TIME WARNER INC
Form 10-Q/A
September 13, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
Amendment No. 1

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the quarterly period ended March 31, 2006 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from ____________________to ____________________
Commission file number 001-15062

TIME WARNER INC.
(Exact name of Registrant as specified in its charter)

Delaware	**13-4099534**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Time Warner Center
New York, NY 10019-8016
(Address of Principal Executive Offices) (Zip Code)
(212) 484-8000
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Act). Yes o No þ

Description of Class	**Shares Outstanding as of April 28, 2006**
Common Stock $.01 par value	4,189,470,241
Series LMCN-V Common Stock $.01 par value	92,645,036

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Restatement of Prior Financial Information

As previously disclosed by Time Warner Inc. (Time Warner or the Company), the Securities and Exchange Commission (SEC) had been conducting an investigation into certain accounting and disclosure practices of the Company. On March 21, 2005, the Company announced that the SEC had approved the Company s proposed settlement, which resolved the SEC s investigation of the Company. Under the terms of the settlement with the SEC, the Company agreed, without admitting or denying the SEC s allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL LLC (formerly America Online, Inc., AOL), a subsidiary of the Company, in May 2000. The Company also agreed to appoint an independent examiner, who was to either be or hire a certified public accountant. The independent examiner was to review whether the Company s historical accounting for transactions (as well as any subsequent amendments) with 17 counterparties identified by the SEC staff, principally involving online advertising revenues and including three cable programming affiliation agreements with related online advertising elements, was appropriate, and provide a report to the Company s Audit and Finance Committee of its conclusions, originally within 180 days of being engaged. The transactions that were to be reviewed were entered into (or amended) between June 1, 2000 and December 31, 2001, including subsequent amendments thereto, and involved online advertising and related transactions for which the majority of the revenue was recognized before January 1, 2002.

The independent examiner began his review in June 2005 and, after several extensions of time, recently completed that review, in which he concluded that certain of the transactions under review with 15 counterparties, including three cable programming affiliation agreements with advertising elements, were accounted for improperly because the historical accounting did not reflect the substance of the arrangements. Under the terms of its SEC settlement, the Company is required to restate any transactions that the independent examiner determined were accounted for improperly. Accordingly, on August 15, 2006, the Company determined it would restate its consolidated financial results for each of the years ended December 31, 2000 through December 31, 2005 and for the six months ended June 30, 2006. The financial statements presented in this report reflect the impact of the adjustments being made in the Company s financial results.

The transactions being restated are principally transactions in which (i) AOL secured online advertising commitments from counterparties (and subsequently delivered on such commitments) at the same time that the Company entered into commitments with those same counterparties to purchase products or services or to make an investment in such counterparties and (ii) in the case of three counterparties, Time Warner Cable, a subsidiary of the Company, entered into cable programming affiliation agreements at the same time it committed to deliver (and did subsequently deliver) network and online advertising services to those same counterparties. Total advertising revenue recognized by the Company under these transactions was $584 million ($24 million in 2000, $378 million in 2001, $107 million in 2002, $67 million in 2003 and $8 million in 2004). Included in the $584 million is $37 million related to operations that have been subsequently classified as discontinued operations and $12 million of amounts that were reclassified to another revenue category (content or other) in connection with the restatement. In addition to reversing the recognition of revenue, based on the independent examiner s conclusions and as described more fully below, the Company has recorded corresponding reductions in the cost of the products or services that were acquired or investments that were made contemporaneously with the execution of the advertising agreements. In addition, the independent examiner concluded that approximately $119 million in marketing expenses were not recognized in the appropriate accounting period.

Included in the $584 million of restated advertising revenues is $310 million of advertising revenues in which the advertising arrangements were secured by AOL contemporaneously with the purchase of products or services or making an investment. In restating these transactions, the Company has reduced the cost of the related products, services or investment, which has had the effect of increasing earnings during certain of the periods. The remaining balance of the $584 million (or $274 million) consists of advertising arrangements that were secured contemporaneously with cable programming affiliation agreements. In restating these advertising arrangements, the Company is reducing cable programming costs over the life of the related cable programming affiliation arrangements (which range from 10 to 12 years), which has the effect of increasing earnings during certain of the periods restated and in future periods.

The net effect of restating these transactions is that the Company s net income has been increased by $8 million and $4 million for the three months ended March 31, 2006 and 2005, respectively.

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Except for the information affected by the restatement and the elimination of the condensed consolidating financial statements discussed below, the Company has not updated the information contained herein for events or transactions occurring subsequent to the date the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the March 2006 Form 10-Q) was filed with the SEC. The Company therefore recommends that this Quarterly Report on Form 10-Q/A be read in conjunction with the Company s reports filed subsequent to the filing date of the March 2006 Form 10-Q.

Amended Items

The Company hereby amends the following items, financial statements, exhibits or other portions of the March 2006 Form 10-Q as set forth herein.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The financial information of the Company is amended to read in its entirety as set forth at pages 35 through 67 herein and is incorporated herein by reference.

At the time the Company filed the March 2006 Form 10-Q, certain debt securities of Time Warner Companies, Inc., which were guaranteed by the Company and certain subsidiaries of the Company, were listed on the New York Stock Exchange. Accordingly, the March 2006 Form 10-Q included the condensed consolidating financial statements required under Rule 3-10 of Regulation S-X. In June 2006, the Time Warner Companies, Inc. debt was delisted from the New York Stock Exchange and deregistered under Section 12(b) of the Securities Exchange Act of 1934, and the requirement to include the condensed consolidating financial statements was suspended. Because the Company is no longer required to include this supplementary data, such supplementary data has not been restated or included in this Quarterly Report on Form 10/Q-A.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The information set forth under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations is amended to read in its entirety as set forth at pages 4 through 34 herein and is incorporated herein by reference.

PART II
OTHER INFORMATION

Item 6. Exhibits.

The list of exhibits set forth in, and incorporated from, the Exhibit Index is amended to include the following additional exhibits, each of which is filed herewith:

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2006.

This certification will not be deemed filed for purposes of Section 18 of the Securities

Exchange Act of 1934 (15 U.S.C. 78r) or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

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INTRODUCTION

Management s discussion and analysis of results of operations and financial condition (MD&A) is provided as a supplement to the accompanying consolidated financial statements and notes to help provide an understanding of Time Warner Inc. s (Time Warner or the Company) financial condition, changes in financial condition and results of operations. MD&A is organized as follows:

Overview. This section provides a general description of Time Warner s business segments, as well as recent developments the Company believes are important in understanding the results of operations and financial condition or in understanding anticipated future trends.

Results of operations. This section provides an analysis of the Company s results of operations for the three months ended March 31, 2006. This analysis is presented on both a consolidated and a business segment basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

Financial condition and liquidity. This section provides an analysis of the Company s financial condition as of March 31, 2006 and cash flows for the three months ended March 31, 2006.

Caution concerning forward-looking statements. This section provides a description of the use of forward-looking information appearing in this report, including in MD&A and the consolidated financial statements. Such information is based on management s current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Refer to the Company s 2005 Form 10-K for a discussion of the risk factors for the Company and to Item 1A of this report for an update to such risk factors.

Use of Operating Income before Depreciation and Amortization

The Company utilizes Operating Income before Depreciation and Amortization, among other measures, to evaluate the performance of its businesses. Operating Income before Depreciation and Amortization is considered an important indicator of the operational strength of the Company s businesses. Operating Income before Depreciation and Amortization eliminates the uneven effect across all business segments of considerable amounts of noncash depreciation of tangible assets and amortization of certain intangible assets that were recognized in business combinations. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company s businesses. Management evaluates the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budgets, investment spending levels and return on capital.

Operating Income before Depreciation and Amortization should be considered in addition to, not as a substitute for, the Company s Operating Income and Net Income, as well as other measures of financial performance reported in accordance with U.S. generally accepted accounting principles (GAAP). A reconciliation of Operating Income before Depreciation and Amortization to both Operating Income and Net Income is presented under Results of Operations.

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OVERVIEW

Time Warner is a leading media and entertainment company, whose major businesses encompass an array of the most respected and successful media brands. Among the Company s brands are HBO, CNN, AOL, *People, Sports Illustrated, Time* and Time Warner Cable. The Company produces and distributes films, including the *Harry Potter* series, *The Lord of the Rings* trilogy and *Wedding Crashers*, as well as television programs, including *ER, Two and a Half Men, Cold Case* and *Without a Trace*. During the three months ended March 31, 2006, the Company generated revenues of $10.455 billion (up 1% from $10.363 billion in 2005), Operating Income before Depreciation and Amortization of $2.693 billion (up 8% from $2.485 billion in 2005), Operating Income of $1.879 billion (up 11% from $1.689 billion in 2005), Net Income of $1.463 billion (up 59% from $919 million in 2005) and Cash Provided by Operations of $2.330 billion (up 27% from $1.832 billion in 2005).

Time Warner Businesses

Time Warner classifies its operations into five reportable segments: AOL, Cable, Filmed Entertainment, Networks and Publishing.

AOL. On April 3, 2006, in connection with an investment by Google Inc. (Google) as more fully described below, America Online, Inc. converted to a Delaware limited liability company and changed its name to AOL LLC (together with its subsidiaries, AOL). AOL operates a leading network of web brands and the largest Internet access subscription service in the United States, with 24.5 million total AOL brand subscribers in the U.S. and Europe at March 31, 2006. AOL reported total revenues of $1.981 billion (19% of the Company s overall revenues), $444 million in Operating Income before Depreciation and Amortization and $277 million in Operating Income for the three months ended March 31, 2006. AOL generates its revenues primarily from subscription fees charged to subscribers and from providing advertising services. AOL is organized into four business units: Access, Audience, Digital Services and International.

The Access business unit offers Internet access and on-line subscription services, primarily dial-up telephone Internet access and the AOL service. The AOL service, offered under a variety of different terms and price plans, generates the substantial majority of AOL s revenues. Over the past several years, the Access business unit has experienced significant declines in U.S. subscribers to the AOL service and in related Subscription revenues, and these declines are expected to continue. These decreases are due primarily to the continued industry-wide maturing of the premium dial-up services business, as consumers migrate to high-speed services and lower-cost dial-up services. AOL continues to develop, change, test and implement marketing and new product strategies to attract and retain subscribers. AOL has recently entered into a number of agreements with high-speed access providers to offer the AOL service along with high-speed Internet access.

AOL s Audience business unit generates Advertising revenues from the sale of advertising on a fixed impression or fixed placement basis, as well as from the sale of paid-search and other pay-for-performance advertising on AOL s and Advertising.com, Inc. s (Advertising.com) networks of Internet properties, which include owned and third-party properties, as well as certain Internet properties owned by other divisions of the Company. Currently, a significant majority of Advertising revenues are generated from traffic by subscribers to the AOL subscription service. The strategy of the Audience business unit focuses on generating Advertising revenue by increasing the reach of its audience and depth of its usage across its web properties, including properties such as AOL.com, AIM, MapQuest and Moviefone. A key component of this strategy was the third-quarter 2005 re-launch of the publicly available version of the AOL.com web portal that includes a substantial portion of AOL s content, features and tools that were historically available only to AOL subscribers. AOL seeks to generate Advertising revenue from increased traffic to AOL s network of Internet services and websites through sales of branded advertising and performance-based advertising, including paid-search, as well as from increased utilization and optimization of AOL s advertising inventory.

AOL s Digital Services business unit works to develop next-generation digital services, including a variety of wireless, voice and other premium services and applications that appeal to AOL members and Internet users.

AOL s International business unit, which primarily includes AOL Europe, has an Internet access business, sells advertising and develops and offers premium digital services. AOL Europe has focused on increasing revenues from

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advertising and digital services. AOL Europe has experienced declines in subscribers as consumers have shifted from traditional dial-up plans to highly competitive broadband plans offered by AOL and others, which have lower margins, and this trend is expected to continue.

Cable. Time Warner s cable business, Time Warner Cable Inc. and its subsidiaries (TWC), is the second-largest cable operator in the U.S. (in terms of basic cable subscribers). At March 31, 2006, TWC managed approximately 11.039 million basic cable subscribers (including approximately 1.577 million subscribers of unconsolidated investees), in highly clustered and technologically upgraded systems in 27 states. TWC delivered revenues of $2.580 billion (25% of the Company s overall revenues), $937 million of Operating Income before Depreciation and Amortization and $506 million in Operating Income for the three months ended March 31, 2006. As part of the strategy to expand TWC s cable footprint and improve the clustering of its cable systems, TWC, through a subsidiary, entered into agreements on April 20, 2005 to acquire, in conjunction with Comcast Corporation (Comcast), substantially all of the assets of Adelphia Communications Corporation (Adelphia). Refer to Recent Developments for further details.

TWC principally offers three products video, high-speed data and voice. Video is TWC s largest product in terms of revenues generated; however, the potential growth of its customer base within TWC s existing footprint for video cable service is limited, as the customer base has matured and industry-wide competition has increased. Nevertheless, TWC is continuing to increase its video revenues through rate increases, subscriber growth and its offerings of advanced digital video services such as Digital Video, Video-on-Demand (VOD), Subscription-Video-on-Demand (SVOD) and Digital Video Recorders (DVRs), which are available throughout TWC s footprint. TWC s digital video subscribers provide a broad base of potential customers for these advanced services. Video programming costs represent a major component of TWC s expenses and are expected to continue to increase, reflecting an expansion of service offerings and contractual rate increases.

High-speed data service has been one of TWC s fastest-growing products over the past several years and is a key driver of its results. TWC expects continued strong growth in residential high-speed data subscribers and revenues for the foreseeable future; however, the rate of growth of both subscribers and revenue could be impacted by intensified competition with other service providers.

TWC s voice product, Digital Phone, was available to over 88% of TWC s homes passed, and approximately 1.4 million subscribers (including 176,000 subscribers of unconsolidated investees) received the service as of March 31, 2006. For a monthly fixed fee, Digital Phone customers typically receive unlimited local, in-state and U.S., Canada and Puerto Rico long-distance calling, as well as call waiting, caller ID and enhanced 911 services. In the future, TWC intends to offer additional plans with a variety of local and long-distance options. Digital Phone enables TWC to offer its customers a convenient package of video, high-speed data and voice services and to compete effectively against similar bundled products available from its competitors. TWC expects strong growth in Digital Phone subscribers and revenues for the foreseeable future.

In addition to the subscription services, TWC also earns revenue by selling advertising time to national, regional and local businesses.

Filmed Entertainment. Time Warner s Filmed Entertainment businesses, Warner Bros. Entertainment Inc. (Warner Bros.) and New Line Cinema Corporation (New Line), generated revenues of $2.779 billion (25% of the Company s overall revenues), $457 million in Operating Income before Depreciation and Amortization and $368 million in Operating Income for the three months ended March 31, 2006.

One of the world s leading studios, Warner Bros. has diversified sources of revenues with its film and television businesses, combined with an extensive film library and global distribution infrastructure. This diversification has helped Warner Bros. deliver consistent long-term growth and performance. New Line is the world s oldest independent film company. Its primary source of revenues is the creation and distribution of theatrical motion pictures.

Warner Bros. continues to develop its industry-leading television business, including the successful releases of television series into the home video market. For the 2005-2006 television season, Warner Bros. has more current prime-time productions on the air than any other studio, with prime-time series on all six broadcast networks (including *Two and a Half Men, ER, Without a Trace, The O.C., Cold Case* and *Smallville*).

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The sale of DVDs has been one of the largest drivers of the segment s profit growth over the last few years and Warner Bros. extensive library of theatrical and television titles positions it to continue to benefit from DVD sales; however, the Company has begun to see slower growth in DVD sales due to several factors, including increasing competition for consumer discretionary spending, piracy, the maturation of the DVD format and the fragmentation of consumer time.

Piracy, including physical piracy as well as illegal online file-sharing, continues to be a significant issue for the filmed entertainment industry. Due to technological advances, piracy has expanded from music to movies and television programming. The Company has taken a variety of actions to combat piracy over the last several years, including a pilot program to release low-cost DVDs and VCDs in China and to coordinate worldwide release dates for franchise films, and will continue to do so, both individually and together with cross-industry groups, trade associations and strategic partners.

Networks. Time Warner s Networks group comprises Turner Broadcasting System, Inc. (Turner), Home Box Office, Inc. (HBO) and The WB Television Network (The WB Network). The Networks segment delivered revenues of $2.351 billion (21% of the Company s overall revenues), $857 million in Operating Income before Depreciation and Amortization and $788 million in Operating Income for the three months ended March 31, 2006.

The Turner networks including such recognized brands as TBS, TNT, CNN, Cartoon Network and CNN Headline News are among the leaders in advertising-supported cable TV networks. For over four consecutive years, more prime-time viewers watched advertising-supported cable TV networks than the national broadcast networks. For the first quarter of 2006, TNT ranked second among advertising-supported cable networks in prime-time delivery of its key demographics, adults 18-49 and adults 25-54, and first in total day delivery of adults 25-54. TBS ranked second among advertising-supported cable networks in prime-time delivery of its key demographic, adults 18-34.

The Turner networks generate revenues principally from the sale of advertising time and monthly subscriber fees paid by cable systems, direct-to-home (DTH) satellite operators and other affiliates. Key contributors to Turner s success are its continued investments in high-quality programming focused on sports, network premieres, licensed and original series, news and animation, leading to strong ratings and Advertising and Subscription revenue growth, as well as strong brands and operating efficiency.

HBO operates the HBO and Cinemax multichannel pay television programming services, with the HBO service ranking as the nation s most widely distributed pay television network. HBO generates revenues principally from monthly subscriber fees from cable system operators, satellite companies and other affiliates. An additional source of revenue is the ancillary sales of its original programming, including such programs as *The Sopranos, Sex and the City, Six Feet Under, Band of Brothers* and *Deadwood.*

The WB Network is a broadcast television network whose target audience consists primarily of young adults in the 12-34 demographic. The WB Network generates revenues almost exclusively from the sale of advertising time. As discussed in more detail in Recent Developments, on January 24, 2006, Warner Bros. and CBS Corp. (CBS) announced an agreement to form a new fully-distributed national broadcast network, to be called The CW. At the same time, Warner Bros. and CBS are preparing to cease the standalone operations of The WB Network and UPN, respectively, at the end of the 2005/2006 television season (September 2006).

Publishing. Time Warner s Publishing segment consists principally of magazine publishing and a number of direct-marketing and direct-selling businesses. The segment generated revenues of $1.126 billion (10% of the Company s overall revenues), $116 million in Operating Income before Depreciation and Amortization and $71 million in Operating Income for the three months ended March 31, 2006.

Time Inc. publishes over 145 magazines globally, including *People, Sports Illustrated, Southern Living, In Style, Real Simple, Entertainment Weekly, Time, Fortune, Cooking Light* and *What s on TV*. It generates revenues primarily from advertising, magazine subscriptions and newsstand sales, and its growth is derived from higher circulation and advertising on existing magazines, new magazine launches and acquisitions. Time Inc. owns IPC

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Media (the U.K. s largest magazine company, IPC) and the magazine subscription marketer Synapse Group, Inc. In addition, Time Inc. continues to invest in developing digital content, including the launch of Officepirates.com, the redesign of CNNmoney.com and the acquisition of Golf.com. Time Inc. s direct-selling division, Southern Living At Home, sells home decor products through independent consultants at parties hosted in people s homes throughout the U.S.

