

# starman

## AS STARMAN

### Interim Report of the Group for 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 2008

### General

The success of Starman continued in 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 12,863,922 shares in Starman, i.e. 98.55% of the company's share capital. The agenda of the special general meeting to be held at the end of February 2009 includes a proposal that Baltic Moontech Holding AS buy out the remaining shares, as well. Thereafter the company will be delisted from the Tallinn Stock Exchange.

Starman Group's total revenue for 2008 amounted to 356.5 million kroons, representing a 27% increase on the same period a year ago. EBITDA for 2008 amounted to 115.7 million kroons and the net profit attributable to shareholders from ordinary business operations to 52.4 million kroons – respectively a 24% and 40% increase 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 25.0 million kroons 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 year 2008:

	2006	2007	2008
Sales increase	25%	19%	26%
EBITDA margin	40%	33%	32%
Gross margin	21%	13%	13%
Net margin	19%	13%	11%
Revenue/average assets	0.72	0.73	0.82
Equity ratio	58%	57%	54%
Debt to equity	0.56	0.57	0.54
Debt/EBITDA	1.19	1.41	1.18
Investments/EBITDA	0.83	1.15	0.90
Current ratio	1.09	0.91	0.82
Invoice turnover rate (annual)	20.0	21.5	17.4

## Definitions:

Sales increase = increase compared to the same period last year

EBITDA = operating profit + depreciation, amortisation and impairments

EBITDA margin = EBITDA / total revenue

Gross margin = operating profit / total revenue

Net margin = net profit attributable to shareholders / total revenue

Equity ratio = total equity / total assets

Debt = borrowings + long-term borrowings

Current ratio = current assets / current liabilities

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

## 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 2008, accounting for 42% and 29% of the total revenue, respectively. The share of telephony service was 16% and that of the DTT service, growing much faster than the others, was 7%.

Revenue from internet services increased by 18% during the year. 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 December 2008, the company had a total of 137 thousand cable television customers, 8.4% 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 2.9%, 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. During its short time of operation the channel has achieved the targets set, the most important of them being enhancement of the range of products offered to customers. Regardless of that, Starman decided to focus on its core activities and the channel was sold to a local media group, Kalev Meedia, in October 2008. The change in the channel's ownership did not entail any changes for the customers.

Revenue from internet services increased by 13% during the year. At the end of December 2008, the company had 54 thousand internet customers, representing a 13% 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. However, lately there has been a certain deceleration of the decline rate – the average figure for 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 sales for 2008 still increased 16%. As at the end of December 2008, the company had 52 thousand telephony clients, i.e. 21% 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 2008 – the period'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 2008, the average aggregate revenue from the given services per client was 13% higher than 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 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 4.6 times when compared to 2007, with growth in the fourth quarter being 23% compared to the third quarter. In December 2008 the DTT service already constituted 9.9% of the company's total revenue, and this share is expected to increase significantly in the near future. At the end of December 2008, Eesti Digitaaltelevisiooni AS had 26 thousand customers and ZUUMtv covered 97% of Estonian households.

In comparison with previous years, the relative importance of the sale of goods and materials has significantly increased. The increase by 3.3 times in 2008 is attributable to the substantial growth of the DTT market. It should be borne in mind, however, that the sale of goods and materials is merely an ancillary activity for the company, which is meant to support its principal activity, and therefore it cannot be regarded as a separate source of revenue.

Starman's operating expenses amounted to 240.8 million kroons in 2008, representing a 28% growth year-on-year. The fact that the operating expenses grew somewhat 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 12%. The transmission charge payable to Levira should be regarded the major expense item relating to ZUUMtv. 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. Due to the operation 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 potential of a further decline (see Note 14 for more details).

Personnel expenses grew by 29% over the 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 277 in 2008 (as compared to 231 in 2007). As at 31 December 2008, the company employed 280 people. Part-time employees accounted for 24% of the staff. The average number of employees translated to the full employment equivalent was 235 in 2008, having grown 16% compared to the same figure a year ago. The latter figure grew mainly 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 2297 thousand kroons, i.e., 0.6% of the turnover for the period (0.4% in 2007). In 2008, losses and discounts of inventories amounted to 1595 thousand kroons (752 thousand kroons in 2007). Both figures are still rather modest, their notable growth being a result of the overall economic downturn.

EBITDA for the year 2008 amounted to 115.7 million kroons. When eliminating the direct influence of ZUUMtv, the EBITDA margin would amount to an excellent 45%. Hence, 2008 was record-breaking, all the previous years considered, as regards the traditional services.

