leased assets
Hansa Liising	347	140	3	2012	6.3%	Leased assets
SEB Liising	92	66	2	2012	5.3%	Leased assets
SEB Liising	10,157	7,020	130	2013	5.9%	Leased assets+ commercial pledge
TOTAL	14,461	9,563	210			

Note 8 Payables

	30.06.2008	31.12.2007
Accounts payable	1,026	1,303
Taxes payable	437	429
Employee-related liabilities	343	310
Other payables*	993	334
Total payables	2,799	2,376

* "Other payables" as of 30 June 2008 include payables to the members of the management board in the amount of 665 thousand euros in connection with agreements signed on 19 June 2008 on the acquisition and cancellation of stock options.

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 14 thousand euros as at 30 June 2008 (46 thousand euros 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 8,342,752 euros, divided into 13,053,570 registered shares with a nominal value of 10 EEK per share. The shares have been paid for in full.

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

In accordance with a resolution of the annual general meeting of shareholders held on 19 June 2008, 120 thousand euros were transferred into the legal reserve and the rest of the net profit for 2007 was retained. As a result, the retained earnings of the company amount to 5,748 thousand euros.

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 30 June 2008, interests in the company were divided as follows: Baltic Moontech Holding – 65.16%, Com Holding – 17.82%, Polaris Invest – 15.20%, and the remaining 257 shareholders – 1.82%.

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:

	2008 H1	2007 H1	2008 Q2	2007 Q2
Companies related to members of Supervisory Board	0	24	0	15

As at 30 June 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 half-year 2008 amounted to 234 thousand euros (208 thousand euros in the first half-year 2007). Wages and salaries of supervisory board members in the first half-year 2008 amounted to 1.5 thousand euros (12 thousand euros in the first half-year 2007).

In connection with changes in the structure of the company's shareholder resulting from the takeover bid, on 19 June 2008 AS Starman signed agreements on the acquisition and later cancellation of stock options issued to the members of the management board. Under the option contracts signed on 2 June 2005, members of the management board obtained the right to acquire a total of 600,000 shares in the company subject to certain conditions. The company paid fringe benefit taxes in accordance with the tax legislation of Estonia upon issuance of the options. According to the agreements, all members of the management board agreed to sell those options back to AS Starman for total 829 thousand euros. The sales contracts may be performed in parts and on different dates. Following the transfer of the options, AS Starman will perform all acts necessary for cancellation of the options.

As of 30 June 2008, the company had a liability of 665 thousand euros on account of the transaction described above. The company has agreed to pay interest on the outstanding payables to the members of the management board. The related interest expenses for the first half-year 2008 amounted to 2.0 thousand euros. Of that amount, 1.9 thousand euros are still payable (included in the balance of liability specified above).

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% by Levira. According to the agreement, the shareholders will contribute pro rata with their shareholdings up to 2.9 million euros to the company's equity. In the case of a need for additional financing the funds are to be provided by Starman and the shareholders would retain their current interest in profits and votes.

On 1 July 2008, AS Levira used its right to exercise the put option under the shareholders' agreement signed between the parties. According to the contract of purchase and sale of shares signed on 14 July 2008, Starman has agreed to pay 2,573 thousand euros for the 34% shareholding. The purchase price may be paid for in instalments, but Starman will become the owner of the shares after the entire purchase price is paid. Interest will be calculated on the outstanding purchase price after 31 July 2008. The interest will have to be paid on a monthly basis or along with the total purchase price if the latter is paid before the date of payment of interest. By the date of preparation of this report, AS Starman has not made any payments to Levira in connection with the acquisition of the shareholding. The management board of Starman had assessed that the option would be exercised much later. The management board deems the early exercise of the option as positive, as the acquisition of the shareholding will be much less expensive for Starman than estimated before.

As at 30 June 2008, the owners' contribution to the equity of the company amounted to 2.9 million euros. In addition, Starman has made a loan to the company, with the loan balance amounting to 2,297 thousand euros as at 30 June 2008, of which 920 thousand euros constitutes a convertible loan under the loan agreement signed on 25 April 2008 which will be converted into the share capital on the demand of the company. The loss of Eesti Digitaaltelevisiooni AS for the first half-year 2008 amounted to 1,429 thousand euros, the balance sheet total at the end of 30 June 2008 was 2,401 thousand euros and owners' equity was -556 thousand euros.