Recent Developments

AOL-Google Alliance

During December 2005, the Company announced that AOL is expanding its current strategic alliance with Google to enhance its global online advertising partnership and make more of AOL s content available to Google users. In addition, Google agreed to invest $1 billion to acquire a 5% equity interest in a limited liability company that owns all of the outstanding equity interests in AOL. On March 24, 2006, the Company and Google signed definitive agreements governing the investment and the commercial arrangements. Under the alliance, Google will continue to provide search technology to AOL s network of Internet properties worldwide and provide AOL with an improved share in revenues generated through search conducted on the AOL network. Other key aspects of the alliance include:

- Creating an AOL Marketplace through white labeling of Google s advertising technology, which enables AOL to sell search advertising directly to advertisers on AOL-owned properties;

- Providing AOL $300 million of marketing credits for promotion of AOL s content on Google-owned Internet properties as well as $100 million of AOL/Google co-sponsored promotion of AOL properties;

- Collaborating in video search and promoting the AOL Video destination within Google Video; and

- Enabling Google Talk and AIM instant messaging users to communicate with each other, provided certain conditions are met.

AOL and Google also agreed to collaborate in the future to expand on the alliance, including the possible sale by AOL of display advertising on the Google network.

On April 13, 2006, the Company completed its issuance of a 5% equity interest in AOL to Google for $1 billion in cash. In accordance with Staff Accounting Bulletin No. 51, *Accounting for the Sales of Stock of a Subsidiary*, Time Warner will recognize a gain of approximately $800 million, which will be reflected in shareholders equity, as an adjustment to paid-in capital in the second quarter of 2006.

The WB Network

On January 24, 2006, Warner Bros. and CBS announced an agreement to form a new fully-distributed national broadcast network, to be called The CW. At the same time, Warner Bros. and CBS are preparing to cease the standalone operations of The WB Network and UPN, respectively, at the end of the 2005/2006 television season (September 2006). Warner Bros. and CBS will each own 50% of the new network and will have joint and equal control. In addition, Warner Bros. has reached an agreement with Tribune Corp. (Tribune), currently a subordinated 22.25% limited partner in The WB Network, under which Tribune will surrender its ownership interest in The WB Network and will be relieved of funding obligations. In addition, Tribune will become one of the principal affiliate groups for the new network.

Upon the closing of this transaction, the Company will account for its investment in The CW under the equity method of accounting. The Company anticipates that prior to the closing of this transaction it will incur restructuring charges ranging from $25 million to $30 million related to employee terminations and contractual settlements. In addition, The WB Network may incur up to $100 million in terminating certain programming arrangements (primarily licensed movie rights), most of which are not expected to be contributed to the new network and may not be sold or utilized in another manner. Included in these costs are approximately $70 million associated with intercompany programming arrangements with Warner Bros. and New Line. Any costs incurred by The WB Network on such intercompany programming would be largely offset by amounts recognized by Warner Bros. and New Line, with the impact of all intercompany transactions being eliminated in consolidation. Excluding the impact

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of these intercompany transactions, the anticipated exit costs to the Company of programming arrangements and employee and other contractual arrangements range from approximately $55 million to $60 million.

Adelphia Acquisition Agreement

On April 20, 2005, a subsidiary of TWC, Time Warner NY Cable LLC (TW NY), and Comcast each entered into separate definitive agreements with Adelphia to, collectively, acquire substantially all the assets of Adelphia for a total of $12.7 billion in cash (of which TW NY will pay $9.2 billion and Comcast will pay the remaining $3.5 billion) and 16% of the common stock of TWC (the Adelphia Acquisition).

At the same time that Comcast and TW NY entered into the Adelphia Acquisition agreements, Comcast, TWC and/or their respective affiliates entered into agreements providing for the redemption of Comcast s interests in TWC and Time Warner Entertainment Company, L.P. (TWE) (the TWC Redemption Agreement and the TWE Redemption Agreement, respectively, and, collectively, the TWC and TWE Redemption Agreements). Specifically, Comcast s 17.9% interest in TWC will be redeemed in exchange for 100% of the capital stock of a subsidiary of TWC holding cable systems serving approximately 587,000 subscribers (as of December 31, 2004), as well as approximately $1.9 billion in cash. In addition, Comcast s 4.7% interest in TWE will be redeemed in exchange for 100% of the equity interests in a subsidiary of TWE holding cable systems serving approximately 168,000 subscribers (as of December 31, 2004), as well as approximately $133 million in cash. TWC, Comcast and their respective subsidiaries will also swap certain cable systems to enhance their respective geographic clusters of subscribers (the Cable Swaps).

After giving effect to the transactions, TWC will gain systems passing approximately 7.5 million homes, with approximately 3.5 million basic subscribers (each as of December 31, 2004). TWC will then manage a total of approximately 14.4 million basic subscribers (as of December 31, 2004). Time Warner will own 84% of TWC s common stock (including 83% of the outstanding TWC Class A Common Stock, which will become publicly traded at the time of closing, and all outstanding shares of TWC Class B Common Stock) as well as an indirect non-voting economic interest in TW NY, a subsidiary of TWC, valued at $2.9 billion at the time of entering into the agreement.

The transactions are subject to customary regulatory review and approvals, including antitrust review by the Federal Trade Commission (FTC) pursuant to the Hart-Scott-Rodino Act, review by the Federal Communications Commission (FCC) and local franchise approvals, as well as, in the case of the Adelphia Acquisition, the Adelphia bankruptcy process, which involves approvals by the bankruptcy court having jurisdiction over Adelphia s Chapter 11 case and Adelphia s creditors. On January 31, 2006, the FTC completed its antitrust review of the transaction and closed its investigation without further action. The parties are awaiting final clearance from the FCC and certain local franchise approvals, as well as completion of the bankruptcy process. The parties expect to close the Adelphia Acquisition on or before July 31, 2006.

The closing of the Adelphia Acquisition is not dependent on the closing of the Cable Swaps or the transactions contemplated by the TWC and TWE Redemption Agreements. Furthermore, if Comcast fails to obtain certain necessary governmental authorizations, TW NY has agreed to acquire the cable operations of Adelphia that would have been acquired by Comcast, with the purchase price payable in cash or TWC stock at TWC s discretion.

Pursuant to registration rights granted to Comcast and certain of its affiliates in conjunction with the restructuring of TWE in 2003, TWC has an obligation to file a shelf registration statement with the Securities and Exchange Commission (SEC) by June 1, 2006 covering all the shares of TWC Class A Common Stock held by Comcast and its affiliates if the transactions contemplated by the TWC Redemption Agreement have not occurred as of such date.

Common Stock Repurchase Program

Time Warner s Board of Directors has authorized a common stock repurchase program that allows the Company to purchase up to an aggregate of $20 billion of common stock during the period from July 29, 2005 through December 31, 2007. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. Size and timing of these purchases will be based on a number of factors, including price and business and market conditions. As announced on February 1, 2006, the Company

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increased the pace of stock repurchases during the first quarter of 2006. At existing price levels, the Company intends to continue the current pace of purchases under its stock repurchase program within its stated objective of maintaining a net debt-to-Operating Income before Depreciation and Amortization ratio, as defined, of approximately 3-to-1, and expects it will have purchased approximately $15 billion of its common stock under the program by the end of 2006, and the remainder in 2007. From the program s inception through May 2, 2006, the Company repurchased approximately 460 million shares of common stock for approximately $8.0 billion pursuant to trading programs under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

Sale of Time Warner Book Group

On March 31, 2006, the Company sold Time Warner Book Group (TWBG) to Hachette Livre SA (Hachette), a wholly-owned subsidiary of Lagardère SCA (Lagardère) for $532 million in cash resulting in a pretax gain of approximately $206 million, after taking into account selling costs and estimated working capital adjustments. As a result of the sale, TWBG has been reflected as discontinued operations for all periods presented (Note 4).

Sale of Turner South

On February 23, 2006, the Company announced an agreement to sell the Turner South network (Turner South), a subsidiary of Turner, to Fox Cable Networks, Inc. (Fox) for approximately $375 million in cash. This transaction closed on May 1, 2006. The results of Turner South have been reflected as discontinued operations for all periods presented. The Company expects to record a pretax gain ranging from approximately $120 million to $140 million (after taking into account selling costs) in the second quarter of 2006. Since the Company has sufficient tax attribute carryforwards to offset the gain, there will not be any tax expense recognized on the sale of Turner South (Note 4).

Time Warner Telecom

As of December 31, 2005, wholly-owned subsidiaries of the Company owned a total of 50.4 million shares of Class B common stock of Time Warner Telecom Inc. (TWT), a publicly traded telecommunications company. The Company accounts for this investment using the equity method of accounting and, as a result of the Company s share in losses of TWT and impairment losses recognized in previous years, the carrying value of the investment is zero. In the first quarter of 2006, the Company s subsidiaries participated as selling shareholders in a TWT secondary offering, converted approximately 17 million shares of Class B common stock into Class A common stock of TWT and sold the Class A common stock for approximately $239 million, net of underwriter commissions. This sale resulted in a pretax gain of approximately $239 million, which is included as a component of Other income, net, in the accompanying consolidated statement of operations for the three months ended March 31, 2006. The Company does not consider its remaining investment in TWT to be strategic and, therefore, additional sales or other dispositions may occur in the future, subject to customary restrictions on transfer agreed to in connection with the offering and as provided in a stockholders agreement among the holders of the Class B common stock of TWT.

Amounts Related to Securities Litigation

As previously disclosed, in July 2005, the Company reached an agreement in principle for the settlement of the securities class action lawsuits included in the matters consolidated under the caption *In re: AOL Time Warner Inc. Securities & ERISA Litigation* described in Note 13 to the accompanying consolidated financial statements (the MSBI consolidated securities class action). In connection with reaching the agreement in principle on the securities class action, the Company established a reserve of $2.4 billion during the second quarter of 2005. Ernst & Young LLP also has agreed to a settlement in this litigation matter and will pay $100 million. Pursuant to the settlement, in October 2005, Time Warner paid $2.4 billion into a settlement fund (the MSBI Settlement Fund) for the members of the class represented in the action. In addition, the $150 million previously paid by Time Warner into a fund in connection with the settlement of the investigation by the U.S. Department of Justice (DOJ) was transferred to the MSBI Settlement Fund, and Time Warner is using its best efforts to have the $300 million it previously paid in connection with the settlement of its SEC investigation, or at least a substantial portion thereof, transferred to the MSBI Settlement Fund. The court issued an order dated April 6, 2006 granting final approval of the settlement.

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In addition to the $2.4 billion reserve established in connection with the agreement in principle regarding the settlement of the MSBI consolidated securities class action, during the second quarter of 2005, the Company established an additional reserve totaling $600 million in connection with the other related securities litigation matters (including suits brought by individual shareholders) described in Note 13 to the accompanying consolidated financial statements that are pending against the Company. As of May 1, 2006, the Company has reached agreements to resolve the actions alleging violations of the Employee Retirement Income Security Act (ERISA) and the derivative actions, both of which are subject to preliminary and final court approval, as well as some of the individual suits. Of the $600 million reserve, through May 1, 2006, the Company has paid, or has agreed to pay, approximately $358 million, after considering probable insurance recoveries, to settle certain of these claims. The Company has been successful in reaching settlements with respect to certain of the securities actions brought by individual shareholders. The Company also has engaged in, or expects to engage in, mediation in an attempt to resolve the additional cases brought by shareholders who elected to opt out of the settlement in the consolidated securities action. Such mediation efforts have not been fruitful to date in certain of these matters, in which trials are possible and for which plaintiffs have claimed several billion dollars in aggregated damages. The Company intends to defend these lawsuits vigorously. It is possible that the ultimate amount paid to resolve all unsettled litigation in these matters could be greater than the remaining reserve (Note 13).

The Company recognizes insurance recoveries when it becomes probable that such amounts will be received. Amounts recognized in the first quarter of 2006 and 2005 totaled $50 million and $6 million, respectively. In 2005, the Company reached an agreement with the carriers on its directors and officers insurance policies in connection with the securities and derivative action matters described above (other than the actions alleging violations of ERISA). As a result of this agreement, in the fourth quarter, the Company recorded a recovery of approximately $185 million (bringing the total 2005 recoveries to $206 million), which was collected in the first quarter of 2006.

Government Investigations

As previously disclosed by the Company, the DOJ and the SEC have resolved their investigations into the accounting and disclosure practices of the Company, the former through a deferred prosecution agreement entered into in December 2004 for a two-year period, and the latter through a settlement agreement that was approved by the SEC in March 2005. These resolutions are described in more detail in Management s Discussion and Analysis Other Recent Developments Government Investigations in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 Form 10-K). The historical accounting adjustments related thereto were reflected in the restatement of the Company s financial results for each of the years ended December 31, 2000 through December 31, 2003, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 Form 10-K).

With respect to the $300 million that was placed into an SEC Fair Fund as a condition of the SEC settlement, the Company has used its best efforts to have the $300 million, or a substantial portion thereof, transferred to the MSBI Settlement Fund and distributed in connection with the eventual distribution of proceeds pursuant to the settlement of the MSBI consolidated securities class action. However, the SEC, as yet, has not made any determination as to how to distribute those funds.

Under the terms of the Company s settlement with the SEC, the Company agreed to the appointment of an independent examiner to review whether the Company s historical accounting for transactions with 17 counterparties, which were identified by the SEC staff, was in conformity with GAAP. The transactions subject to review were entered into between June 1, 2000 and December 31, 2001 (but including subsequent amendments thereto), and principally involve online advertising revenues, as well as three cable programming affiliation agreements with related advertising elements. Revenue related to the 17 transactions principally was recognized prior to January 1, 2002. The independent examiner has been engaged in his review, and, under the terms of the SEC settlement, is required to provide a report to the Company s audit and finance committee of his conclusions. The independent examiner recently completed his review and, as a result of the conclusions, the Company s consolidated financial results have been restated as reflected in this report. For more information on the restatement, see Restatement of Prior Financial Information on page 1.

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RESULTS OF OPERATIONS

Recently Adopted Accounting Principle

Stock-Based Compensation

The Company has adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), as of January 1, 2006. The provisions of FAS 123R require a Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. FAS 123R also amends FASB Statement No. 95, Statement of Cash Flows, to require that excess tax benefits, as defined, realized from the exercise of stock options be reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations.

Prior to the adoption of FAS 123R, the Company had followed the provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123), which allowed the Company to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and disclose the pro forma effects on net income (loss) had the fair value of the equity awards been expensed. In connection with adopting FAS 123R, the Company elected to adopt the modified retrospective application method provided by FAS 123R and, accordingly, financial statement amounts for all prior periods presented herein reflect results as if the fair value method of expensing had been applied from the original effective date of FAS 123 (Refer to Note 1 for discussion of impact).

Prior to the adoption of FAS 123R, the Company recognized stock-based compensation expense for awards with graded vesting by treating each vesting tranche as a separate award and recognizing compensation expense ratably for each tranche. For equity awards granted subsequent to the adoption of FAS 123R, the Company treats such awards as a single award and recognizes stock-based compensation expense on a straight-line basis (net of estimated forfeitures) over the employee service period. Stock-based compensation expense is recorded in costs of revenues or selling, general and administrative expense depending on the employee s job function.

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Additionally, when recording compensation cost for equity awards, FAS 123R requires companies to estimate the number of equity awards granted that are expected to be forfeited. Prior to the adoption of FAS 123R, the Company recognized forfeitures when they occurred, rather than using an estimate at the grant date and subsequently adjusting the estimated forfeitures to reflect actual forfeitures. Accordingly, a pretax cumulative effect adjustment totaling $40 million ($25 million, net of tax) has been recorded in the first quarter of 2006 to adjust for awards granted prior to January 1, 2006 that are not expected to vest. Total impact of the adoption of FAS 123R and total equity-based compensation expense recognized for the three months ended March 31, 2006 and 2005 is as follows:

	Stock Option Expense[a]		Total Equity-Based Compensation[a][b]	
	Three Months Ended		Three Months Ended	
	3/31/06	3/31/05	3/31/06	3/31/05
	(millions)		(millions)	
AOL	$ 13	$ 10	$ 14	$ 11
Cable	12	26	14	26
Filmed Entertainment	19	27	31	29
Networks	13	27	15	28
Publishing	11	20	13	20
Corporate	12	17	21	20
Total	$ 80	$ 127	$ 108	$ 134

(a) The amount expensed in the first quarter of each year is not consistent with the amounts expected to be incurred during the remaining quarters of the year as the first quarter includes the expensing of 100% of the equity awards granted to retirement eligible employees as part of a broad-based grant.

(b) Total equity-based compensation includes expense recognized related to stock options, restricted stock and restricted stock units.

Change in Accounting Principle for Recognizing Programming Inventory Costs at HBO

Effective January 1, 2006, the Company changed its methodology for recognizing programming inventory costs (for both theatrical and original programming) at its HBO division. Previously, the Company recognized HBO s programming costs on a straight-line basis in the calendar year in which the related programming first aired on the HBO and Cinemax pay television services. Now the Company recognizes programming costs on a straight-line basis over the license periods or estimated period of use of the related shows, beginning with the month of initial exhibition. The Company concluded that this change in accounting for programming inventory costs was preferable after giving consideration to the cumulative impact that marketplace and technological changes have had in broadening the variety of viewing options and period over which consumers are now experiencing HBO s programming.

Since this change involves a revision to an inventory costing principle, the change is reflected retrospectively to all prior periods presented, including the impact that such a change has on retained earnings for the earliest year presented (Refer to Note 1 for discussion of impact).

Discontinued Operations

As previously noted under Recent Developments, the Company has reflected the operations of TWBG and Turner South as discontinued operations for all periods presented.

Reclassifications

Certain reclassifications have been made to the prior year s financial information to conform to the March 31, 2006 presentation.

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Significant Transactions and Other Items Affecting Comparability

As more fully described herein and in the related notes to the accompanying consolidated financial statements, the comparability of Time Warner s results from continuing operations has been affected by certain significant transactions and other items in each period as follows:

	Three Months Ended	
	3/31/06	3/31/05
	(millions)	
Amounts related to securities litigation and government investigations	$ (29)	$ (6)
Merger and restructuring costs	(30)	(12)
Asset impairments		(24)
Gain on disposal of assets, net	22	10
Impact on Operating Income	(37)	(32)
Investment gains, net	295	23
Gain on WMG option		80
Impact on Other income, net	295	103
Pretax impact	258	71
Income tax impact	(93)	(35)
After-tax impact	$ 165	$ 36

Amounts Related to Securities Litigation and Government Investigations

For the three months ended March 31, 2006 and 2005, the Company recognized legal and other professional fees related to the SEC and DOJ investigations into certain of the Company s historical accounting and disclosure practices and the defense of various shareholder lawsuits, as well as legal reserves, totaling $79 million and $12 million, respectively. In addition, for the three months ended March 31, 2006 and 2005, the Company recognized insurance recoveries of $50 million and $6 million, respectively.