Depreciation costs grew by 20% over the year. 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 successful growth in the sphere of the DTT service.

The net profit attributable to shareholders for 2008 amounted to 39.2 million kroons. The result for minority shareholders – their share in the loss of Eesti Digitaalteleviseiooni AS – was 15.6 million kroons negative. The net profit was adversely influenced by expenses not related to ordinary business operations, which amounted to 13.0 million kroons (see Notes 3, 8 and 11 for more details).

### **Balance sheet, investments and financing**

In 2008, Starman's investments in fixed assets amounted to 103.8 million kroons, representing a 3% decrease on the last year's figure. The company made the following investments: 52.9 million kroons in cable network construction and renovation; 27.8 million kroons in STBs (incl. 25.3 million for provision of ZUUMtv), 9.5 million kroons in internet equipment (incl. 8.7 million kroons in Head-Ends); 5.8 million kroons in telephone modems; and 7.8 million kroons 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 has diminished, given the high level already achieved. As at 31.12.08, Starman's network covered 280 thousand households with 271 thousand – i.e. 97% – of the households being served by a network with the data communication facility (as at 31.12.07 the comparable figures were 266 thousand, 251 thousand and 94%, respectively). In 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 these out-of-date networks temporarily reduced the share of Starman's network with data communication capacity. However, the company started upgrading the networks right away. Most of the work has already been completed and all customers connected to this network will be able to use all the major telecommunication services offered by Starman in the near future. As regards other major network investments, network expansion projects in Tallinn, particularly in the Kalamaja district, 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.

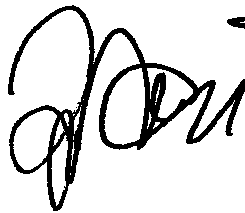
Starman's balance sheet structure continues to be characterised by high capitalisation, a relatively low debt level and a sufficient liquidity. As to financing, mostly the company's own resources were used in 2008. The growth of external funding was smaller than planned – the growth by 5.3 million kroons accounted for just 5% of the company's investments in non-current assets in the period. As a result of local banks' apprehension of risks in the context of the global financial crisis, which in the fourth quarter reached a level where even fairly secure business projects did not qualify as projects eligible for funding on reasonable conditions, external funding in the amount 28.2 million kroons was engaged from the major shareholder of the company at the end of the year. The high level of inventories as at 31 December 2008 is mainly due to the STBs designated for the ZUUMtv offer included in the balance sheet of Eesti Digitaalteleviseiooni AS and the network expansion projects to be launched in the near future. 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 TO THE INTERIM REPORT OF THE GROUP FOR 2008**


The management board hereby declares its responsibility for the preparation of the interim accounts as presented on pages 7 to 18 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.



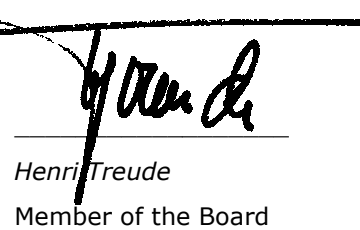
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Peter Kern  
Chairman of the Board



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Randy Hütsi  
Member of the Board



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Henri Treude  
Member of the Board



**CONSOLIDATED INCOME STATEMENT**

(in thousands of kroons)

	<b>2008</b>	<b>2007</b>	<b>Q4 2008</b>	<b>Q4 2007</b>	<b>Notes</b>
Revenue	353,838	279,908	96,420	74,365	2
Other income	2,672	1,910	741	472	3
Goods, raw materials and services	-135,556	-98,260	-36,657	-27,030	3
Other operating expenses	-44,331	-42,975	-12,334	-12,750	3
Personnel expenses	-60,417	-46,711	-16,379	-12,934	3
Depreciation, amortisation and impairments	-68,792	-57,509	-18,301	-15,476	
Other expenses	-464	-659	-178	-319	3
<b>Operating profit</b>	<b>46,950</b>	<b>35,704</b>	<b>13,312</b>	<b>6,328</b>	
Net financial items	-23,279	-5,825	-3,631	-1,660	4
<b>Profit before income tax</b>	<b>23,671</b>	<b>29,879</b>	<b>9,681</b>	<b>4,668</b>	
Income tax	0	-2,577	0	0	10
<b>Net profit</b>	<b>23,671</b>	<b>27,302</b>	<b>9,681</b>	<b>4,668</b>	
Minority interest	-15,572	-10,165	-4,145	-3,383	
<b>Parent company's share of net profit</b>	<b>39,243</b>	<b>37,467</b>	<b>13,826</b>	<b>8,051</b>	
Basic EPS (EEK)	3.01	2.87	1.06	0.62	13
Diluted EPS (EEK)	3.01	2.85	1.06	0.61	13