Note 13 Earnings per share

	2008 H1	2007 H1	2008 Q2	2007 Q2
Shareholders' share of net profit (thousand EUR)	872	1,335	-50	480
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Basic EPS (EUR)	0.07	0.10	-0.00	0.04
Shareholders' share of net profit (thousand EUR)	872	1,335	-50	480
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	0	33	0	33
Weighted average number of shares adjusted with options (thousands of units)	13,054	13,087	13,054	13,087
Diluted EPS (EUR)	0.07	0.10	-0.00	0.04

* The dilutive effect of options in the first half-year 2007 and in the second quarter has been calculated as follows: $200,040 * (5.01 - 4.19) / 4.19 = 32,741$ shares; incl. 200,040 = the number of contingently issuable shares of A-series having dilutive effect, 5.01 = the market value of shares as of 30 June 2007, 4.19 = the share price upon exercise of option. All conditions necessary for the realisation of the options of A-series were met during the period under review.

* As a result of the agreement signed on 19 June 2008 and the inclusion of the purchase of options in the results of the first half-year and the second quarter of 2008, the option shares had no dilutive effect in these periods.

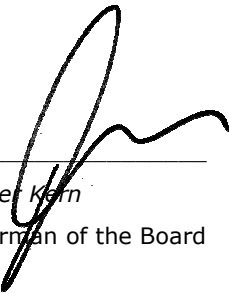
Note 14 Pending disputes and legal actions

On 16 January 2006, AS Starman lodged a complaint with the Competition Board and the Communications Board by which it contested the plan of Elion Ettevõtted AS to raise, from 1 February 2006, rental charges payable for the use of communication ducts. The planned price increase for objects already leased out amounted to 32%. In the case of network expansion and renovation, however, the planned price increase was as much as 400%, plus subscription fee that has not been charged before. Starman's position is that the activity of Elion Ettevõtted AS is unlawful and incompatible with the Telecommunications Act, Competition Act, and several other legal acts. Starman's expenses on the rental of communication ducts amounted to nearly 0.5 million euros in 2005. 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 Ettevõtted AS reduced the rental charges payable for the use of communication ducts. 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 consequences of the dispute for the company's financial results are still unclear. Starman intends to raise a claim against Elion Ettevõtted AS concerning the rental charges unlawfully collected from 1 February 2006 until 31 December 2007. Starman was forced to pay these charges as otherwise the continuity of services offered to customers would have been jeopardised. The advanced prices were earlier recorded as expenses based on the prudence concept.

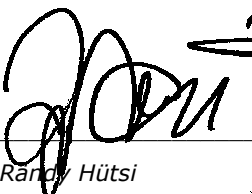
On 7 April 2006, AS Starman filed a statement of claim with Harju County Court against AS Telset for recognition of the right of ownership and reclamation of things from illegal possession. The action for 98 thousand euros relates to the assets which should have been included in the assets of

AS Telset Telecommunications Group, a subsidiary acquired by Starman from Tele 2 OÜ in June 2004. The assets being reclaimed should have been transferred from AS Telset to Tele 2 Group when Tallinna 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. In March 2007 Telset transferred to Starman a part of the assets being claimed, reducing the initial value of the action by 19 thousand euros. During the period from October 2006 to June 2008 three court sessions have been held, but the merits of the matter have been considered only to a minimum extent. Sessions have constantly been postponed lately due to different objections raised by the defendant and changing positions of the defendant. The fourth session is currently scheduled for August 2008. Expenses relating to the action amount to less than 10 thousand euros at the moment.


**SIGNATURES OF THE MANAGEMENT BOARD TO THE INTERIM REPORT OF
THE GROUP FOR THE FIRST HALF-YEAR 2008**



Peeter Kern
Chairman of the Board



Rando Hütsi
Member of the Board



Henri Treude
Member of the Board