Merger and Restructuring Costs

During the three months ended March 31, 2006, the Company incurred restructuring costs, primarily related to various employee terminations of approximately $23 million, including $12 million at the Publishing segment, $6 million at the Cable segment and $5 million at the Corporate segment. The Company also expensed $2 million at the Filmed Entertainment segment and $1 million at the AOL segment as a result of changes in estimates of previously established restructuring accruals. In addition, during the three months ended March 31, 2006, the Cable segment expensed approximately $4 million of non-capitalizable merger-related costs associated with the Adelphia Acquisition.

During the three months ended March 31, 2005, the Company incurred restructuring costs at the Cable segment primarily related to various employee terminations and exit activities of $17 million. In addition, there were changes in estimates of previously established restructuring accruals at the AOL segment, which included $3 million of additional restructuring costs and the reversal of $8 million of restructuring costs that were no longer required (Note 11).

Asset Impairments

During the three months ended March 31, 2005, the Company recorded a $24 million noncash impairment charge related to goodwill associated with America Online Latin America, Inc. (AOLA).

Gains on Disposal of Assets, Net

For the three months ended March 31, 2006, the Company recorded a gain of approximately $20 million at the Corporate segment related to the sale of two aircraft and a $2 million gain at the AOL segment from the resolution of a previously contingent gain related to the 2004 sale of Netscape Security Solutions (NSS).

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For the three months ended March 31, 2005, the Company recorded a $2 million gain at the AOL segment from the resolution of a previously contingent gain related to the 2004 sale of NSS and an $8 million gain at the Publishing segment related to the collection of a loan made in conjunction with the Company s 2003 sale of Time Life Inc., which was previously fully reserved due to concerns about recoverability.

Investment Gains, Net

For the three months ended March 31, 2006, the Company recognized net gains of $295 million primarily related to the sale of investments, including a $239 million gain on the sale of a portion of the Company s investment in TWT and a $51 million gain on the sale of the Company s investment in Canal Satellite Digital. Investment gains, net also include $7 million of gains to reflect market fluctuations in equity derivative instruments.

For the three months ended March 31, 2005, the Company recognized net gains of $23 million primarily related to the sale of investments. Investment gains, net included $3 million of writedowns to reduce the carrying value of certain investments that experienced other-than-temporary declines in market value, partially offset by $1 million of gains to reflect market fluctuations in equity derivative instruments.

Gain on WMG Option

For the three months ended March 31, 2005, the Company recorded an $80 million gain reflecting a fair value adjustment related to the Company s option in Warner Music Group (WMG).

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Consolidated Results

Revenues. The components of revenues are as follows:

	Three Months Ended		
	3/31/06	3/31/05 (recast)	% Change
		(millions)	
Subscription	$ 5,667	$ 5,485	3%
Advertising	1,761	1,645	7%
Content	2,756	2,976	(7%)
Other	271	257	5%
Total revenues	$ 10,455	$ 10,363	1%

The increase in Subscription revenues is primarily related to increases at the Cable and Networks segments, offset partially by a decline at the AOL segment. The increase at the Cable segment was principally due to the continued penetration of advanced services (primarily high-speed data services, advanced digital video services and Digital Phone) and video rate increases. The increase at the Networks segment was due primarily to higher subscription rates and, to a lesser extent, an increase in the number of subscribers at Turner and HBO. The AOL segment declined primarily as a result of lower domestic AOL brand subscribers and the unfavorable impact of foreign currency exchange rates at AOL Europe.

The increase in Advertising revenues was primarily due to growth at the AOL and Networks segments. The increase at the AOL segment was due to revenues from growth in traditional advertising, paid-search advertising and sales of advertising run on third-party websites generated by Advertising.com. The increase at the Networks segment was primarily driven by higher CPMs (advertising cost per one thousand viewers) and sellouts at Turner s domestic entertainment networks, partly offset by a decline at The WB Network as a result of lower ratings.

The decrease in Content revenues was principally due to decreases at the Filmed Entertainment and Networks segments. The decrease at the Filmed Entertainment segment was driven by declines in both theatrical and television product revenues. The decrease at the Networks segment was due primarily to the absence of HBO s licensing revenue from *Everybody Loves Raymond*, which ended its broadcast network run in 2005, and, to a lesser extent, a decline in ancillary sales of HBO s original programming.

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Each of the revenue categories is discussed in greater detail by segment in Business Segment Results.

Costs of Revenues. For the three months ended March 31, 2006 and 2005, costs of revenues totaled \$5.806 billion and \$5.907 billion, respectively, and as a percentage of revenues were 56% and 57%, respectively. The improvement in costs of revenues as a percentage of revenues related primarily to improved margins at the Filmed Entertainment, Networks and Publishing segments, partially offset by a decline in margins at the AOL and Cable segments. The segment variations are discussed in detail in Business Segment Results.

Selling, General and Administrative Expenses. For the three months ended March 31, 2006 and 2005, selling, general and administrative expenses remained essentially flat (\$2.600 billion in 2006 and \$2.587 billion in 2005). The segment variations are discussed in detail in Business Segment Results.

Amounts Related to Securities Litigation and Government Investigations. As previously discussed in Recent Developments, in the results for the three months ended March 31, 2006 and 2005, the Company recognized legal and other professional fees related to the SEC and DOJ investigations into certain of the Company s historical accounting and disclosure practices and the defense of various shareholder lawsuits, as well as legal reserves, totaling \$79 million and \$12 million, respectively. In addition, for the three months ended March 31, 2006 and 2005, the Company recognized insurance recoveries of \$50 million and \$6 million, respectively (Note 1).

Reconciliation of Operating Income before Depreciation and Amortization to Operating Income and Net Income.

The following table reconciles Operating Income before Depreciation and Amortization to Operating Income. In addition, the table provides the components from Operating Income to Net Income for purposes of the discussions that follow:

	Three Months Ended		
	3/31/06	3/31/05 (recast)	% Change
	(restated, millions)		
Operating Income before Depreciation and Amortization	$ 2,693	$ 2,485	8%
Depreciation	(681)	(648)	5%
Amortization	(133)	(148)	(10%)
Operating Income	1,879	1,689	11%
Interest expense, net	(299)	(346)	(14%)
Other income, net	318	112	184%
Minority interest expense, net	(79)	(55)	44%
Income before income taxes, discontinued operations and cumulative effect of accounting change	1,819	1,400	30%
Income tax provision	(613)	(488)	26%
Income before discontinued operations and cumulative effect of accounting change	1,206	912	32%
Discontinued operations, net of tax	232	7	NM
Cumulative effect of accounting change, net of tax	25		NM
Net income	$ 1,463	$ 919	59%

Operating Income before Depreciation and Amortization. Time Warner s Operating Income before Depreciation and Amortization increased 8% to \$2.693 billion for the three months ended March 31, 2006 from \$2.485 billion for the three months ended March 31, 2005, principally as a result of growth at the Cable, Filmed Entertainment and Networks segments, offset by a decline at the AOL and Publishing segments.

The segment variations are discussed in detail under Business Segment Results.

Depreciation Expense. Depreciation expense increased to $681 million for the three months ended March 31, 2006 from $648 million for the three months ended March 31, 2005. The increase in depreciation expense primarily related to an increase at the Cable segment reflecting continued higher spending on customer premise equipment that is depreciated over a shorter useful life compared to the mix of assets previously purchased.

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Amortization Expense. Amortization expense decreased to $133 million for the three months ended March 31, 2006 from $148 million for the three months ended March 31, 2005. The decrease in amortization expense primarily relates to the Publishing segment as a result of certain short-lived intangibles, such as customer lists, becoming fully amortized in the latter part of 2005. This increase at the Publishing segment was partially offset by amortization from certain indefinite-lived trade name intangibles being assigned a finite life beginning in the first quarter of 2006.

Operating Income. Time Warner s Operating Income increased to $1.879 billion for the three months ended March 31, 2006 from $1.689 billion for the three months ended March 31, 2005, reflecting the changes in Operating Income before Depreciation and Amortization and the decline in amortization expense, offset partially by the increase in depreciation expense as discussed above.

Interest Expense, Net. Interest expense, net, decreased to $299 million for the three months ended March 31, 2006 from $346 million for the three months ended March 31, 2005 due primarily to higher interest income on cash investments and lower average interest rates on borrowings.

Other Income, Net. Other income, net, detail is shown in the table below:

	Three Months Ended	
	3/31/06	**3/31/05 (restated)**
	(millions)	
Investment gains, net	$ 295	$ 23
Gain on WMG option		80
Income from equity investees	22	12
Other	1	(3)
Other income, net	$ 318	$ 112

The changes in investment gains, net, and the net gain on the WMG option are discussed in detail under Significant Transactions and Other Items Affecting Comparability. Excluding the impact of these items, Other income, net, increased principally from an increase in income from equity method investees, primarily related to the Texas and Kansas City Cable Partners, L.P., a joint venture between TWC and Comcast.

Minority Interest Expense, Net. Time Warner had $79 million of minority interest expense for the three months ended March 31, 2006 compared to $55 million for the three months ended March 31, 2005. The increase relates primarily to larger profits recorded by TWC, in which Comcast has a minority interest.

Income Tax Provision. Income tax expense was $613 million for the three months ended March 31, 2006 compared to $488 million for the three months ended March 31, 2005. The Company s effective tax rate was 34% and 35% for the three months ended March 31, 2006 and 2005, respectively. The decrease in the effective tax rate results primarily from $93 million of tax attribute carryforwards recognized during the period compared to $51 million for the same period in the prior year.

Income before Discontinued Operations and Cumulative Effect of Accounting Change. Income before discontinued operations and cumulative effect of accounting change was $1.206 billion for the three months ended March 31, 2006 compared to $912 million for the three months ended March 31, 2005. Basic and diluted net income per share before discontinued operations and cumulative effect of accounting change were both $0.27 in 2006, compared to $0.20 and $0.19 in 2005, respectively. Excluding the items previously discussed under Significant Transactions and Other Items Affecting Comparability totaling $165 million and $36 million of net income for the three months ended March 31, 2006 and 2005, respectively, Income before discontinued operations and cumulative effect of accounting change improved by $165 million primarily due to higher Operating Income, higher other income, net, lower interest expense, net, and the income tax provision as discussed above.

Discontinued Operations. The three months ended March 31, 2006 and 2005 results include the impact of the treatment of TWBG and Turner South as discontinued operations. Included in the results for the three months ended March 31, 2006 is a pretax gain of $206 million and a tax benefit of $22 million related to the sale of TWBG. The

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tax benefit resulted primarily from the release of a valuation allowance associated with tax attribute carryforwards offsetting the tax gain on the transaction.

Cumulative Effect of Accounting Change, net of tax. The Company recorded a $40 million pretax benefit ($25 million, net of tax), as the cumulative effect of a change in accounting principle upon the adoption of FAS 123R to recognize the effect of estimating the number of awards granted prior to January 1, 2006 that are not ultimately expected to vest.

Net Income and Net Income Per Common Share. Net income was $1.463 billion for the three months ended March 31, 2006 compared to $919 million for the three months ended March 31, 2005. Basic and diluted net income per common share were $0.33 and $0.32, respectively, in 2006, compared to $0.20 and $0.19 in 2005, respectively.

Business Segment Results

AOL. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the AOL segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	**3/31/05 (recast)**	**% Change**
	(restated, millions)		
Revenues:			
Subscription	$ 1,538	$ 1,774	(13%)
Advertising	392	311	26%
Other	51	48	6%
Total revenues	1,981	2,133	(7%)
Costs of revenues[(a)]	(946)	(982)	(4%)
Selling, general and administrative[(a)]	(592)	(626)	(5%)
Gain on disposal of consolidated businesses	2	2	
Asset impairments		(24)	NM
Restructuring costs	(1)	5	(120%)
Operating Income before Depreciation and Amortization	444	508	(13%)
Depreciation	(127)	(145)	(12%)
Amortization	(40)	(47)	(15%)
Operating Income	$ 277	$ 316	(12%)

[(a)] Costs of revenues and selling, general and administrative expenses exclude depreciation.

The reduction in Subscription revenues primarily reflects a decline in domestic Subscription revenues (from $1.313 billion in 2005 to $1.109 billion in 2006) and a decline in Subscription revenues at AOL Europe (from $449 million in 2005 to $407 million in 2006). AOL s domestic Subscription revenues declined due primarily to a decrease in the number of domestic AOL brand subscribers and related revenues. The decrease in AOL Europe s Subscription revenues was driven by the unfavorable impact of foreign currency exchange rates ($41 million). AOL

Europe s dial-up Subscription revenues declined, however this decline was almost entirely offset by an increase in broadband and telephony revenues.

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The number of AOL brand domestic and European subscribers is as follows at March 31, 2006, December 31, 2005 and March 31, 2005 (millions):

	March 31, 2006	December 31, 2005	March 31, 2005
Subscriber category:			
AOL brand domestic[(a)]			
$15 and over	12.8	13.7	16.8
Under $15	5.8	5.8	4.9
Total AOL brand domestic	18.6	19.5	21.7
AOL Europe	5.9	6.0	6.3

(a) AOL includes in its subscriber count individuals, households or entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL service.

The average monthly Subscription revenue per subscriber (ARPU) for each significant category of subscribers, calculated as average monthly subscription revenue (including premium subscription services revenues) for the category divided by the average monthly subscribers in the category for the applicable period, is as follows:

	Three Months Ended 3/31/06	Three Months Ended 3/31/05
Subscriber category:		
AOL brand domestic		
$15 and over	$20.88	$20.52
Under $15	12.78	13.11
Total AOL brand domestic	18.43	18.91
AOL Europe	22.46	23.11

Domestic subscribers to the AOL brand service include subscribers during introductory free-trial periods and subscribers at no or reduced monthly fees through member service and retention programs. Total AOL brand domestic subscribers include free-trial and retention members of approximately 11% at both March 31, 2006 and December 31, 2005 and 14% at March 31, 2005. AOL has recently entered into agreements with certain high-speed Internet access providers to offer the AOL service along with high-speed Internet access. The price plan for the AOL service portion of these offers is less than $15 and, therefore, subscribers to these plans are included in the under $15 category price plans. In addition, late in the first quarter of 2006 and continuing into the second quarter, AOL implemented price increases on certain AOL brand service price plans, including increasing the price of the $23.90 plan to $25.90. The price increases are expected to have an incremental short-term adverse impact on the number of AOL brand subscribers. The price increases and the recent agreements with high-speed Internet access providers are also expected to result in the further migration of subscribers from higher-priced to lower-priced AOL service plans in 2006, resulting in a further decline in Subscription revenues and AOL brand domestic ARPU during the remainder of 2006.

The largest component of the AOL brand domestic $15 and over price plans is the $25.90 price plan, which provides unlimited access to the AOL service using AOL s dial-up network and unlimited usage of the AOL service through any other Internet connection. The largest component of the AOL brand domestic under $15 price plans is the $14.95 per month price plan, which generally includes a limited number of hours of dial-up access and unlimited usage of the AOL service through an Internet connection not provided by AOL, such as a high-speed broadband Internet connection via cable or digital subscriber lines. AOL continues to develop, test, change, market and implement price plans, service offerings and payment methods as well as other strategies to attract and retain members to its AOL service and, therefore, the composition of AOL s subscriber base is expected to change over time.

The decline in AOL brand domestic subscribers on plans priced $15 and over per month resulted from a number of factors, including declining registrations in response to AOL s marketing campaigns, competition from broadband access providers and reduced subscriber acquisition efforts. Further, during the period, subscribers migrated from the premium-priced unlimited dial-up plans, including the $25.90 plan, to lower-priced plans. The decline in AOL brand domestic subscribers overall, and specifically in the $15 and over per month price plans, is expected to continue in the foreseeable future.

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Year-over-year growth in AOL brand domestic subscribers on plans below $15 per month was driven principally by the migration of subscribers from plans $15 and over per month and, to a lesser extent, by new subscribers. AOL expects that the proportion of its subscribers on lower-priced plans will continue to increase. This trend is expected to be accelerated by the impacts of the recent price plan increases and the new agreements with high-speed Internet access providers. The growth in subscribers on plans below $15 per month is expected to come primarily from subscribers who are currently on the $25.90 price plan.

Within the $15 and over per month category, the increase in ARPU over the prior year was primarily due to an increase in the percentage of revenue generating customers, partially offset by a shift in the mix to lower-priced subscriber price plans. Premium subscription services revenues included in ARPU were $20 million for both the three months ended March 31, 2006 and 2005.

Within the under $15 per month category, the decrease in ARPU over the prior year was primarily due to a decrease in revenues generated by members on limited plans who exceeded their free time, partially offset by an increase in the percentage of revenue generating customers. Premium subscription services revenues included in ARPU for the three months ended March 31, 2006 and 2005 were $9 million and $6 million, respectively.

The decline in total AOL brand domestic ARPU was due primarily to the shift in AOL s membership base to lower-priced subscriber plans. AOL brand domestic members on price plans under $15 was 31% of total AOL brand domestic membership as of March 31, 2006 as compared to 22% as of March 31, 2005.

AOL Europe offers a variety of price plans, including bundled broadband, unlimited access to the AOL service using AOL s dial-up network and limited access plans, which are generally billed based on actual usage. AOL Europe continues to actively market bundled broadband plans, as AOL Europe s subscribers have been migrating from dial-up plans to bundled broadband plans, and this trend is expected to continue.

The ARPU for European subscribers decreased primarily due to the negative effect of changes in foreign currency exchange rates. In addition, although bundled broadband subscribers continue to grow as a percentage of total subscribers at AOL Europe, broadband price reductions in France, Germany and the U.K. due to competition have offset the impact of this migration on ARPU.

In addition to the AOL brand service, AOL has subscribers to other lower-priced services, both domestically and internationally, including the Netscape and CompuServe brands. These other brand services are not a significant source of revenues.

Advertising revenues improved due to increased revenues from growth in traditional advertising, paid-search advertising and sales of advertising run on third-party websites generated by Advertising.com. Paid-search revenues and revenues generated by Advertising.com increased $27 million and $16 million, respectively, for the three months ended March 31, 2006 as compared to the three months ended March 31, 2005. AOL expects Advertising revenues to continue to increase during the remainder of 2006 as compared to the similar periods in 2005 due to expected growth in paid-search and traditional online advertising and contributions from Advertising.com s performance-based advertising.

Costs of revenues decreased 4% and, as a percentage of revenues, increased to 48% in 2006 from 46% in 2005. The decrease in cost of revenues related primarily to lower network-related expenses. Network-related expenses decreased 11% to $318 million in 2006 from $359 million in 2005. The decline in network-related expenses was principally attributable to improved pricing and network utilization, decreased levels of long-term fixed commitments and lower usage of AOL s dial-up network associated with the declining dial-up subscriber base. Domestic network expenses are expected to continue to decline in 2006, although at a lower rate than in 2005. However, this decline is expected to be more than offset by increased network expenses at AOL Europe due to the continued migration of AOL Europe dial-up subscribers to bundled broadband plans for which network expenses per subscriber are significantly higher, resulting in lower margins.

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The decrease in selling, general and administrative expenses primarily related to an $18 million benefit related to employee incentive compensation, including the reversal of previously established accruals that are no longer required and lower current year accruals, other cost savings initiatives and a decrease in third-party marketing costs. The three months ended March 31, 2006 also includes an approximate $14 million benefit related to the favorable resolution of certain tax matters.