**CONSOLIDATED BALANCE SHEET**

(in thousands of kroons)

	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>Notes</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	14,636	14,943	
Receivables	20,849	13,734	5
Prepayments	22,225	1,558	6
Inventories	33,806	28,685	
<b>Total current assets</b>	<b>91,516</b>	<b>58,920</b>	
<b>Non-current assets</b>			
Property, plant and equipment	381,390	347,333	
Intangible assets	1,067	975	
<b>Total non-current assets</b>	<b>382,457</b>	<b>348,308</b>	
<b>TOTAL ASSETS</b>	<b>473,973</b>	<b>407,228</b>	
<b>LIABILITIES AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	33,716	25,049	7
Payables	75,188	37,184	8
Prepayments	2,648	2,498	
<b>Total current liabilities</b>	<b>111,552</b>	<b>64,731</b>	
<b>Non-current liabilities</b>			
Long-term borrowings	103,019	106,388	7
Other long-term liabilities	3,927	4,305	9
<b>Total non-current liabilities</b>	<b>106,946</b>	<b>110,693</b>	
<b>Total liabilities</b>	<b>218,498</b>	<b>175,424</b>	
<b>OWNERS' EQUITY</b>			
<b>Minority interest</b>			
Share capital	130,536	130,536	
Legal reserve	6,678	4,805	
Retained earnings	129,186	91,816	
<b>Total owners' equity held by the shareholders of the parent company</b>	<b>266,400</b>	<b>227,157</b>	
<b>Total owners' equity</b>	<b>255,475</b>	<b>231,804</b>	10
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>473,973</b>	<b>407,228</b>	

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(in thousands of kroons)

	<b>Owners' equity held by the shareholders of the parent company</b>			<b>Total</b>	<b>Minority interest</b>	<b>Total owners' equity</b>
	Share capital	Legal reserve	Retained earnings			
<b>31.12.2006</b>	<b>130,536</b>	<b>2,607</b>	<b>65,684</b>	<b>198,827</b>	<b>3,252</b>	<b>202,079</b>
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
<b>31.12.2007</b>	<b>130,536</b>	<b>4,805</b>	<b>91,816</b>	<b>227,157</b>	<b>4,647</b>	<b>231,804</b>
Transfers to legal reserve		1,873	-1,873	0	0	0
Net profit for the financial year	0	0	39,243	39,243	-15,572	23,671
<b>31.12.2008</b>	<b>130,536</b>	<b>6,678</b>	<b>129,186</b>	<b>266,400</b>	<b>-10,925</b>	<b>255,475</b>

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

**CONSOLIDATED CASH FLOW STATEMENT**

(in thousands of kroons)

	<b>2008</b>	<b>2007</b>
<b>Cash flow from operating activities</b>		
Net profit	23,671	27,302
Adjustments of net profit:		
Depreciation, amortisation and impairments	68,792	57,509
Gains on disposals and write-offs of non-current assets	-438	-180
Losses on disposals and write-offs of non-current assets	45	53
Allowance for doubtful receivables	2,297	1,019
Interest income	-824	-447
Interest expenses	11,296	6,458
Income tax on dividends	0	2,577
Change in current assets related to operating activities:		
Short-term receivables other than loans and interest	-10,079	-1,060
Change in inventories	-4,524	-5,216
Change in liabilities and prepayments related to operating activities:		
Payables	8,592	8,545
Prepayments	-229	220
<b>Total cash flow from operating activities</b>	<b>98,599</b>	<b>96,780</b>
<b>Cash flow from investing activities</b>		
Purchase of tangible and intangible assets	-96,381	-95,460
Proceeds from disposals of tangible and intangible assets	1,627	665
Investments in subsidiary	-20,000	0
Interest received	824	450
<b>Total cash flow from investing activities</b>	<b>-113,930</b>	<b>-94,345</b>
<b>Cash flow from financing activities</b>		
Loan repayments	-751	-751
Repayment of finance lease principal	-29,499	-21,015
Interest paid	-10,048	-6,458
Proceeds from sale and leaseback transactions	27,158	29,170
Loans received	28,164	0
Contributions by minority shareholders to owner's equity	0	11,560
Dividends paid	0	-9,137
Income tax on dividends paid	0	-2,577
<b>Total cash flow from financing activities</b>	<b>15,024</b>	<b>792</b>
<b>TOTAL CASH FLOW</b>	<b>-307</b>	<b>3,227</b>
Cash and cash equivalents at the beginning of the period	14,943	11,716
Change in cash and cash equivalents	-307	3,227
<b>Cash and cash equivalents at the end of the period</b>	<b>14,636</b>	<b>14,943</b>
Non-monetary transactions – non-current assets acquired under finance lease	8,389	11,469

**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 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 Estonian kroons.

**Note 2 Revenue**

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

<b>Fields of activity</b>	<b>2008</b>	<b>2007</b>	<b>Q4 2008</b>	<b>Q4 2007</b>
Cable television services	150,407	127,998	38,076	32,493
Internet services	103,735	92,100	27,081	24,165
Telephony service	55,714	48,616	15,065	13,525
DTT service*	25,525	5,556	8,924	2,280
Sales of goods and materials	18,457	5,638	7,274	1,902
<b>Total</b>	<b>353,838</b>	<b>279,908</b>	<b>96,420</b>	<b>74,365</b>

\* DTT – Digital Terrestrial Television

**Note 3 Other income and expenses**

	2008	2007	Q4 2008	Q4 2007
<b>Other income</b>				
Gains on disposals of non-current assets	438	181	176	4
Revenue from fines for delay	1,601	1,169	408	343
Revenue from revaluation of liabilities	392	371	117	72
Other	241	189	40	53
<b>Total other income</b>	<b>2,672</b>	<b>1,910</b>	<b>741</b>	<b>472</b>
<b>Goods, raw materials and services</b>				
Services purchased	-113,246	-88,377	-28,665	-23,576
Materials	-4,276	-1,699	-940	-455
Goods purchased for resale	-14,279	-4,887	-6,021	-1,929
Maintenance expenses	-1,854	-2,545	-458	-780
Other	-1,901	-752	-573	-290
<b>Total goods, raw materials and services</b>	<b>-135,556</b>	<b>-98,260</b>	<b>-36,657</b>	<b>-27,030</b>
<b>Other operating expenses</b>				
Consulting and advisory expenses	-1,062	-1,460	-341	-345
Marketing expenses	-19,260	-22,494	-5,478	-6,867
Customer information expenses	-6,468	-5,779	-1,652	-1,747
Office expenses	-5,432	-4,192	-1,500	-1,158
Allowance for doubtful receivables	-2,297	-1,019	-622	-187
Transportation expenses	-4,830	-3,570	-1,241	-1,062
Other	-4,982	-4,461	-1,500	-1,384
<b>Total other operating expenses</b>	<b>-44,331</b>	<b>-42,975</b>	<b>-12,334</b>	<b>-12,750</b>
<b>Personnel expenses</b>				
Wages and salaries	-45,141	-34,808	-12,173	-9,533
Social tax	-15,276	-11,903	-4,206	-3,401
<b>Total personnel expenses</b>	<b>-60,417</b>	<b>-46,711</b>	<b>-16,379</b>	<b>-12,934</b>
<b>Other expenses</b>				
Loss on sales of fixed assets	-45	-53	-20	-52
Other	-419	-606	-158	-267
<b>Total other expenses</b>	<b>-464</b>	<b>-659</b>	<b>-178</b>	<b>-319</b>

**Note 4 Net financial items**

	2008	2007	Q4 2008	Q4 2007
Interest expenses	-10,472	-6,011	-3,554	-1,732
Foreign exchange gains/losses	214	250	-72	76
Other financial income and expenses	-13,021	-64	-5	-4
<b>Total net financial items</b>	<b>-23,279</b>	<b>-5,825</b>	<b>-3,631</b>	<b>-1,660</b>

\* "Other financial expenses" in 2008 include expenses in the amount of 12,970 thousand kroons 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**

	<b>31.12.2008</b>	<b>31.12.2007</b>
Accounts receivable	22,975	14,594
Allowance for doubtful receivables	-2,685	-1,565
Other short-term receivables	559	705
<b>Total receivables</b>	<b>20,849</b>	<b>13,734</b>

**Note 6 Prepayments**

	<b>31.12.2008</b>	<b>31.12.2007</b>
Prepaid taxes	0	303
Other prepayments	2,225	1,255
Prepayment for minority interest	20,000	0
<b>Total prepayments</b>	<b>22,225</b>	<b>1,558</b>