As previously discussed under Significant Transactions and Other Items Affecting Comparability, the results for the three months ended March 31, 2006 include a $2 million gain from the resolution of a previously contingent gain related to the 2004 sale of NSS and a $1 million restructuring charge, primarily related to changes in estimates of previously established restructuring accruals. The results for the three months ended March 31, 2005 include a $24 million noncash goodwill impairment charge related to AOLA, changes in estimates of previously established restructuring accruals, which include the reversal of $8 million of restructuring charges that were no longer required, partially offset by $3 million of additional restructuring charges and a $2 million gain from the resolution of a previously contingent gain related to the 2004 sale of NSS.

The decreases in Operating Income before Depreciation and Amortization and Operating Income are due primarily to lower Subscription revenues, partially offset by higher Advertising revenues and lower costs of revenues and selling, general and administrative expenses and the absence of the $24 million noncash goodwill impairment charge. Operating Income before Depreciation and Amortization included a $27 million decline at AOL Europe for the first quarter of 2006, as compared to the similar period in 2005, reflecting a decline in revenues and higher costs. Operating Income also improved due to lower depreciation expense reflecting a decline in network assets as the result of membership declines.

In response to the changing dynamics of its business, AOL is undertaking efforts to realign its resources more efficiently and expects to incur restructuring charges ranging from $15 million to $20 million related to a second quarter 2006 restructuring action. The restructuring costs relate to a reduction in headcount, lease termination costs and an impairment of certain long-lived assets. As AOL continues to analyze its resource needs, further restructuring charges may be incurred during 2006.

As noted above, the Company expects a continued decline in AOL s domestic and European subscribers, ARPU and related revenues. As a result of the decline in revenues, which are not expected to be offset by cost decreases, the Company anticipates Operating Income before Depreciation and Amortization and Operating Income will continue to decline during the second quarter of 2006 as compared to the comparable 2005 period.

Cable. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Cable segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	3/31/05 (recast)	% Change
	(restated, millions)		
Revenues:			
Subscription	$ 2,463	$ 2,127	16%
Advertising	117	119	(2%)
Total revenues	2,580	2,246	15%
Costs of revenues[(a)]	(1,170)	(1,001)	17%
Selling, general and administrative[(a)]	(463)	(427)	8%
Merger-related and restructuring costs	(10)	(17)	(41%)
Operating Income before Depreciation and Amortization	937	801	17%

Depreciation	(411)	(376)	9%
Amortization	(20)	(20)	
Operating Income	$ 506	$ 405	25%

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

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The components of Subscription revenues are as follows:

	Three Months Ended		
	3/31/06	**3/31/05** (millions)	**% Change**
Subscription revenues:			
Video services	$ 1,711	$ 1,602	7%
High-speed data	612	493	24%
Digital Phone	140	32	338%
Total Subscription revenues	$ 2,463	$ 2,127	16%

Subscription revenues increased due to the continued penetration of advanced services (primarily high-speed data services, advanced digital video services and Digital Phone) and video rate increases. Strong growth rates for Subscription revenues associated with high-speed data services and Digital Phone are expected to continue.

TWC subscriber counts include all billable subscribers for each level of service received. Basic cable subscribers include all subscribers who receive basic video cable service. Digital video subscribers reflect all subscribers who receive any level of video service received via digital technology. High-speed data subscribers include all subscribers who receive TWC s Road Runner Internet service or any of the other Internet services offered by TWC. Digital Phone subscribers include all subscribers who receive telephony service. At March 31, 2006, as compared to March 31, 2005, basic cable subscribers increased 1.2% (129,000) and totaled 11.039 million (including 1.577 million subscribers of unconsolidated investees, which are managed by TWC), digital video subscribers increased by 15% to 5.642 million (including 789,000 subscribers of unconsolidated investees, which are managed by TWC), residential high-speed data subscribers increased by 25% to 5.168 million (including 731,000 subscribers of unconsolidated investees, which are managed by TWC) and commercial high-speed data subscribers increased by 19% to 216,000 (including 27,000 subscribers of unconsolidated investees, which are managed by TWC). Additionally, Digital Phone subscribers increased by 998,000 to 1.370 million (including 176,000 subscribers of unconsolidated investees, which are managed by TWC).

Costs of revenues increased 17% and, as a percentage of revenues, were 45% for both 2006 and 2005. The increase in costs of revenues is primarily related to increases in video programming costs, telephony service costs and employee costs. For the three months ended March 31, 2006, video programming costs increased 10% to $553 million due primarily to contractual rate increases and the ongoing deployment of new digital video services, partially offset by an $11 million benefit reflecting an adjustment in the amortization of certain launch support payments. Video programming costs for the remainder of 2006 are expected to increase at a rate similar to the 12% rate experienced during the first quarter, excluding the $11 million benefit. This increase reflects the continued expansion of service offerings and contractual rate increases. Telephony service costs increased approximately $47 million due to the growth in Digital Phone subscribers. Employee costs increased primarily due to salary increases and higher headcount resulting from the roll-out of advanced services. These increases in costs of revenues were partially offset by an $18 million benefit (with an additional $5 million benefit recorded in selling, general and administrative expenses) in the first quarter of 2006 due to changes in estimates related to certain medical benefit accruals.

The increase in selling, general and administrative expenses is primarily the result of higher employee and administrative costs due to salary increases and higher headcount resulting from the continued roll-out of advanced services, partially offset by a decrease in equity-based compensation expense. The first quarter of 2005 also included a $9 million reserve related to legal matters.

As previously discussed under Significant Transactions and Other Items Affecting Comparability, during the three months ended March 31, 2006, the Cable segment expensed approximately $4 million of non-capitalizable merger-related costs associated with the Adelphia Acquisition and the Cable Swaps. Such costs are expected to increase between now and the closing date and continue thereafter. Closing of these transactions is expected to occur on or before July 31, 2006. In addition, the results for the three months ended March 31, 2006 include approximately $6 million of restructuring costs, primarily associated with a reduction in headcount associated with efforts to reorganize the Company s operations in a more efficient manner. The results for the three months ended March 31, 2005 included $17 million of restructuring costs, primarily associated with the early retirement of certain senior executives. These charges are part of TWC s broader plans to simplify its organizational structure and enhance its customer focus. TWC is in the process of executing these initiatives and expects to incur additional costs as these plans are implemented throughout 2006.

Operating Income before Depreciation and Amortization increased principally as a result of revenue growth (particularly high margin high-speed data revenues), partially offset by higher costs of revenues and selling, general and administrative expenses as discussed above.

Operating Income increased due primarily to the increase in Operating Income before Depreciation and Amortization described above, partially offset by an increase in depreciation expense. Depreciation expense increased $35 million due primarily to the continued higher spending on customer premise equipment in recent years, which generally has a significantly shorter useful life compared to the mix of assets previously purchased.

Filmed Entertainment. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Filmed Entertainment segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	3/31/05 (recast)	% Change
		(millions)	
Revenues:			
Advertising	$	$ 3	NM
Content	2,709	2,951	(8%)
Other	70	60	17%
Total revenues	2,779	3,014	(8%)
Costs of revenues[(a)]	(1,944)	(2,227)	(13%)
Selling, general and administrative[(a)]	(376)	(404)	(7%)
Restructuring costs	(2)		NM
Operating Income before Depreciation and Amortization	457	383	19%
Depreciation	(34)	(30)	13%
Amortization	(55)	(52)	6%
Operating Income	$ 368	$ 301	22%

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

Content revenues decreased during the three months ended March 31, 2006 as a result of declines from both content made available for initial airing in theaters (theatrical product) and content made available for initial airing on television (television product). The components of Content revenues are as follows:

	Three Months Ended		
	3/31/06	3/31/05	% Change
		(millions)	
Theatrical product:			
Theatrical film	$ 361	$ 465	(22%)
Television licensing	332	433	(23%)
Home video	966	957	1%
Total theatrical product	1,659	1,855	(11%)
Television product:			
Television licensing	755	747	1%
Home video	178	244	(27%)
Total television product	933	991	(6%)
Consumer product and other	117	105	11%
Total Content revenues	$ 2,709	$ 2,951	(8%)

The decline in theatrical film revenues was due primarily to difficult comparisons to the first quarter of 2005, which included the release of *Constantine* and carryover from *Ocean s Twelve* and *Million Dollar Baby,* compared to the carryover success from *Harry Potter and the Goblet of Fire* and the releases of *V For Vendetta* and *Final*

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Destination 3 in the first quarter of 2006. The decrease in theatrical product revenues from television licensing primarily related to the timing and quantity of various international availabilities, including a greater number of significant titles in 2005. Home video sales of theatrical product were essentially flat reflecting the worldwide release of *Harry Potter and the Goblet of Fire* and the domestic release of *Wedding Crashers* in the first quarter of 2006, partially offset by the international success of *Harry Potter and the Prisoner of Azkaban* and the domestic release of *Troy* in the first quarter of 2005.

The decline in home video sales of television product reflects difficult comparisons to the prior year, which included revenue from the releases of *Friends: The Complete Ninth Season* and *Seinfeld Seasons 1-3* and higher catalog revenue.

The decrease in costs of revenues resulted primarily from lower film costs ($1.132 billion in 2006 compared to $1.373 billion in 2005) and lower advertising and print costs resulting from the quantity and mix of films released. Included in film costs are theatrical valuation adjustments, which increased to $69 million in 2006 from $38 million in 2005. Costs of revenues as a percentage of revenues decreased to 70% in 2006 from 74% in 2005, due to the quantity and mix of product released.

Selling, general and administrative expenses decreased primarily due to lower distribution fees and the impact of cost saving initiatives.

As previously discussed in Significant Transactions and Other Items Affecting Comparability, the results for the three months ended March 31, 2006 include $2 million of restructuring charges as a result of changes in estimates of previously established restructuring accruals.

Operating Income before Depreciation and Amortization and Operating Income increased as a result of lower costs of revenues and selling, general and administrative expenses, partially offset by the decline in revenues as discussed above. Operating Income before Depreciation and Amortization and Operating Income also included a benefit of $42 million from the sale of certain international film rights in the first quarter of 2006.

The Company anticipates that the rate of growth in Operating Income before Depreciation and Amortization experienced in the first quarter of 2006 will not continue during the remainder of 2006. The first quarter of 2006 benefited from the sale of certain international film rights, as discussed above, and higher contributions from the consumer products business.

Networks. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Networks segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	3/31/05 (recast)	% Change
		(millions)	
Revenues:			
Subscription	$ 1,442	$ 1,334	8%
Advertising	702	681	3%
Content	195	253	(23%)
Other	12	7	71%
Total revenues	2,351	2,275	3%
Costs of revenues[(a)]	(1,057)	(1,055)	
Selling, general and administrative[(a)]	(437)	(426)	3%
Operating Income before Depreciation and Amortization	857	794	8%
Depreciation	(66)	(55)	20%

Amortization	(3)	(4)	(25%)
Operating Income	$ 788	$ 735	7%

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

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The increase in Subscription revenues was due primarily to higher subscription rates and, to a lesser extent, an increase in the number of subscribers at Turner and HBO.

The increase in Advertising revenues was driven primarily by higher CPMs (advertising cost per thousand viewers) and sellouts at Turner s domestic entertainment networks, partially offset by a decline at The WB Network as a result of lower ratings.

The decrease in Content revenues was primarily due to the absence of HBO s licensing revenues from *Everybody Loves Raymond*, which ended its broadcast network run in 2005, and, to a lesser extent, a decline in ancillary sales of HBO s original programming.

Costs of revenues increased slightly; however, as a percentage of revenues, it decreased from 46% in 2005 to 45% in 2006. The slight increase in costs of revenues was primarily attributable to an increase in programming costs, offset by lower distribution costs resulting from the decline in Content revenues and lower equity-based compensation expense. Programming costs increased to $754 million in 2006 from $717 million in 2005. The increase in programming expenses is primarily due to increased amortization related to fewer expected airings of certain shows due to the anticipated shutdown of The WB Network, higher acquired theatrical costs at HBO and an increase in sports programming costs, particularly NBA related, at Turner.

The increase in selling, general and administrative expenses reflects higher marketing and promotional expenses.

Operating Income before Depreciation and Amortization and Operating Income increased during 2006 primarily due to an increase in revenues, partially offset by higher selling, general and administrative expenses, as described above.

On January 24, 2006, Warner Bros. and CBS announced an agreement to form a new fully-distributed national broadcast network, to be called The CW. At the same time, Warner Bros. and CBS are preparing to cease the standalone operations of The WB Network and UPN, respectively, at the end of the 2005/2006 television season (September 2006).

Upon the closing of this transaction, the Company will account for its investment in The CW under the equity method of accounting. The Company anticipates that prior to the closing of this transaction it will incur restructuring charges ranging from $25 million to $30 million related to employee terminations and contractual settlements. In addition, The WB Network may incur up to $100 million in terminating certain programming arrangements (primarily licensed movie rights), most of which are not expected to be contributed to the new network and may not be sold or utilized in another manner. Included in these costs are approximately $70 million associated with intercompany programming arrangements with Warner Bros. and New Line. Any costs incurred by The WB Network on such intercompany programming would be largely offset by amounts recognized by Warner Bros. and New Line, with the impact of all intercompany transactions being eliminated in consolidation. Excluding the impact of these intercompany transactions, the anticipated exit costs to the Company of programming arrangements and employee and other contractual arrangements range from approximately $55 million to $60 million.

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Publishing. Revenues, Operating Income before Depreciation and Amortization and Operating Income of the Publishing segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	3/31/05 (recast) (millions)	% Change
Revenues:			
Subscription	$ 372	$ 381	(2%)
Advertising	583	571	2%
Content	20	20	
Other	151	157	(4%)
Total revenues	1,126	1,129	
Costs of revenues [(a)]	(474)	(487)	(3%)
Selling, general and administrative [(a)]	(524)	(510)	3%
Gain on sale of assets		8	NM
Restructuring costs	(12)		NM
Operating Income before Depreciation and Amortization	116	140	(17%)
Depreciation	(30)	(33)	(9%)
Amortization	(15)	(25)	(40%)
Operating Income	$ 71	$ 82	(13%)

(a) Costs of revenues and selling, general and administrative expenses exclude depreciation.

The decline in Subscription revenues primarily resulted from unfavorable effects of foreign currency exchange rates at IPC.

Advertising revenues increased slightly due primarily to growth in online Advertising revenues. Magazine Advertising revenues remained essentially flat as contributions from the acquisitions of Essence Communication Partners (Essence) and Grupo Editorial Expansión (GEE) and contributions from recent magazine launches were offset by lower Advertising revenues at IPC and certain magazines, including *People*, *Parenting* and *Time*.

Other revenues decreased primarily due to declines at Southern Living At Home, partially offset by growth at Synapse, a subscription marketing business.

Costs of revenues decreased 3% and, as a percentage of revenues, were 42% and 43% in 2006 and 2005, respectively. Costs of revenues for the magazine publishing business include manufacturing (paper, printing and distribution) and editorial-related costs, which together decreased 1% to $422 million primarily due to print cost savings.

Selling, general and administrative expenses increased 3% primarily due to an increase in advertising and marketing costs, primarily related to the inclusion of Essence and GEE.

As previously discussed in Significant Transactions and Other Items Affecting Comparability, the results for the three months ended March 31, 2006 include $12 million of restructuring costs, primarily associated with continuing efforts to streamline operations. In April 2006, Time Inc. further reduced headcount, which will result in additional restructuring charges ranging from $18 million to $22 million. The results for the three months ended March 31, 2005 reflect an $8 million gain related to the collection of a loan made in conjunction with the Company s 2003 sale of Time Life, which was previously fully reserved due to concerns about recoverability.

Operating Income before Depreciation and Amortization decreased primarily due to an increase in selling, general and administrative expenses, $12 million of restructuring charges in 2006 and the absence of the prior year gain related to the collection of a loan, partially offset by lower costs of revenues. Also included in Operating Income before Depreciation and Amortization are $8 million of lower start-up losses on magazine launches.

Operating Income decreased primarily due to the changes in Operating Income before Depreciation and Amortization discussed above, partially offset by the decline in amortization expense as a result of certain short-

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lived intangibles, such as customer lists, becoming fully amortized in the latter part of 2005. This increase was partially offset by amortization from certain indefinite-lived trade name intangibles being assigned a finite life beginning in the first quarter of 2006.

As discussed in more detail in Recent Developments, on March 31, 2006, the Company sold TWBG to Hachette for $532 million in cash resulting in a pretax gain of approximately $206 million, after taking into account selling costs and estimated working capital adjustments. As a result of the sale, TWBG has been reflected as discontinued operations for all periods presented.

Corporate. Operating Loss before Depreciation and Amortization and Operating Loss of the Corporate segment for the three months ended March 31, 2006 and 2005 are as follows:

	Three Months Ended		
	3/31/06	**3/31/05 (recast)**	**% Change**
	(millions)		
Amounts related to securities litigation and government investigations	$ (29)	$ (6)	NM
Selling, general and administrative [(a)]	(112)	(113)	(1%)
Gain on sale of assets	20		NM
Restructuring costs	(5)		NM
Operating Loss before Depreciation and Amortization	(126)	(119)	6%
Depreciation	(13)	(9)	44%
Operating Loss	$ (139)	$ (128)	9%

[(a)] Selling, general and administrative expenses exclude depreciation.

As previously discussed, the Company recognized legal and other professional fees related to the SEC and DOJ investigations into certain of the Company s historical accounting and disclosure practices and the defense of various shareholder lawsuits, as well as legal reserves, totaling $79 million and $12 million, respectively. In addition, for the three months ended March 31, 2006 and 2005, the Company recognized insurance recoveries of $50 million and $6 million, respectively. Legal and other professional fees are expected to continue to be incurred in future periods (Note 1).

As previously discussed under Significant Transactions and Other Items Affecting Comparability, the three months ended March 31, 2006 results include approximately $5 million of restructuring costs and a gain of approximately $20 million on the sale of two aircraft.

Excluding the items discussed above, Operating Loss before Depreciation and Amortization and Operating Loss remained essentially flat for the three months ended March 31, 2006, due primarily to higher professional fees and financial advisory services costs, offset by lower transactional costs.

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FINANCIAL CONDITION AND LIQUIDITY

Current Financial Condition

At March 31, 2006, Time Warner had $20.115 billion of debt, $2.295 billion of cash and equivalents (net debt of $17.820 billion, defined as total debt less cash and equivalents) and $62.463 billion of shareholders equity, compared to $20.330 billion of debt, $4.220 billion of cash and equivalents (net debt of $16.110 billion) and $65.105 billion of shareholders equity at December 31, 2005.

The following table shows the significant items contributing to the increase in net debt from December 31, 2005 to March 31, 2006 (millions):

Net debt at December 31, 2005	$ 16,110
Cash provided by operations	(2,330)
Capital expenditures and product development costs	781
Dividends paid to common shareholders [a]	225
Common stock repurchases	3,936
Proceeds from the sale of Time Warner Book Group	(532)
Proceeds from the sale of Time Warner Telecom	(239)
All other, net	(131)
Net debt at March 31, 2006 [b]	$ 17,820

[a] The Company began paying a quarterly cash dividend of $0.05 per share on its common stock in the third quarter 2005.