**Note 7 Borrowings**

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Short-term borrowings</b>		
Current portion of long-term bank loans	2,244	751
Current portion of finance lease liabilities	31,472	24,298
<b>Total short-term borrowings</b>	<b>33,716</b>	<b>25,049</b>
<b>Long-term borrowings</b>		
Non-current portion of long-term bank loans	0	2,244
Non-current portion of finance lease liabilities	103,019	104,144
<b>Total long-term borrowings</b>	<b>103,019</b>	<b>106,388</b>

**Outstanding loans raised by the company as at 31 December 2008**

<b>Creditor</b>	<b>Loan amount</b>	<b>Balance of loan</b>	<b>Monthly payment</b>	<b>Repayment term</b>	<b>Average interest rate</b>	<b>Collateral</b>
Nordea Finance	1 404	771	27	2009	4.5%	Leased assets
Nordea Bank Finland Plc	6,500	2,244	77	2009	7.0%	Mortgage + commercial pledge
Nordea Finance	755	587	14	2010	5.2%	Leased assets
SEB Liising	1,807	1,289	36	2010	5.0%	Leased assets
Nordea Finance	415	401	9	2011	5.6%	Leased assets
SEB Liising	49,306	25,831	926	2011	6.0%	Leased assets
SEB Liising	1,444	909	26	2012	5.3%	Leased assets
Hansa Liising	5,427	3,897	103	2012	6.3%	Leased assets
SEB Liising	158,924	100,806	2,035	2013	5.9%	Leased assets+ commercial pledge
<b>TOTAL</b>	<b>225,982</b>	<b>136,735</b>	<b>3,252</b>			

**Note 8 Payables**

	<b>31.12.2008</b>	<b>31.12.2007</b>
Accounts payable	17,823	20,394
Taxes payable	7,202	6,716
Employee-related liabilities	5,875	4,853
Other payables*	16,111	5,221
Payables to parent company**	28,177	0
<b>Total payables</b>	<b>75,188</b>	<b>37,184</b>

\* "Other payables" as of 31 December 2008 include payables to the members of the management board in the amount of 10,923 thousand kroons in connection with agreements signed on 19 June 2008 on the acquisition and cancellation of stock options.

\*\* In December 2008, Baltic Moontech Investments Holding AS lent EUR 1.8 million to the company (see also Note 11).

**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 654 thousand kroons as at 31 December 2008 (718 thousand kroons 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 kroons divided into 13,053,570 registered shares with a nominal value of 10 kroons 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. 0.70 kroons per share, was paid to shareholders as net dividends on 6 July 2007. Starman paid 9137 thousand kroons in net dividends, transferred 2,198 thousand kroons 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 kroons. The announcement of dividends entailed an income tax liability of 2577 thousand kroons.

In accordance with a resolution of the annual general meeting of shareholders held on 19 June 2008, 1873 thousand kroons 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 89,943 thousand kroons.

On 21 September 2007, a conditional agreement on transfer of 54.04% of all shares in Starman for a price of 89.97 kroons (EUR 5.75) 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 kroons (EUR 5.75) per share.

On 7 October 2008, Baltic Moontech Investments Holding AS increased its holding to 71.72%, acquiring total 855,900 shares of Starman, representing 6.56% of the company's share capital, from OÜ Polaris Invest and OÜ Com Holding. On 23 December 2008 Baltic Moontech Investments Holding AS acquired 311,255 shares of Starman, representing 2.38% of the company's share capital, from OÜ Polaris Invest. On 29 December 2008, Com Holding and Polaris Invest exchanged



all the shares in AS Starman held by them (2,070,000 shares or 15.86% of the share capital and 1,121,040 shares or 8.59% of the share capital, respectively) against a holding in Baltic Moontech Investments Holding AS.

Following the transactions described above, Baltic Moontech Investments Holding AS holds 12,863,922 shares of Starman which represent 98.55% of the company's share capital. An extraordinary general meeting of shareholders will be held on 25 February 2009 whose agenda includes the proposal that the major shareholder take over the remaining 189,648 shares for the monetary compensation of 89.97 kroons (EUR 5.75) per share.

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	2007	Q4 2008	Q4 2007
Companies related to members of Supervisory Board	0	659	0	94

As at 31 December 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.

In addition, Baltic Moontech Holding AS, the parent company, has lent 28,164 thousand kroons to Starman on which interest in the amount of 13 thousand kroons had accrued by 31 December 2008.

Non-capitalized wages and salaries (incl. bonuses) of management board members in 2008 amounted to 7391 thousand kroons (6493 thousand kroons in 2007). Wages and salaries of supervisory board members in 2008 amounted to 90 thousand kroons (293 thousand kroons in 2007).