[b] Included in the net debt balance is approximately $248 million that represents the net unamortized fair value adjustment recognized as a result of the merger of AOL and Historic TW.

As noted in Overview Recent Developments, Time Warner s Board of Directors has authorized a common stock repurchase program that allows the Company to purchase up to an aggregate of $20 billion of common stock during the period from July 29, 2005 through December 31, 2007. Purchases under the stock repurchase program may be made from time to time on the open market and in privately negotiated transactions. Size and timing of these purchases will be based on a number of factors, including price and business and market conditions. As announced on February 1, 2006, the Company increased the pace of stock repurchases during the first quarter of 2006. At existing price levels, the Company intends to continue the current pace of purchases under its stock repurchase program within its stated objective of maintaining a net debt-to-Operating Income before Depreciation and Amortization ratio, as defined, of approximately 3-to-1, and expects it will have purchased approximately $15 billion of its common stock under the program by the end of 2006, and the remainder in 2007. From the program s inception through May 2, 2006, the Company repurchased approximately 460 million shares of common stock for approximately $8.0 billion pursuant to trading programs under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

In connection with the Company s stock repurchase program, the Company plans to enter into prepaid stock repurchase contracts with a number of counterparties that would provide for repurchases effected over the next three months, or longer, depending on the share price of the Company s common stock. As currently contemplated, the Company would make an aggregate payment of approximately $3.6 billion upon entry into such contracts and would receive shares of the Company s common stock at the end of each repurchase contract term at prices based upon a formula that is expected to deliver an effective, average repurchase price per share below the volume weighted average price of the common stock over the term of the relevant contract. The majority of the expected $3.6 billion prepayment amount will be funded through borrowings under the Company s revolving credit facility and/or commercial paper programs.

In April 2005, a subsidiary of the Company entered into agreements to jointly acquire substantially all of the assets of Adelphia with Comcast for a combination of cash and stock of TWC. TWC also has agreed to redeem Comcast s interests in TWC and TWE following the Adelphia Acquisition. Upon closing, these transactions will impact the Company s financial condition and liquidity. For additional details, see Overview Recent Developments.

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As noted in Overview Recent Developments, in December 2005, the Company announced that AOL was expanding its current strategic alliance with Google and that Google would invest $1 billion for a 5% equity interest in AOL. On March 24, 2006, the Company and Google signed definitive agreements governing the investment and the commercial arrangements and on April 13, 2006, the Company received Google s $1 billion investment in AOL and will recognize a gain of approximately $800 million, which will be reflected in shareholders equity as an adjustment to paid-in-capital in the second quarter of 2006.

As noted in Overview Recent Developments, on February 23, 2006, the Company announced an agreement to sell Turner South to Fox for approximately $375 million in cash. This transaction closed on May 1, 2006. The Company expects to record a pretax gain ranging from approximately $120 million to $140 million (after taking into account selling costs) in the second quarter of 2006.

In April 2006, the Company purchased the remaining interest in Synapse Group Inc. for $140 million.

As discussed in more detail below, management believes that cash generated by or available to Time Warner should be sufficient to fund its capital and liquidity needs for the foreseeable future, including the quarterly dividend payments, the common stock repurchase program and the Adelphia Acquisition and the redemption of Comcast s interests in TWC and TWE. Time Warner s sources of cash include cash provided by operations, cash and equivalents, available borrowing capacity under its committed credit facilities ($6.917 billion at Time Warner Inc. and $12.963 billion at TWC as of March 31, 2006, including $10.0 billion at TWC which becomes available at the time of the Adelphia Acquisition), availability under its commercial paper programs, the $1 billion investment in AOL by Google, proceeds from a new $500 million term loan at AOL and proceeds from the sale of Turner South. The Company may use a portion of its available borrowing capacity to refinance approximately $1.5 billion of debt maturing in 2006.

With the anticipated Adelphia Acquisition and the accelerated pace of the common stock repurchase program, the Company s outstanding debt is expected to increase. Accordingly, cash paid for interest is expected to negatively impact cash provided by operations.

Cash Flows

Cash and equivalents decreased by $1.925 billion and increased by $873 million for the three months ended March 31, 2006 and 2005, respectively. The decrease in cash and equivalents is primarily due to repurchases of common stock totaling $3.936 billion made in connection with the Company s common stock repurchase program in the first quarter of 2006. Components of these changes are discussed in more detail in the pages that follow.

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Operating Activities

Details of cash provided by operations are as follows:

	Three Months Ended	
	3/31/06	**3/31/05 (recast)**
	(restated, millions)	
Operating Income before Depreciation and Amortization	$ 2,693	$ 2,485
Legal reserves related to securities litigation and government investigations, net of payments and recoveries [(a)]	5	(300)
Noncash asset impairments		24
Net interest payments [(b)]	(260)	(268)
Net income taxes paid [(c)]	(60)	(69)
Equity-based compensation	108	134
Adjustments relating to discontinued operations [(d)]	6	21
Merger and restructuring payments [(e)]	(44)	(62)
All other, net, including working capital changes	(118)	(133)
Cash provided by operations	$ 2,330	$ 1,832

(a) 2006 includes approximately $210 million paid for securities litigation, partially offset by approximately $215 million of insurance recoveries. 2005 includes payment of the $300 million SEC settlement.

(b) Includes interest income received of $45 million in both 2006 and 2005.

(c) Includes income tax refunds

received of $16 million and $13 million in 2006 and 2005, respectively.

(d) Includes net income from discontinued operations of $232 million and $7 million in 2006 and 2005, respectively. Amounts also include working capital-related adjustments associated with discontinued operations of $(226) million and $14 million in 2006 and 2005, respectively.

(e) Includes payments for restructuring and merger-related costs, as well as payments for certain other merger-related liabilities.

Cash provided by operations increased to $2.330 billion in 2006 compared to $1.832 billion in 2005. The increase in cash provided by operations is related primarily to a reduction in payments made in settling securities litigation and the government investigations and an increase in Operating Income before Depreciation and Amortization.

Investing Activities

Details of cash used by investing activities are as follows:

	Three Months Ended	
	3/31/06	**3/31/05**
	(millions)	
Investments and acquisitions, net of cash acquired:		
Essence	$	$ (127)
All other, principally funding of joint ventures	(126)	(97)
Capital expenditures and product development costs from continuing operations	(781)	(650)

Capital expenditures and product development costs from discontinued operations		(1)
Proceeds from the sale of other available-for-sale securities	4	13
Proceeds from the sale of Time Warner Book Group	532	
Proceeds from the sale of a portion of the Company s interest in Time Warner Telecom	239	
All other investment and asset sale proceeds	36	73
Cash used by investing activities	$ (96)	$ (789)

Cash used by investing activities decreased to $96 million in 2006 compared to $789 million in 2005. The decrease in cash used by investing activities is primarily due to proceeds from the sales of TWBG and of a portion of the Company s interest in TWT, partially offset by an increase in capital expenditures and product development costs, principally at the Company s Cable segment.

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TIME WARNER INC.
MANAGEMENT S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Financing Activities

Details of cash used by financing activities are as follows:

	Three Months Ended 3/31/06	3/31/05 (recast)
	(millions)	
Borrowings	$ 1	$
Debt repayments	(226)	(247)
Proceeds from exercise of stock options	242	99
Excess tax benefit on stock options	32	22
Principal payments on capital leases	(23)	(37)
Repurchases of common stock	(3,936)	
Dividends paid	(225)	
Other financing activities	(24)	(7)
Cash used by financing activities	$ (4,159)	$ (170)

Cash used by financing activities increased to $4.159 billion in 2006 compared to $170 million in 2005. The increase in cash used by financing activities is due principally to repurchases of common stock made in connection with the Company s common stock repurchase program and dividends paid to common stock shareholders in 2006.

AOL Term Loan

On April 13, 2006, TW AOL Holdings Inc., a wholly owned subsidiary of Time Warner, entered into a $500 million term loan with a maturity date of April 13, 2009 (the AOL Facility). Simultaneous with the Google investment of $1 billion for a 5% equity interest in AOL Holdings LLC, a subsidiary of TW AOL Holdings Inc. and the parent of AOL, the liability under the AOL Facility was assigned to AOL Holdings LLC. Immediately following, the AOL Facility was assigned from AOL Holdings LLC to AOL. The AOL Facility is not guaranteed by Time Warner. Borrowings under the AOL Facility bear interest at a rate based on the credit rating of Time Warner, which rate is currently LIBOR plus 0.45% per annum. The AOL Facility includes a maximum leverage ratio covenant restricting consolidated total debt of AOL to 4.5 times the consolidated EBITDA (as defined in the credit agreement) of AOL (excluding AOL guarantees of Time Warner s and its other subsidiaries debt obligations). The AOL Facility does not contain any credit ratings-based defaults or covenants or any ongoing covenant or representation specifically relating to a material adverse change in Time Warner s or AOL s financial condition or results of operations. The proceeds of the AOL Facility were used to pay off $500 million of the $1 billion 6.125% Time Warner notes due April 15, 2006.

Capital Expenditures and Product Development Costs

Time Warner s total capital expenditures and product development costs from continuing operations were $781 million for the three months ended March 31, 2006 compared to $650 million for the three months ended March 31, 2005. The majority of capital expenditures and product development costs relate to the Company s Cable segment, which had capital expenditures of $497 million for the three months ended March 31, 2006 as compared to $387 million for the three months ended March 31, 2005.

TIME WARNER INC.
MANAGEMENT S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

The Cable segment s capital expenditures include the following major components:

	Three Months Ended 3/31/06	Three Months Ended 3/31/05
	(millions)	
Cable Segment Capital Expenditures		
Customer premise equipment	$ 282	$ 198
Scalable infrastructure	54	45
Line extensions	58	63
Upgrades/rebuilds	23	30
Support capital	80	51
Total capital expenditures	$ 497	$ 387

TWC incurs expenditures associated with the construction and maintenance of its cable systems. Costs associated with the construction of the cable transmission and distribution facilities and new cable service installations are capitalized. TWC generally capitalizes expenditures for tangible fixed assets having a useful life of greater than one year. Capitalized costs include direct material, direct labor, overhead and, in some cases, interest. Sales and marketing costs, as well as the costs of repairing or maintaining existing fixed assets, are expensed as incurred. Types of capitalized expenditures include customer premise equipment, scalable infrastructure, line extensions, plant upgrades and rebuilds and support capital. With respect to customer premise equipment, which includes converters and cable modems, TWC capitalizes installation charges only upon the initial deployment of these assets. All costs incurred in subsequent disconnects and reconnects are expensed as incurred. Depreciation on these assets is provided generally using the straight-line method over their estimated useful lives. For converters and modems, the useful life is generally 3 to 4 years, and, for plant upgrades, the useful life is up to 16 years.

The increase in capital expenditures in 2006 is primarily associated with the continued roll-out of TWC s advanced digital services, including Digital Phone.

Backlog

Backlog represents the amount of future revenue not yet recorded from cash contracts for the licensing of theatrical and television product for pay cable, basic cable, network and syndicated television exhibition. Backlog was approximately $4.2 billion and $4.5 billion at March 31, 2006 and December 31, 2005, respectively. Included in these amounts is licensing of film product from the Filmed Entertainment segment to the Networks segment of $788 million and $774 million at March 31, 2006 and December 31, 2005, respectively.

Selected Investment Information

Cable Joint Ventures

On May 1, 2004, the Company completed the restructuring of two joint ventures that it manages, Kansas City Cable Partners (KCCP), previously a 50-50 joint venture between Comcast and TWE serving approximately 299,000 basic video subscribers as of March 31, 2006, and Texas Cable Partners, L.P. (TCP), previously a 50-50 joint venture between Comcast and the TWE-Advance/Newhouse Partnership (TWE-A/N) serving approximately 1.278 million basic video subscribers as of March 31, 2006. Prior to the restructuring, the Company accounted for its investment in these joint ventures using the equity method. Under the restructuring, KCCP was merged into TCP, which was renamed Texas and Kansas City Cable Partners, L.P. (TKCCP) Following the restructuring, the combined partnership was owned 50% by Comcast and 50% collectively by TWE and TWE-A/N. In February 2005, TWE s interest in the combined partnership was contributed to TWE-A/N in exchange for preferred equity in TWE-A/N. Since the net assets of the combined partnership were owned 50% by TWC and 50% by Comcast both before and after the restructuring and there were no changes in the rights or economic interests of either party, the Company viewed the transaction as a non-substantive reorganization to be accounted for at book value, similar to the transfer of assets under common control. TWC continues to account for its investment in the restructured joint venture using the equity method. Beginning on June 1, 2006, either TWC or Comcast can trigger a dissolution of the partnership. If a dissolution is triggered, the non-triggering party has the right to choose and take full ownership of one of two pools of the combined partnership s systems one pool consisting of the Houston systems and the other consisting of the Kansas City, southwest Texas and New Mexico systems with an arrangement to distribute the

TIME WARNER INC.
MANAGEMENT S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

partnership s debt between the two pools. The party triggering the dissolution would own the remaining pool of systems and any debt associated with that pool.

In conjunction with the Adelphia Acquisition, TWC and Comcast agreed that if the Adelphia Acquisition and Cable Swaps occur and if Comcast receives the pool of assets consisting of the Kansas City, southwest Texas and New Mexico systems upon distribution of the TKCCP assets as described above, Comcast will have an option, exercisable for 180 days commencing one year after the date of such distribution, to require TWC or a subsidiary to transfer to Comcast, in exchange for the southwest Texas and New Mexico systems, certain cable systems held by TWE and its subsidiaries.

Court TV Joint Venture

The Company and Liberty Media (Liberty) each have a 50% interest in Courtroom Television Network (Court TV). Beginning January 2006, Liberty may give written notice to Time Warner requiring Time Warner to purchase all of Liberty s interest in Court TV (the Liberty Put). In addition, as of the same date, Time Warner may, by notice to Liberty, require Liberty to sell all of its interest in Court TV to Time Warner (the Time Warner Call). The price to be paid upon exercise of either the Liberty Put or the Time Warner Call will be an amount equal to one-half of the fair market value of Court TV, determined by an appraisal. The consideration is required to be paid in cash if the Liberty Put is exercised. If the Time Warner Call is exercised, the consideration is also payable in cash only if Liberty determines that the transaction cannot be structured as a tax efficient transaction, or if Time Warner determines that a tax efficient transaction may either violate applicable law or cause a breach or default under any other agreement affecting Time Warner. As of the date of this filing, Liberty has not given notice to Time Warner nor has Time Warner given notice to Liberty.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, Operating Income before Depreciation and Amortization and cash from operations. Words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management s current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect the operations, business or financial results of Time Warner or its business segments in the future and cause Time Warner s actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in Item 1A, Risk Factors, in the 2005 Form 10-K, which should be read in conjunction with this report (as updated by Item 1A, Risk Factors, in Part II of the March 2006 Form 10-Q), and in Time Warner s other filings made from time to time with the SEC after the date of this report. In addition, Time Warner operates in highly competitive, consumer and technology-driven and rapidly changing media, entertainment, interactive services and cable businesses. These businesses are affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. Time Warner s actual results could differ materially from management s expectations because of changes in such factors.

Further, for Time Warner generally, lower than expected valuations associated with the cash flows and revenues at Time Warner s segments may result in Time Warner s inability to realize the value of recorded intangibles and goodwill at those segments. In addition, achieving the Company s financial objectives, including growth in operations, maintaining financial ratios and a strong balance sheet, could be adversely affected by the factors discussed in detail in Item 1A, Risk Factors, in the 2005 Form 10-K, as well as:

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TIME WARNER INC.
MANAGEMENT S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

decreased liquidity in the capital markets, including any reduction in the ability to access either the capital markets for debt securities or bank financings;

the failure to meet earnings expectations;

significant acquisitions such as the Adelphia Acquisition or other transactions such as the proposed redemption of Comcast s interests in TWC and TWE;

economic slowdowns;

the impact of terrorist acts and hostilities; and

changes in the Company s plans, strategies and intentions.

For Time Warner s AOL business, actual results could differ materially from management s expectations due to the factors discussed in detail in Item 1A, Risk Factors, in the 2005 Form 10-K, as updated by Item 1A, Risk Factors, in Part II of the March 2006 Form 10-Q, as well as:

the ability to provide adequate server, network and system capacity;

the risk of unanticipated increased costs for network services;

the ability to maintain or enter into new content, electronic commerce or marketing arrangements and the risk that the cost of such arrangements may increase; and

the risks from changes in U.S. and international regulatory environments affecting interactive services.

For Time Warner s cable business, actual results could differ materially from management s expectations due to the factors discussed in detail in Item 1A, Risk Factors, in the 2005 Form 10-K, as well as:

increases in government regulation of video services, including regulation that limits cable operators ability to raise rates or that dictates set-top box or other equipment features, functionalities or specifications;

increased difficulty in obtaining franchise renewals;

unanticipated funding obligations relating to its cable joint ventures;

a future decision by the FCC or Congress to require cable operators to contribute to the federal Universal Service Fund based on the provision of cable modem service, which could raise the price of cable modem service and impair TWC s competitive position; and

the award of franchises or similar grants of rights through state or federal legislation that would allow competitors of cable providers to offer video service on terms substantially more favorable than those afforded existing cable operators (e.g., without the need to obtain local franchise approval or to comply with local franchising regulations as cable operators currently must).

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TIME WARNER INC.
CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 31, 2006	December 31, 2005 (recast)
	(restated, millions, except per share amounts)	
ASSETS		
Current assets		
Cash and equivalents	$ 2,295	$ 4,220
Receivables, less allowances of $2.044 and $2.061 billion	5,413	6,546
Inventories	2,134	2,041
Prepaid expenses and other current assets	980	892
Current assets of discontinued operations		351
Total current assets	10,822	14,050
Noncurrent inventories and film costs	4,630	4,597
Investments, including available-for-sale securities	3,550	3,493
Property, plant and equipment, net	13,927	13,647
Intangible assets subject to amortization, net	4,658	3,492
Intangible assets not subject to amortization	38,425	39,685
Goodwill	40,423	40,276
Other assets	3,077	3,121
Noncurrent assets of discontinued operations	232	383
Total assets	$ 119,744	$ 122,744
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,127	$ 1,207
Participations payable	2,443	2,401
Royalties and programming costs payable	945	966
Deferred revenue	1,658	1,473
Debt due within one year	84	92
Other current liabilities	5,334	6,159
Current liabilities of discontinued operations	66	230
Total current liabilities	11,657	12,528
Long-term debt	20,031	20,238
Deferred income taxes	13,741	12,984
Deferred revenue	636	681
Other liabilities	5,430	5,464
Noncurrent liabilities of discontinued operations	7	15
Minority interests	5,779	5,729
Commitments and contingencies (Note 13)		

Shareholders equity		
Series LMCN-V common stock, $0.01 par value, 92.6 and 87.2 million shares issued and outstanding	1	1
Time Warner common stock, $0.01 par value, 4.721 and 4.706 billion shares issued and 4.280 and 4.498 shares outstanding	47	47
Paid-in-capital	168,786	168,635
Treasury stock, at cost (441.3 and 208.0 million shares)	(9,540)	(5,463)
Accumulated other comprehensive loss, net	(18)	(64)
Accumulated deficit	(96,813)	(98,051)
Total shareholders equity	62,463	65,105
Total liabilities and shareholders equity	$ 119,744	$ 122,744

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended March 31,
(Unaudited)

	2006	2005 (recast)
	(restated, millions, except per share amounts)	
Revenues:		
Subscription	$ 5,667	$ 5,485
Advertising	1,761	1,645
Content	2,756	2,976
Other	271	257
Total revenues[(a)]	10,455	10,363
Costs of revenues[(a)]	(5,806)	(5,907)
Selling, general and administrative[(a)]	(2,600)	(2,587)
Amortization of intangible assets	(133)	(148)
Amounts related to securities litigation and government investigations	(29)	(6)
Merger-related and restructuring costs	(30)	(12)
Asset impairments		(24)
Gains on disposal of assets, net	22	10
Operating income	1,879	1,689
Interest expense, net[(a)]	(299)	(346)
Other income, net	318	112
Minority interest expense, net	(79)	(55)
Income before income taxes, discontinued operations and cumulative effect of accounting change	1,819	1,400
Income tax provision	(613)	(488)
Income before discontinued operations and cumulative effect of accounting change	1,206	912
Discontinued operations, net of tax	232	7
Income before cumulative effect of accounting change	1,438	919
Cumulative effect of accounting change, net of tax	25	
Net income	$ 1,463	$ 919
Basic income per common share before discontinued operations and cumulative effect of accounting change	$ 0.27	$ 0.20
Discontinued operations	0.05	
Cumulative effect of accounting change	0.01	

Basic net income per common share	$	0.33	$	0.20
Average basic common shares		4,499.5		4,587.8
Diluted income per common share before discontinued operations and cumulative effect of accounting change	$	0.27	$	0.19
Discontinued operations		0.05		
Cumulative effect of accounting change				
Diluted net income per common share	$	0.32	$	0.19
Average diluted common shares		4,542.9		4,722.3
Cash dividends declared per share of common stock	$	0.05	$	

(a) Includes the following income (expenses) resulting from transactions with related companies:

Revenues	$	84	$	68
Costs of revenues		(54)		(48)
Selling, general and administrative		9		8
Interest income, net		11		7

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Three Months Ended March 31,
(Unaudited)

	2006	2005 (recast)
	(restated, millions)	
OPERATIONS		
Net income[a]	$ 1,463	$ 919
Adjustments for noncash and nonoperating items:		
Cumulative effect of accounting change, net of tax	(25)	
Depreciation and amortization	814	796
Amortization of film costs	822	911
Asset impairments		24
Gain on investments and other assets, net	(309)	(32)
Equity in income of investee companies, net of cash distributions	(12)	(7)
Equity-based compensation	108	134
Amounts related to securities litigation and government investigations	5	(300)
Changes in operating assets and liabilities, net of acquisitions	(310)	(627)
Adjustments relating to discontinued operations	(226)	14
Cash provided by operations[b]	2,330	1,832
INVESTING ACTIVITIES		
Investments and acquisitions, net of cash acquired	(126)	(224)
Capital expenditures and product development costs	(781)	(650)
Capital expenditures from discontinued operations		(1)
Investment proceeds from available-for-sale securities	4	13
Other investment proceeds	807	73
Cash used by investing activities	(96)	(789)
FINANCING ACTIVITIES		
Borrowings	1	
Debt repayments	(226)	(247)
Proceeds from exercise of stock options	242	99
Excess tax benefit on stock options	32	22
Principal payments on capital leases	(23)	(37)
Repurchases of common stock	(3,936)	
Dividends paid	(225)	
Other	(24)	(7)
Cash used by financing activities	(4,159)	(170)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,925)	873
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	4,220	6,139
CASH AND EQUIVALENTS AT END OF PERIOD	$ 2,295	$ 7,012

(a) The first quarters of 2006 and 2005 include net income from discontinued operations of $232 million and $7 million, respectively.

(b) The first quarters of 2006 and 2005 include an approximate $181 million source of cash and $36 million use of cash, respectively, related to changing the fiscal year end of certain international operations from November 30 to December 31.

See accompanying notes.

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TIME WARNER INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
Three Months Ended March 31,
(Unaudited)

	2006	2005 (recast)
	(restated, millions)	
BALANCE AT BEGINNING OF PERIOD	$ 65,105	$ 63,297
Net income	1,463	919
Other comprehensive income (loss)	47	(17)
Comprehensive income	1,510	902
Conversion of mandatorily convertible preferred stock		1,500
Cash dividends ($0.05 per common share)	(225)	
Common stock repurchases	(4,073)	
Other[a]	146	129
BALANCE AT END OF PERIOD	$ 62,463	$ 65,828

(a) The first quarter of 2006 includes approximately $164 million pursuant to stock option and other benefit plans and an approximate $17 million net loss related to changing the fiscal year end of international operations from November 30 to December 31 (net of the related income tax benefit of approximately $7 million). The first quarter of 2005 includes approximately $152 million pursuant to stock option and other benefit plans and an approximate $23 million net loss related to changing the fiscal year end of certain international operations from November 30 to December 31 (net of the related income tax benefit of approximately $9 million).

See accompanying notes.

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TIME WARNER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. RESTATEMENT OF PRIOR FINANCIAL INFORMATION, DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Restatement of Prior Financial Information

As previously disclosed by Time Warner Inc. (Time Warner or the Company), the Securities and Exchange Commission (SEC) had been conducting an investigation into certain accounting and disclosure practices of the Company. On March 21, 2005, the Company announced that the SEC had approved the Company s proposed settlement, which resolved the SEC s investigation of the Company. Under the terms of the settlement with the SEC, the Company agreed, without admitting or denying the SEC s allegations, to be enjoined from future violations of certain provisions of the securities laws and to comply with the cease-and-desist order issued by the SEC to AOL LLC (formerly America Online, Inc., AOL), a subsidiary of the Company, in May 2000. The Company also agreed
font-weight: bold; padding-bottom: 1pt"> % of Net
Revenues (In thousands of U.S. dollars, except
percentages) Revenues: Products US$248 12.9% US$618 14.6% US$790 12.8%Services 1,674 87.2 3,62
revenues 1,922 100.1 4,240 100.3 6,201 100.6 Tax and surcharges (2) (0.1) (12) (0.3) (41) (0.6)Net
revenues 1,920 100.0 4,228 100.0 6,160 100.0 **Cost of
revenues:(1)** Products 143 7.4 506 12.0 511 8.3 Services 1,237 64.4 1,011 23.9 1,067 17.3 Total
cost of revenues 1,380 71.8 1,517 35.9 1,578 25.6 Gross
profit 540 28.2 2,711 64.1 4,582 74.4 Operating expenses: Research and
development(1) 8,798 458.2 5,655 133.8 3,985 64.7 Selling and
marketing(1) 4,114 214.3 2,747 65.0 1,758 28.5 General and
administrative(1) 3,220 167.7 3,739 88.4 3,618 58.7 Impairment of goodwill - - 690 11.2 Impairment
of property and equipment - - 425 6.9 Impairment of intangible assets - - 217 3.5 Gain from
disposal of assets - - (822) (13.3)Total operating
expenses 16,132 840.2 12,141 287.2 9,871 160.2 Operating loss from continuing
operations (15,592) (812.0) (9,430) (223.1) (5,289) (85.8)Interest income 104 5.4 105 2.5 1,206 19.6 Gain
from disposal of an equity method investment - 95 2.3 - Other income,
net 354 18.4 1,088 25.7 710 11.5 Loss from continuing operations before income tax
expenses (15,134) (788.2) (8,142) (192.6) (3,373) (54.8)Income tax expenses 292 15.2 114 2.7 337 5.5 Net
loss from continuing operations before share of loss on an equity method
investment (15,426) (803.4) (8,256) (195.3) (3,710) (60.2)Share of loss on an equity method investment, net of nil
income taxes (101) (5.3) - - Net loss from continuing
operations (15,527) (808.7) (8,256) (195.3) (3,710) (60.2)Discontinued operations Income/(loss)
from the operations of discontinued operations, net of income tax
expenses 16,155 841.4 10,445 247.0 (389) (6.3)Gain from disposal of discontinued operations, net of income
tax expenses - 43,190 1,021.5 - Income/(loss) from discontinued operations, net of income tax
expenses 16,155 841.4 53,635 1,268.5 (389) (6.3)Net
income/(loss) 628 32.7 45,379 1,073.2 (4,099) (66.5)Less: Net loss attributable to noncontrolling
interest (900) (46.9) (39) (0.9) (1,031) (16.7)Net loss from continuing operations attributable to China Digital TV
Holding Co., Ltd (14,627) (761.8) (7,226) (170.9) (2,679) (43.5)Net income/(loss) from discontinued operations
attributable to China Digital TV Holding Co., Ltd 16,155 841.4 52,644 1,245.0 (389) (6.3)Net income/(loss)
attributable to China Digital TV Holding Co., Ltd US$1,528 79.6% US$45,418 1,074.1% US$(3,068) (49.8)%

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(1) Share-based compensation charges incurred during the period related to:

	For the years ended December 31,								
	2015			2016			2017		
	Amount	% of Net Revenues		Amount	% of Net Revenues		Amount	% of Net Revenues	
	(In thousands of U.S. dollars, except percentages)								
Cost of revenues	US$ 3	0.2	%	US$ -	0.0	%	US$ -	0.0	%
Research and development expenses	49	2.6		463	11.0		463	7.5	
Selling and marketing expenses	30	1.6		447	10.6		152	2.5	
General and administrative expenses	US$36	1.9	%	US$2	0.0	%	US$21	0.3	%

Comparison of Years Ended December 31, 2017 and December 31, 2016

Revenues. The following table sets forth revenues by sources and the percentage of our total revenues for the periods indicated:

	For the years ended December 31,					
	2016			2017		
	Amount	% of Total Revenues		Amount	% of Total Revenues	
	(In thousands of U.S. dollars, except percentages)					
Products	US$ 618	14.6	%	US$ 790	12.7	%
Services						
Cloud platform operations	2,019	47.6		2,341	37.8	
Head-end system integration	708	16.7		1,846	29.8	
Head-end system development	895	21.1		1,224	19.7	
Subtotal	3,622	85.4		5,411	87.3	
Total revenues	US$ 4,240	100.0	%	US$ 6,201	100.0	%

Our total revenues increased by 46.3% from US$4.2 million in 2016 to US$6.2 million in 2017, mainly due to the increase in revenues from both head-end system integration and head-end system development as a result of the cooperation with a broader scope of digital television and telecommunication network operators.

Revenues from the sales of our products increased by 27.8% from US$0.6 million in 2016 to US$0.8 million in 2017, mainly due to an increase in the sales of products related to UAV technology.

Revenues from the sales of our services increased by 49.4% from US$3.6 million in 2016 to US$5.4 million in 2017, primarily due to the increase in revenues from head-end system integration and head-end system development.

Net Revenues. Our net revenues increased by 45.7% from US$4.2 million in 2016 to US$6.2 million in 2017.

Cost of Revenues. The following table sets forth cost of revenues by sources of revenues by amount and as a percentage of net revenues for the periods indicated:

	Years ended December 31,								
	2016				2017				
	Amount		% of Net Revenues		Amount		% of Net Revenues		
	(In thousands of U.S. dollars, except percentages)								
Products	US$	506	12.0	%	US$	511	8.3	%	
Services		1,011	23.9			1,067	17.3		
Total cost of revenues	US$	1,517	35.9	%	US$	1,578	25.6	%	

Cost of revenues increased by 4.0% to US$1.6 million in 2017 from US$1.5 million in 2016, mainly due to the increase in cost of revenues relating to head-end system integration. Cost of revenues relating to our products remained stable as compared to 2016. Cost of revenues relating to our services increased by 5.5% to US$ 1.07 million in 2017 from US$1.01 million in 2016, mainly due to an increase in cost for purchase of the hardware related to the cloud platform system integration services we provided.

Gross Profit and Gross Margin. Gross profit increased by 69.0% from US$2.7 million in 2016 to US$4.6 million in 2017. Our gross margin increased from 64.1% in 2016 to 74.4% in 2017, primarily due to an expansion in our system integration and system development services which have relative higher gross margin than our product sales.

Operating Expenses. Our operating expenses decreased by 18.7% to US$9.9 million in 2017 from US$12.1 million in 2016. This reflected the recognition of gain from disposal of assets and decreases in research and development expenses, selling and marketing expenses and general and administrative expenses, which is partially offset by the impairment loss of goodwill and long-lived assets incurred in 2017. Operating expenses, as a percentage of net revenues, decreased to 160.2% in 2017 from 287.2% in 2016.

Research and Development Expenses. Our research and development expenses decreased by 29.5% to US$4.0 million in 2017 from US$5.7 million in 2016. This was mainly due to a decrease in personnel related expenses resulting from fewer headcount. Our research and development expenses, as a percentage of net revenues, decreased to 64.7% in 2017 from 133.8% in 2016.

Selling and Marketing Expenses. Our selling and marketing expenses decreased by 36.0% to US$1.8 million in 2017 from US$2.7 million in 2016. This was primarily due to a decrease in personnel related expenses as well as decreased share-based compensation expenses. Our selling and marketing expenses, as a percentage of net revenues, decreased to 28.5% in 2017 from 65.0% in 2016.

General and Administrative Expenses. Our general and administrative expenses decreased by 3.2% to US$3.6 million in 2017 from US$3.7 million in 2016, primarily due to a decrease in deprecation, supplies and rental expense, which was partially offset by an increase in professional fees.

Impairment of Long-lived Assets and Impairment of Goodwill. In 2017, we recognized impairment loss of US$0.7 million on goodwill for the reporting unit of cloud computing-based services due to negative estimated future cash flows. And we recognized impairment loss of US$0.6 million on long-lived assets based on the evaluation of the recoverability of long-lived assets. We had no impairment loss of goodwill or long-lived assets in 2015 or 2016.

Gain from Disposal of Assets. Gain from disposal of assets represents gain recognized on the sale of long-lived assets. In 2017, we disposed assets related to UAV technology, and a gain of US$0.8 million was recognized.

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Loss from Operations. As a result of the foregoing, our loss from operations decreased by 43.9% to US$5.3 million in 2017 from US$9.4 million in 2016.

Non-Operating Income. We had non-operating income of US$1.9 million in 2017, compared with US$1.3 million in 2016. Our non-operating income in 2017 primarily consisted of interest income of US$1.2 million and other income of US$0.7 million. Our interest income increased from US$0.1 million in 2016 to US$1.2 million in 2017. Our other income decreased from US$1.1 million in 2016 to US$0.7 million in 2017, primarily due to a decrease in government subsidy income.

Income Tax Expenses. Our income tax expenses increased from US$0.1 million in 2016 to US$0.3 million in 2017. The increase in our income tax expenses was primarily due to an increase in withholding income tax for reimbursements to our expenses incurred as a registrant from Deutsche Bank Trust Company Americas, or DBTCA.

Net Loss Attributable to Non-controlling Interest. Net loss attributable to non-controlling interest increased from US$39.0 thousand in 2016 to US$1.0 million in 2017. Net loss attributable to non-controlling interest represents the proportional share of net loss of our consolidated, but not wholly owned, subsidiaries that are attributable to the other shareholders of such subsidiaries. The change was primarily due to share of net income of Beijing Super TV, which was profitable in 2016 and changed from our wholly-owned subsidiary to majority-owned subsidiary and was subsequently disposed of in 2016.

Net Loss from Continuing Operations Attributable to Holders of Ordinary Shares. As a result of the foregoing, net loss from continuing operations attributable to holders of ordinary shares decreased by 62.9% from US$7.2 million in 2016 to US$2.7 million in 2017. Our basic and diluted loss per ordinary share from continuing operations in 2017 were US$0.04 and US$0.04, respectively.

Comparison of Years Ended December 31, 2016 and December 31, 2015

Revenues. The following table sets forth revenues by sources and the percentage of our total revenues for the periods indicated:

	For the years ended December 31,	
	2015	2016
	Amount	Amount

			% of Total Revenues				% of Total Revenues	
	(In thousands of U.S. dollars, except percentages)							
Products	US$	248	12.9	%	US$	618	14.6	%
Services								
Cloud platform operations		412	21.4			2,019	47.6	
Head-end system integration		527	27.4			708	16.7	
Head-end system development		735	38.3			895	21.1	
Subtotal		1,674	87.1			3,622	85.4	
Total revenues	US$	1,922	100.0	%	US$	4,240	100.0	%

Our total revenues increased by 120.6% from US$1.9 million in 2015 to US$4.2 million in 2016, reflecting an increase in revenues from the cloud platform operations.

Revenues from the sales of our products increased by 149.2% from US$0.2 million in 2015 to US$0.6 million in 2016, mainly due to an increase in the sales of our newly developed products.

Revenues from the sales of our services increased by 116.4% from US$1.7 million in 2015 to US$3.6 million in 2016, primarily due to the increase in revenues from the cloud platform operations.

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Net Revenues. Our net revenues increased by 120.2% from US$1.9 million in 2015 to US$4.2 million in 2016.

Cost of Revenues. The following table sets forth cost of revenues by sources of revenues by amount and as a percentage of net revenues for the periods indicated:

	Years ended December 31,							
	2015				2016			
	Amount		% of Net Revenues		Amount		% of Net Revenues	
	(In thousands of U.S. dollars, except percentages)							
Products	US$	143	7.4	%	US$	506	12.0	%
Services		1,237	64.4			1011	23.9	
Total cost of revenues	US$	1,380	71.8	%	US$	1517	35.9	%

Cost of revenues increased by 9.9% to US$1.5 million in 2016 from US$1.4 million in 2015, reflecting an increase in cost of revenues relating to our products. Cost of revenues relating to our products increased by 253.8% to US$0.5 million in 2016 from US$0.1 million in 2015, mainly due to an increase in cost of revenues from our newly developed products. Cost of revenues relating to our services decreased by 18.3% to US$ 1.0 million in 2016 from US$1.2 million in 2015, mainly due to a decrease in cost for purchase of hardware related to cloud platform system integration provided in 2016.

Gross Profit and Gross Margin. Gross profit increased by 402.0% from US$0.5 million in 2015 to US$2.7 million in 2016. Our gross margin increased from 28.2% in 2015 to 64.1% in 2016, primarily due to an increase in the cloud platform operations, which have a higher margin than the Company's other continuing operations, such as system integration and system development.

Operating Expenses. Our operating expenses decreased by 24.7% to US$12.1 million in 2016 from US$16.1 million in 2015. This reflected decreases in research and development expenses, selling and marketing expenses, which was partially offset by an increase in general and administrative expenses. Operating expenses, as a percentage of net revenues, decreased to 287.2% in 2016 from 840.2% in 2015.

Research and Development Expenses. Our research and development expenses decreased by 35.7% to US$5.7 million in 2016 from US$8.8 million in 2015. This was mainly due to a decrease in personnel related expenses resulting from lower headcount. Our research and development expenses, as a percentage of net revenues, decreased to 133.8% in 2016 from 458.2% in 2015.