In connection with changes in the structure of the company's shareholders 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 to AS Starman for total 12,970 thousand kroons. 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 31 December 2008, the company had a liability of 10,923 thousand kroons 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 2008 amounted to

551 thousand kroons. Of that amount, 547 thousand kroons 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 46 million kroons 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 40,258 thousand kroons for the 34% shareholding. The shareholding 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 price of the shareholding after 31 July 2008. The interest will have to be paid on a monthly basis or along with the aggregate amount payable for the shareholding if the latter is paid before the date of payment of interest. As at 31 December 2008, AS Starman has made a payment of 20,000 thousand kroons to Levira for the shareholding; in addition, interest has been paid in the amount of 1695 thousand kroons. The management board of Starman had assessed that the option would be exercised much later. The management board considers the earlier exercise of the option to be a positive development, as Starman will have to pay less for the holding than expected.

As at 31 December 2008, the owners' contribution to the equity of the company amounted to 46 million kroons. In addition, Starman has made a loan to the company. As at 31 December 2008, the loan balance amounted to 78,706 thousand kroons, 36,800 thousand kroons whereof is, under the loan agreements concluded on 25 April 2008 and 15 August 2008, a convertible loan which will be converted to share capital at the company's first request. The loss of Eesti Digitaaltelevisiooni AS for 2008 amounted to 45,799 thousand kroons, the balance sheet total as at 31 December 2008 was 59,995 thousand kroons and owners' equity was -32,132 thousand kroons.

#### Note 13 Earnings per share

	2008	2007	Q4 2008	Q4 2007
Shareholders' share of net profit (EEK thousand)	39,243	37,467	13,826	8,051
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
<b>Basic EPS (EEK)</b>	<b>3.01</b>	<b>2.87</b>	<b>1.06</b>	<b>0.62</b>
Shareholders' share of net profit (EEK thousand)	39,243	37,467	13,826	8,051
Weighted average number of shares (thousands of units)	13,054	13,054	13,054	13,054
Dilutive effect of options (thousands of units)*	0	104	0	104
Weighted average number of shares adjusted with options (thousands of units)	13,054	13,158	13,054	13,158
<b>Diluted EPS (EEK)</b>	<b>3.01</b>	<b>2.85</b>	<b>1.06</b>	<b>0.61</b>

\* The dilutive effect of options in 2007 and in the fourth quarter 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 31.12.07, 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. All conditions necessary for the exercise of the options of A and B series were met during the period under review.

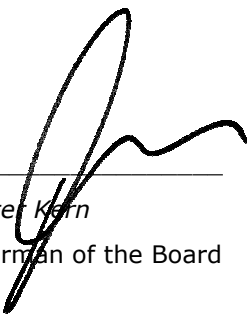
\* As a result of the agreement signed on 19 June 2008 and the inclusion of the purchase of options in the results of the year 2008 and the fourth quarter of 2008, the option shares had no dilutive effect in these periods.

#### **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 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 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 7.4 million kroons 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 performance results are still unclear. Starman has raised a claim against Elion Ettevõtted AS concerning the rental charges unlawfully collected from 1 February 2006 until 31 December 2007. As at 31 December 2008, the claim amounted to 7066 thousand kroons (incl. the principal of 5974 thousand kroons and the accumulating default interest of 1092 thousand kroons). 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 1534 thousand kroons 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 kroons. During the period from October 2006 to October 2008 five court sessions have been held, but the merits of the matter have been considered only to a minimum extent. While in the past court sessions have been postponed on a number of occasions due to different objections raised by the defendant and changing positions of the defendant, more reasonable decisions were reached at the end of 2008. On 30 December 2008 the court ruled that a part of the assets in question would be returned to Starman. As neither of the parties challenged the judgment, the judgment entered into force on 5 February 2009. Total costs relating to the proceedings currently amount to approximately 200 thousand kroons.

**SIGNATURES OF THE MANAGEMENT BOARD TO AS STARMAN'S INTERIM REPORT OF THE GROUP FOR 2008**



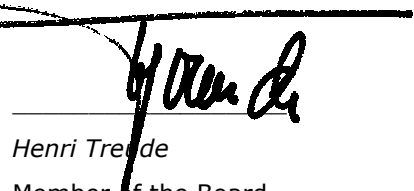
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*Peeter Kern*  
Chairman of the Board



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*Rando Hütsi*  
Member of the Board



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*Henri Treude*  
Member of the Board