Selling and Marketing Expenses. Our selling and marketing expenses decreased by 33.2% to US$2.7 million in 2016 from US$4.1 million in 2015. This was primarily due to a decrease in personnel related expenses resulting from lower headcount, as well as decreased marketing expenses. Our selling and marketing expenses, as a percentage of net revenues, decreased to 65.0% in 2016 from 214.3% in 2015.

General and Administrative Expenses. Our general and administrative expenses increased by 16.1% to US$3.7 million in 2016 from US$3.2 million in 2015, primarily due to an increase in professional fees.

Loss from Operations. As a result of the foregoing, our loss from operations decreased by 39.5% to US$9.4 million in 2016 from US$15.6 million in 2015.

Non-Operating Income (Expenses). We had non-operating income of US$1.3 million in 2016, compared with US$0.5 million in 2015. Our non-operating income in 2016 primarily consisted of interest income of US$0.1 million, gain from disposal of an equity method investment of US$0.1 million and other income of US$1.1 million. Our interest income remained relatively stable as compared with 2015. Our other income increased from US$0.4 million in 2015 to US$1.1 million in 2016, primarily due to an increase in government subsidy income.

Income Tax Expenses. Our income tax expenses decreased from US$0.3 million in 2015 to US$0.1 million in 2016. The decrease in our income tax expenses was primarily due to a decrease in withholding income tax for reimbursements to our expenses incurred as a registrant from DBTCA.

Share of Loss on an Equity Method Investment, Net of Income Taxes. Our share of loss on an equity method investment decreased from US$0.1 million in 2015 to nil in 2016. Our share of loss on an equity method investment in 2015 was attributable to the share of loss from our equity investment in Sinoscreens, which was disposed of in 2016.

Net Loss Attributable to Non-controlling Interest. Net loss attributable to non-controlling interest decreased from US$0.9 million in 2015 to US$39.0 thousand in 2016. Net loss attributable to non-controlling interest represents the proportional share of net loss of our consolidated, but not wholly owned, subsidiaries that are attributable to the other shareholders of such subsidiaries. The change was primarily due to share of net income of Beijing Super TV, which was profitable and changed from our wholly-owned subsidiary to majority-owned subsidiary in 2016.

Net Loss from Continuing Operations Attributable to Holders of Ordinary Shares. As a result of the foregoing, net loss from continuing operations attributable to holders of ordinary shares decreased by 50.6% from US$14.6 million in 2015 to US$7.2 million in 2016. Our basic and diluted loss per ordinary share from continuing operations in 2016 were US$0.12 and US$0.12, respectively.

B. Liquidity and Capital Resources

Liquidity

	For the years ended December 31,		
	2015	2016	2017
	(In thousands of U.S. dollars)		
Cash and cash equivalents, including those recorded in current assets of Super TV, at the end of the year	US$70,138	US$117,292	US$24,425
Net cash provided by/(used in) operating activities	7,468	4,444	(3,589)
Net cash provided by/(used in) investing activities	2,108	51,326	(3,043)
Net cash provided by/(used in) financing activities	653	(5,489)	(86,734)
Effect of exchange rate changes on cash and cash equivalents	US$(2,133)	US$(3,127)	US$499

Operating Activities. Net cash used in operating activities was US$3.6 million in 2017, which was primarily derived from our net loss of US$4.1 million, adjusted to reflect the adding back of US$1.0 million share-based compensation charges, US$0.3 million depreciation and amortization, US$1.3 million impairment loss on goodwill and long-lived assets and US$0.2 million unrealized exchange losses. Cash used in operating activities in 2017 was also adjusted by gain from disposal of assets of US$0.8 million and a decrease in cash from working capital items of US$1.5 million.

Net cash provided by operating activities was US$4.4 million in 2016, which was primarily derived from our net income of US$45.4 million, adjusted to reflect the adding back of US$4.9 million share-based compensation charges, US$1.7 million increase in allowance for doubtful accounts and US$0.7 million depreciation and amortization. Cash provided by operating activities in 2016 was partially offset by gain from the Super TV Disposition of US$43.2 million and a decrease in cash from working capital items of US$4.8 million.

Net cash provided by operating activities was US$7.5 million in 2015, which was primarily derived from our net income of US$0.6 million, adjusted to reflect the adding back of US$2.8 million increase in allowance for doubtful accounts, US$1.1 million increase in write down for inventory, US$0.6 million depreciation and amortization, and US$2.4 million increase in cash from working capital items.

Investing Activities. Net cash used in investing activities was US$3.2 million in 2017, primarily consisting of US$8.4 million cash outflow for an increase in short-term investments and US$0.3 million purchase of property and equipment, which was partially offset by US$0.8 million proceeds from the disposal of assets and US$4.8 million proceeds from maturity of short-term investments.

Net cash provided by investing activities was US$51.3 million in 2016, primarily consisting of US$54.7 million net proceeds from the Super TV Disposition, which was partially offset by US$2.3 million cash outflow for an increase in term deposits and US$0.7 million purchase of property and equipment.

Net cash provided by investing activities was US$2.1 million in 2015, primarily consisting of US$2.8 million proceeds from disposal of property and equipment, which was partially offset by US$0.5 million cash outflow for equity method investment and US$ 0.2 million purchase of property and equipment.

Financing Activities. Net cash used in financing activities was US$86.7 million in 2017, primarily consisting of the US$95.2 million special cash dividend paid to our shareholders and US$0.3 million cash outflow for acquisition of non-controlling interests, which was partially offset by capital contribution of US$5.4 million from non-controlling shareholders in our subsidiary and US$3.4 million proceeds from stock option exercise.

Net cash used in financing activities was US$5.5 million in 2016, primarily consisting of the US$12.0 million special cash dividend paid to our shareholders, which was partially offset by capital contribution of US$6.8 million from non-controlling shareholders in our subsidiaries.

Net cash used in financing activities was US$0.7 million in 2015, primarily consisting of proceeds from stock option exercise.

According to the amended *PRC Company Law*, which took effect on March 1, 2014, and its predecessor law, our subsidiaries and variable interest entity in the PRC are required to make appropriations to the statutory surplus reserve which are still required to be made at the rate of 10% of profits after tax as determined under PRC GAAP until the balance of such reserve fund reaches 50% of the entities' registered capital.

Our subsidiaries and our variable interest entity in the PRC may, upon a resolution passed by their respective shareholders, convert the statutory surplus reserve into capital. The statutory reserve represents appropriations of retained earnings determined according to PRC law and may not be distributed. As a result of these laws, US$0.1

million and US$0.1 million of our retained earnings were not available for distribution as of December 31, 2016 and December 31, 2017, respectively.

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends in part upon dividends and other distributions paid to us by our PRC subsidiaries. As of December 31, 2017, the amount of cash held by our PRC subsidiaries was RMB 47.4 million (or US$7.3 million), and the amount of cash held by entities outside the PRC was US$17.1 million. There is a risk that any existing or future restrictions under the applicable PRC laws, rules or regulations on currency exchange may limit our ability to utilize the cash held by entities inside the PRC. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Restrictions on currency exchange may limit our ability to effectively utilize our revenues as well as the ability of our PRC subsidiaries to obtain debt or equity financing from financial institutions or investors outside the PRC, including us" for more information.

Capital Expenditures

In 2015, 2016 and 2017, our capital expenditures totaled US$0.7 million, US$0.7 million and US$0.3 million, respectively. Our capital expenditures in 2017 were attributable to the purchase of computers and other electronic equipment.

We believe that our current levels of cash and cash equivalents, and cash flows from operations in the near future, will be sufficient to meet our anticipated capital expenditure and other cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will be available to us only in amounts or on terms that would not be acceptable to us or financing will not be available at all.

C. Research and Development, Patents and Licenses, etc.

See "Item 4. Information on the Company—B. Business Overview—Research and Development" for information relating to our research and development.

See "Item 4. Information on the Company—B. Business Overview—Intellectual Property" for information relating to our intellectual property.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2017 to December 31, 2017 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F.Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2017:

	Contractual Obligations				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands of U.S. dollars)				
Operating lease obligations[1]	$ 68	$ -	$ -	$ -	$ 68
Purchase obligations	625	-	-	-	625
Total	$ 693	$ -	$ -	$ -	$ 693

(1) Operating leases generally relate to the lease of our office premises.

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Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Our board of directors consists of two directors. The following table sets forth certain information concerning our directors and executive officers as of April 20, 2018:

Name	Age	Position
Jianhua ZHU	48	Chief Executive Officer and Chairman
Zhenwen LIANG	44	Chief Financial Officer and Director

Mr. Jianhua ZHU, one of our founders, resumed his role as chief executive officer and chairman in June 2015. He has been a board member since 2004. He was the chairman of our board of directors from 2004 to December 2006, and from November 2008 to June 2014, and chief executive officer of our company from December 2006 to June 2014. From 2001 until 2004, Mr. Zhu was general manager of N-T Information Engineering. From 1998 until 2001, he was deputy general manager of N-T Information Engineering. He has also been the supervisor of N-T Information Engineering since 2006. Mr. Zhu was the executive director of Guangdong R&D prior to April 2010. He worked at the China Technology Import and Export Corp. from 1994 until 1997. Mr. Zhu holds a bachelor's degree and a master's degree in precision instrumentation from Tsinghua University.

Mr. Zhenwen LIANG resumed his role as our chief financial officer in May 2016 and was appointed as director in March 2018. Mr Liang served as the chief financial officer of our company from November 2010 to June 2014. Mr. Liang has served as general manager of the Company's new business unit, responsible for developing value-added services since 2006. From 2004 to 2006, Mr. Liang was responsible for overseeing our entire financial operations. From 1998 to 2004, Mr. Liang headed the finance team at N-T Information Engineering. Mr. Liang has a bachelor's degree in accounting from the Central University of Finance and Economics and a master's degree in business administration from Renmin University of China. Mr. Liang is a member of the Chinese Institute of Certified Public Accountants

At our annual general meeting held on December 29, 2017, our shareholders approved the re-election of Mr. Jianhua Zhu as Class I Directors of the Company's Board of Directors. On March 8, 2018, the Board of Directors of the Company appointed Mr. Zhenwen Liang as Class II Director as an addition to the existing Board, effective March 16, 2018.

There is no family relationship among any of our directors or executive officers. There is no shareholding qualification for directors.

B. Compensation of Directors and Senior Officers

Our executive officers receive compensation in the form of salaries, annual bonuses and share options. Some of our current and former directors have received compensation in the form of share options. We do not provide any benefits to our non-executive directors upon retirement. In 2017, the aggregate cash compensation to our directors and executive officers was US$0.7 million.

Share Options

Our Amended and Restated China Digital TV Holding Co., Ltd. 2005 Stock Incentive Plan, or the 2005 Stock Incentive Plan, China Digital TV Holding Co., Ltd. 2008 Stock Incentive Plan, or the 2008 Stock Incentive Plan, China Digital TV Holding Co., Ltd. 2010 Stock Incentive Plan, or the 2010 Stock Incentive Plan, and China Digital TV Holding Co., Ltd. 2012 Stock Incentive Plan, or the 2012 Stock Incentive Plan, are intended to provide incentives to our directors, officers and employees as well as consultants and advisors of our company and its present or future parent company or subsidiaries, or related corporations.

The 2005 Stock Incentive Plan

The 2005 Stock Incentive Plan was adopted by the board of directors of CDTV BVI on February 3, 2005 and the Amended and Restated 2005 Stock Incentive Plan was adopted by our board of directors and approved by our shareholders on September 13, 2007 to amend and restate the 2005 Stock Incentive Plan. In 2005, CDTV BVI was the ultimate holding company of our business. As a result of our restructuring in May 2007, CDTV BVI became our wholly owned subsidiary and the options already granted under the 2005 Stock Incentive Plan were converted to options for the ordinary shares of our company. Pursuant to the 2005 Stock Incentive Plan, we may issue share options, stock appreciation rights, share bonuses, restricted shares, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 4,444,440 ordinary shares for issuance under the 2005 Stock Incentive Plan, subject to any adjustments as contemplated by the plan. We granted share options to purchase 3,067,498, 47,918, 543,674, 620,212 and 53,280 ordinary shares pursuant to the 2005 Stock Incentive Plan on February 3, 2005, April 13, 2006, September 22, 2006, December 5, 2006 and October 5, 2008, respectively. On November 19, 2010, the number of ordinary shares reserved for issuance under the 2005 Stock Incentive Plan was cancelled to the extent the corresponding options had not been awarded as of that date. There were no share options remaining outstanding as of March 31, 2018 under the 2005 Stock Incentive Plan.

With respect to the share options that we granted on February 3, 2005, two vesting schedules apply. The first vesting schedule is as follows: 50% vest at the end of the six-month period after the award date, and the remaining 50% vest in 42 equal monthly installments, beginning from the end of the six-month period after the award date. The second vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price for all share options granted on this date was US$0.543 per share.

With respect to the share options that we granted on April 13, 2006, the vesting schedule is as follows: 50% vest at the end of the six-month period after the award date, and the remaining 50% vest in 42 equal monthly installments, beginning from the end of the six-month period after the award date. The original exercise price for all share options granted on this date was US$0.543 per share.

With respect to the share options that we granted on September 22, 2006, the vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US$1.771 per share.

With respect to the share options that we granted on December 5, 2006, with the exception of share options that we granted to one of our executive officers, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The executive officer's share options vest according to the following schedule: 25% of 320,000 options vest upon the closing of our initial public offering; 75% of 320,000 options vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following the month in which the executive officer took office; and 32,000 options vest upon the achievement of certain financial targets. In July 2010, these 32,000 shares were forfeited as the financial targets were not met. The original exercise price for all share options granted on this date was US$4.172 per share.

With respect to the share options that we granted on October 5, 2008, the vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US$0.543 per share.

The 2008 Stock Incentive Plan

The 2008 Stock Incentive Plan was adopted by our board of directors and approved by our shareholders on September 13, 2007. Pursuant to the 2008 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares and restricted share units, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 1,200,000 ordinary shares for issuance under the 2008 Stock Incentive Plan, subject to any adjustments as contemplated by the plan. The plan also provides for an annual increase, beginning in 2009, in the number of ordinary shares that may be delivered pursuant to awards under the plan, totaling 2% of our issued and outstanding shares as of the first business day of the relevant calendar year. The maximum number of shares subject to awards that may be granted during any single calendar year is such number as equals 2% of our issued and outstanding shares as of the first business day of that calendar year. We granted share options to purchase 406,776, 357,548, 42,880 and 50,000 ordinary shares on October 5, 2008, June 2, 2009, February 10, 2010 and November 15, 2010, respectively. On November 19, 2010, the number of ordinary shares that had been reserved for issuance under the 2008 Stock Incentive Plan was cancelled to the extent the corresponding options had not been awarded as of that date. Options to purchase 490,022 ordinary shares remained outstanding as of March 31, 2018 under the 2008 Stock Incentive Plan.

With respect to the share options that we granted on October 5, 2008, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US$7.89 per share. On February 10, 2010, we accelerated the vesting schedule of a total of 29,480 share options to purchase 29,480 ordinary shares so that all these share options were vested on February 20, 2010.

With respect to the share options that we granted on June 2, 2009, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US$9.09 per share.

With respect to the share options that we granted on February 10, 2010, all these share options were vested on the grant date. The original exercise price was US$0.543 per share.

With respect to the share options that we granted on November 15, 2010, the vesting of these options is conditional upon the fulfillment of certain performance targets by the optionees in the four years following the grant date. The original exercise price was US$6.96 per share.

The 2010 Stock Incentive Plan

The 2010 Stock Incentive Plan was adopted by our board of directors on November 19, 2010. Pursuant to the 2010 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 3,600,000 ordinary shares for issuance under the 2010 Stock Incentive Plan, subject to adjustments as contemplated by the plan. We granted share options to purchase 1,000,000, 1,600,000, 700,000 and 300,000 ordinary shares on November 19, 2010, May 16, 2011, September 30, 2011 and November 19, 2011, respectively. Options to purchase 210,404 ordinary shares remained outstanding as of March 31, 2018 under the 2010 Stock Incentive Plan.

With respect to the share options that we granted on November 19, 2010, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US$6.90 per share.

With respect to the share options that we granted on May 16, 2011, two vesting schedules apply. The first vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The second vesting schedule is as follows: the vesting of the options is conditioned upon the fulfillment of certain performance targets by the optionees on April 1, 2012. The original exercise price was US$4.90 per share.

With respect to the share options that we granted on September 30, 2011, the vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The original exercise price is US$4.34 per share.

With respect to the share options that we granted on November 19, 2011, the vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The original exercise price is US$4.34 per share.

The 2012 Stock Incentive Plan

The 2012 Stock Incentive Plan was adopted by our board of directors on May 1, 2012. Pursuant to the 2012 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 1,200,000 ordinary shares for issuance under the 2012 Stock Incentive Plan, subject to adjustments as contemplated by the plan. We granted share options to purchase 1,200,000 ordinary shares on January 8, 2013. Options to purchase 6,979 ordinary shares remained outstanding as of March 31, 2018 under the 2012 Stock Incentive Plan.

With respect to the share options that we granted on January 8, 2013, the vesting schedule is as follows: 25% vest on January 8, 2013, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on February 28, 2013 and then on the last day of the month following thereafter. The original exercise price is US$1.18 per share.

The 2005, 2008, 2010 and 2012 Stock Incentive Plans

Our board of directors administers the 2005 and 2008 Stock Incentive Plans and Mr. Jianhua Zhu administers the 2010 and 2012 Stock Incentive Plans. The administrator of each plan has wide discretion in determining who will receive awards, the type and timing of awards, the vesting schedule and other terms and conditions of the awards, including the exercise price of share option grants. Generally, if an outstanding share option grant made under the plans has not vested by the date of termination of the recipient's employment with us, no further installments of the recipient's grant will become exercisable following the date of termination of employment, and the recipient will have 30 days from such date to exercise any share options that had already vested but not yet been exercised. If any ordinary shares subject to a restricted share award remain subject to restrictions by the date of termination of employment, no additional ordinary shares will vest following the date of termination of employment.

The 2005 and 2008 Stock Incentive Plans terminated on February 2, 2015 and September 12, 2017, respectively. Our board of directors may amend or terminate the 2008, 2010 and 2012 Stock Incentive Plans at any time; provided, however, that our board of directors must seek the recipients' approval with respect to any amendment or termination that would adversely affect the rights of such recipients under any award already made. Without further action by our board of directors, the 2010 and 2012 Stock Incentive Plans will terminate on November 18, 2020 and April 30, 2022, respectively.

In addition to the options granted pursuant to the 2005, 2008, 2010 and 2012 Stock Incentive Plans, on May 15, 2007, we granted options to purchase 40,000 ordinary shares to Louis T. Hsieh, who became an independent director of our company upon the completion of our initial public offering, at an exercise price of US$4.172 per share. Mr. Hsieh retired from our board of directors in December 2009, following which 33,889 of his options were exercised with the remainder being forfeited.

On November 19, 2010, our board of directors approved an adjustment to the exercise price of all options granted prior to, but remained outstanding as of, December 23, 2010 under the 2005 Stock Incentive Plan, the 2008 Stock Incentive Plan and the 2010 Stock Incentive Plan, or the Adjusted Options. The per share exercise price of all Adjusted Options with a per share exercise price higher than US$2.00 was reduced by US$2.00 on December 23, 2010, and the per share exercise price of all Adjusted Options with a per share exercise price no more than US$2.00 was reduced to US$0.01. Our board of directors also resolved that if any future dividend is declared, the per share exercise price of all options granted prior to and outstanding as of the date of record of such dividend shall be reduced by an amount equal to the dividend payable on each ordinary share, provided that the per share exercise price after adjustment shall not be less than US$0.01. Due to special cash dividends of US$0.56, US$2.30, US$0.50, US$0.20 and US$1.50 per ordinary share declared in May 2011, November 2012, April 2014, April 2016 and April 2017, respectively, the per share exercise prices of all of the options granted prior to and remaining outstanding as of June 20, 2011, November 26, 2012, April 14, 2014, April 29, 2016, and June 15, 2017, each a record date, were reduced by US$0.56, US$2.30, US$0.50, US$0.20 and US$ 1.50 pursuant to such resolution of our board of directors referenced above, respectively, provided that the per share exercise prices after adjustment shall not be less than US$0.01.

The following table sets forth information on share options that have been granted and were outstanding as of March 31, 2018 pursuant to the 2005, 2008, 2010 and 2012 Stock Incentive Plans:

	Number of Ordinary Shares Underlying Outstanding Options	Exercise Price per Ordinary Share*	Date of Grant	Date of Expiration
Directors and Executive Officers				
Jianhua ZHU	nil	—	—	—
Zhenwen LIANG	nil	—	—	—
Other grantees as a group (comprising 55 individuals)	707,405	—	—	—

* The exercise price per Ordinary Share has reflected the impact of the exercise price modifications in December 2010, June 2011, November 2012, April 2014, April 2016 and June 2017, respectively.

Employees will need to comply with our plan and policies. Section 6.3 of the Stock Incentive Plans provides that "if an entity ceases to be a Subsidiary of the Corporation, a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another member of us after giving effect to the Subsidiary’s change in status." However, in light of the Super TV Disposition, in January 2017, we extended the period for the exercise of options held by employees of Beijing Super TV and N-S Digital TV from 30 days after Beijing Super TV and N-S Digital TV ceased to be subsidiaries of the Company to the end of the contractual life of each stock option agreement under the Stock Incentive Plans.

C. Board Practices

General

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;

- determining our business plans and investment proposals;
- declaring dividends and distributions;
- exercising the borrowing powers of our company and mortgaging the property of our company;
- approving the transfer of shares of our company, including the registering of such shares in our share register; and
- exercising any other powers conferred by the shareholders' meetings or under our Second Amended and Restated Memorandum and Articles of Association.

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Terms of Directors

The terms of our directors are three years, according to our Second Amended and Restated Memorandum and Articles of Association. Any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of shareholders and then shall be eligible for re-election. The term of Mr. Jianhua Zhu, will expire upon the annual general meeting of shareholders to be held in 2020, while the term of Mr. Zhenwen Liang will expire upon the annual general meeting of shareholders to be held in 2018..

Employment Agreements

We have entered into service contracts with our directors. The service contracts do not provide any benefits to our directors upon termination of service.

We have entered into an employment agreement with each of our executive officers. Under these agreements, we may terminate an executive officer's employment for cause at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to material acts of fraud, material violations of our terms of employment, material dereliction of duty or engaging in graft to the material harm of the company. An executive officer may terminate employment if a government regulatory agency determines that working conditions are extremely deficient and injurious to health, if the executive has been subject to violence, threats or illegal constraints upon his liberty, or if we have failed to pay compensation on time. We and each executive officer may also decide to terminate such executive officer's employment for other reasons or no reason after providing written notice at least 30 days in advance and after we have made arrangements for a successor. Our employment agreements do not provide any benefits to any of our executive officers upon termination.

Each executive officer who has executed an employment agreement with us has agreed to hold in confidence and not to use, both during and after such executive officer's term of employment, any of our confidential information, including but not limited to information relating to important company policies, technological secrets, commercial secrets, company processes and any intellectual property discovered, invented or created by such executive officer during his or her term of employment. In addition, each of our executive officers has agreed to give us full rights to any work-related patents, inventions or achievements.

Each executive officer has also agreed that for one year after terminating employment with us, such executive officer will not, without our consent, accept employment by any of our competitors or engage in any activities that, directly or indirectly, compete with us. In addition, each executive officer has agreed that he or she will not, without our consent, induce any of our employees to terminate employment with us.

D. Employees

See "Item 4. Information on the Company—B. Business Overview—Employees."

E. Share Ownership

Under the Exchange Act Rule 13d-3, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest.

The following table sets forth certain information with respect to the directors, officers and each of the persons known to us who own beneficially 5% or more of our ordinary shares as of March 31, 2018 unless otherwise indicated. The number of ordinary shares outstanding in calculating the percentages for each listed person includes the ordinary shares underlying share options held by such person. The percentage of beneficial ownership of each listed person is based on 63,508,656 ordinary shares outstanding (excluding the 3,382,769 ordinary shares that were issued and held for the Company's account in preparation for exercise of share options by option holders under our employee stock incentive plans), as well as the ordinary shares underlying share options exercisable by such person within 60 days of March 31, 2018.

	Shares beneficially owned Number	Percent
Directors and Executive Officers		
Jianhua ZHU [(1)]	22,634,270	35.64 %
Zhenwen LIANG [(2)]	2,030,359	3.20 %
Zengxiang LU[(3)]	2,040,085	3.21 %
Michael ELYAKIM[(4)]	*	*
Songzuo XIANG[(5)]	-	-
Jianyue PAN[(6)]	*	*
Directors and executive officers as a group[(7)]	27,233,418	42.88 %

* Beneficially owns less than 1% of our ordinary shares.

(1) Represents: (i) the 20,846,786 ordinary shares and 1,709,775 ADSs held by Smart Live Group Limited, which is wholly owned by Mr. Jianhua Zhu and (ii) the 155,418 ordinary shares held by China Cast Investment Holdings Limited, or China Cast. Mr. Jianhua Zhu, together with Dr. Zengxiang Lu, exercises investment and voting powers over the shares held by China Cast. Mr. Jianhua Zhu owns 50% of the equity interest of China Cast and disclaims beneficial ownership of those shares held by China Cast except to the extent of his pecuniary interest therein.

(2) Represents the sum of ordinary shares and ADSs owned by Mr. Zhenwen Liang.

(3) Represents: (i) the 1,962,376 ADSs held by Polar Light Group Limited, which is wholly owned by Dr. Zengxiang Lu and (ii) the 155,418 ordinary shares held by China Cast. Dr. Zengxiang Lu, together with Mr. Jianhua Zhu, exercises investment and voting powers over the shares held by China Cast. Dr. Zengxiang Lu owns 50% of the equity interest of China Cast and disclaims beneficial ownership of those shares held by China Cast except to the extent of his pecuniary interest therein. Effective from March 23, 2018, Dr. Zengxiang Lu resigned from his position as our director.

(4) Effective from March 19, 2018, Mr. Michael Elyakim resigned from his position as our director.

(5) Effective from March 19, 2018, Mr. Songzuo Xiang resigned from his position as our director.

(6) Effective from March 19, 2018, Mr. Jianyue Pan resigned from his position as our director.

(7) Represents 100% of the 155,418 ordinary shares held by China Cast (Dr. Zengxiang Lu and Mr. Jianhua Zhu jointly exercise investment and voting powers over the shares held by China Cast), ordinary shares and ADSs held by Mr. Jianhua Zhu (other than those ordinary shares held through China Cast), Mr. Zhenwen Liang, Dr.Zengxiang Lu (other than those ordinary shares held through China Cast), Mr. Michael Elyakim and Mr. Jianyue Pan.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership" in this annual report.

None of our major shareholders has voting rights different from those of our other shareholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

For information regarding our shares held or beneficially owned by persons in the United States, see "Item 9. The Offer and Listing—A. Offering and Listing Details—Market and Share Price Information" in this annual report.

B. Related Party Transactions

Shareholders Agreement

Pursuant to the First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., or the Shareholders Agreement, dated September 13, 2007, among N-T Information Engineering, N-S Digital TV, CDTV BVI, China Capital, China Cast, SAIF, Capital Funds and certain other shareholders, as amended by an agreement, dated June 14, 2011, among us, N-S Digital TV, China Cast, SAIF, Capital Funds and certain other shareholders, at any time beginning six months after the closing of our initial public offering, each of SAIF, Capital Funds and China Capital may, on three occasions only, require us to effect the registration on a form other than Form F-3 of all or part of the registrable securities then outstanding. In addition, any holder of registrable securities may require us to effect a registration statement on Form F-3 (or any successor form or any comparable form for a registration in a jurisdiction other than the United States) for a public offering of registrable securities so long as we are entitled to use Form F-3 (or a comparable form) for such offering. Demand for a registration on Form F-3 may be made on unlimited occasions, although we are not obligated to effect more than one such registration per shareholder in any six-month period.

Registrable securities are ordinary shares not previously sold to the public and issued or issuable or sold to SAIF, Capital Funds and China Capital, including: (a) ordinary shares issuable upon conversion or exercise of either (i) any of the Series A preferred shares, or (ii) any options or warrants to purchase ordinary shares or the Series A preferred shares of our company; (b) ordinary shares held by Capital Funds and China Capital; (c) ordinary shares issued pursuant to share splits, share dividends, and similar distributions to SAIF, Capital Funds and China Capital; and (d) any other securities of our company granted with registration rights pursuant to the Shareholders Agreement.

Holders of registrable securities also have "piggyback" registration rights, which may require us to register all or any part of the registrable securities then held by such holders when we register any of our ordinary shares.

We are generally required to bear all of the registration expenses incurred in connection with three demand registrations on a form other than Form F-3 for each of SAIF, Capital Funds and China Capital, unlimited Form F-3 and piggyback registrations, except underwriting discounts and selling commissions, but including reasonable expenses of one counsel for the party exercising the registration right. The registration right under the Shareholders Agreement has been terminated on June 14, 2015.

Equity Transfer Agreement (Super TV)

Pursuant to a definitive equity transfer agreement, dated November 7, 2016, and a supplemental agreement thereto, dated December 26, 2016, between Golden Benefit, our wholly-owned subsidiary, and Bao Li, a limited liability company then collectively owned by several buyer parties, including Mr. Jianhua Zhu, our Chief Executive Officer and director, Golden Benefit transferred all the equity interest then held by it in Beijing Super TV to Bao Li for a consideration of RMB610 million.

C. Interests of Experts and Counsel

Not Applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Consolidated Statements

See "Item 18. Financial Statements."

Legal Proceedings

We are not currently a party to any material legal proceeding and, to our knowledge, there are no material legal proceedings threatened against us. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

Dividend Policy

In April 2016, our board of directors declared a special cash dividend of US$0.20 per ordinary share. US$12,034,386 was paid in August 2016 with US$3,600 remaining payable as of December 31, 2017.

In April 2017, our board of directors declared a special cash dividend of US$1.50 per ordinary share. US$95,235,984 was paid in June 2017 with US$27,000 remaining payable as of December 31, 2017.

Our board of directors has the discretion to determine the payment of any dividends. As a matter of company policy, our board of directors will consider declaring and paying dividends for a given period, subject to the board of directors' determination that (i) we have sufficient profit attributable to shareholders for such period and (ii) our funding requirements can be fully satisfied if a proposed dividend is declared and paid. Our board of directors will review and decide whether to revise our dividend policy, from time to time, in light of our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions, general business conditions and other factors as the board of directors may deem relevant.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid by the depositary to holders of ADSs in U.S. dollars. Other distributions, if any, will be paid by the depositary to holders of our ADSs by any means it deems legal, fair and practical.

B. Significant Changes

There have been no significant changes since December 31, 2017, the date of the annual financial statements in this annual report.

Item 9. The Offer and Listing

A. Offering and Listing Details

Market and Share Price Information

Our ADSs, each representing one ordinary share, had been listed on the NYSE since October 5, 2007 and traded under the symbol "STV" until the removal from listing on NYSE on October 25, 2017. Our ADSs are quoted on the OTC Markets under the symbol "STVVY" as of the date of this annual report.

The high and low closing prices of our ADSs on the NYSE since listing until May 16, 2017, when the trading in our ADSs was halted, and on the OTC Markets are as follows:

	Price per ADS (US$)*	
	High	Low
Yearly:		
2013	2.27	1.36
2014	4.94	1.81
2015	5.08	1.50
2016	1.73	1.12
2017(1)	1.75	0.12
Quarterly:		
First Quarter, 2016	1.72	1.40
Second Quarter, 2016	1.73	1.13
Third Quarter, 2016	1.39	1.12
Fourth Quarter, 2016	1.61	1.15
First Quarter, 2017	1.48	1.25
Second Quarter, 2017(1)	1.78	0.31
Third Quarter, 2017	0.34	0.22
Fourth Quarter, 2017	0.25	0.16
First Quarter, 2018	0.24	0.16
Monthly:		
October 2017	0.25	0.20
November 2017	0.23	0.20
December 2017	0.21	0.16
January 2018	0.24	0.16
February 2018	0.20	0.16
March 2018	0.18	0.16
April 2018 (through April 19)	0.18	0.14

* Trading in our ADSs was halted on May 16, 2017, since when the prices of our ADSs were recorded on the OTC Markets.

(1) The high point was recorded on the NYSE while the low point was recorded on the OTC Markets.

As of March 31, 2018, a total of 40,376,226 ADSs were outstanding, excluding the 3,382,769 ADSs that were held for our account in preparation for exercise of share options by option holders under our employee stock incentive plans. As of March 31, 2018, 40,376,226 ordinary shares were registered in the name of DBTCA, the depositary under the deposit agreement, excluding 3,382,769 ordinary shares that were issued and held for our account in preparation for exercise of share options by option holders under our employee stock incentive plans.

B. Plan of Distribution

Not Applicable.

C. Markets

Our ADSs, each representing one ordinary share, had been listed on the NYSE since October 5, 2007 and traded under the symbol "STV" until the removal from listing on NYSE on October 25, 2017. Our ADSs were quoted on the OTC Markets under the symbol "STVVY" as of the date of this annual report.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

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Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our Second Amended and Restated Memorandum and Articles of Association contained in our registration statement on Form F-1 (File No. 333-146072) filed with the SEC on September 14, 2007. Our shareholders adopted our Second Amended and Restated Memorandum and Articles of Association on September 13, 2007.

Through a special resolution passed at the extraordinary general meeting of the Company held on March 2, 2018, we amended our Second Amended and Restated Articles of Association. We have filed the amendment and the Second Amended and Restated Articles of Association, as amended, as exhibits of this annual report.

C. Material Contracts

Other than the contracts described elsewhere in this annual report, we and our operating companies have not entered into any material contracts that are not in the ordinary course of business within the two years preceding the date of this annual report.

D. Exchange Controls

The Cayman Islands currently have no exchange control restrictions. See also "Item 4. Information on the Company—B. Business Overview—Regulations—Foreign Currency Exchange" and "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Foreign Exchange in Certain Onshore and Offshore Transactions" for information on foreign currency exchange in the PRC.

E. Taxation

The following discussion of the material Cayman Islands and United States federal income tax consequences of an investment in the ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in the ADSs, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

To the extent the following discussion relates to Cayman Islands law with respect to the income tax consequence of an investment in our ADSs, it represents the opinion of Conyers Dill & Pearman.

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and

- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for us is for a period of 20 years from May 1, 2007.

United States Federal Income Taxation

This section describes the material United States federal income tax consequences of owning ADSs. It applies to you only if you are a U.S. holder, as defined below, and you hold your ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;

- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

- a tax-exempt organization;

- a life insurance company;

- a person liable for alternative minimum tax;

- a person that actually or constructively owns 10% or more of our stock by vote or value;

- a person that holds ADSs as part of a straddle or a hedging or conversion transaction;

- a person that purchases or sells ADSs as part of a wash sale for tax purposes; or

- a person whose functional currency is not the U.S. dollar.

U.S. holders are urged to consult their tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state, local and non-United States tax consequences to them of the purchase, ownership and disposition of our ADSs or ordinary shares.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed Treasury regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the ADSs should consult its tax advisor with respect to the United States federal income tax treatment of an investment in the ADSs.

You are a U.S. holder if you are a beneficial owner of ADSs for United States federal income tax purposes and you are:

- an individual that is a citizen or resident of the United States;

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- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) organized under the laws of the United States, any State or the District of Columbia;

- an estate whose income is subject to United States federal income tax regardless of its source; or

- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax. Unless noted otherwise, the United States federal income tax treatment of holding shares is generally the same as that of holding ADSs that represent such shares.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the PFIC rules discussed below, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid by us with respect to our ADSs is generally expected to be reported as a "dividend" for United States federal income tax purposes. Dividends we pay with respect to the ADSs generally will not be eligible for the preferential dividend rate currently applicable to certain "qualified dividend income" received by noncorporate shareholders. As discussed below, we believe that we were treated as a PFIC for the taxable year ended December 31, 2017.

You must include any foreign tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when the depositary receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. holders that are United States corporations in respect of dividends received from other United States corporations.

Subject to certain limitations, in the event that PRC tax is withheld and paid over to the PRC with regard to the dividend payments, the PRC tax may in certain circumstances be creditable or deductible against your United States federal income tax liability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Dividends payable by us to our non-PRC shareholders and ADS holders, and gains on the sales of our ordinary shares or ADSs, may be subject to withholding taxes under PRC tax laws, which may materially reduce the value of your investment." Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be creditable against your United States federal income tax liability. The rules governing foreign tax credits are complex and, therefore, U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit or deduction in respect thereof in such U.S. holders' particular circumstances.

Dividends will generally be treated as income from sources outside the United States, and, depending on your circumstances, will be either "passive" or "general" category income for purposes of computing the foreign tax credit allowable to you.

You should consult your own tax advisor regarding how to account for dividends paid in a currency other than the U.S. dollar.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS equal to the difference between the U.S. dollar value of the amount realized for the ADS and the U.S. holder's U.S. dollar tax basis in the ADS. The gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADSs for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will generally be treated as United States source income (or loss, in the case of losses, subject to certain limitations).

Any gain or loss that you recognize on a disposition of our ADSs generally will be treated as United States source income or loss for foreign tax credit limitation purposes. In the event that any gain from the disposition of our ADSs is subject to PRC withholding tax, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may be able to elect to treat the gain as PRC source income for foreign tax credit purposes. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and their ability to credit any PRC tax withheld in respect of a sale of our ADSs or Class A ordinary shares against their United States federal income tax liability.

U.S. holders should consult their tax advisors regarding how to account for amounts received in a currency other than the U.S. dollar.

PFIC Rules

Based on analyses of our income and the value of our assets, we believe we were a PFIC for the taxable years ended December 31, 2017 and December 31, 2016. In addition, although we believe we were not treated as a PFIC for our taxable years ended December 31, 2015 and December 31, 2014, we believe that we have been treated as a PFIC in prior taxable years before the taxable year ended December 31, 2014. The conclusion as to our PFIC status is a factual determination that is made annually and thus we may or may not be a PFIC for the taxable year ending December 31, 2018 or subsequent taxable years. In addition, because PFIC status is determined based on complex rules that may not be entirely clear, and based on the value of assets that cannot in certain circumstances be known for certain, no guarantee regarding our PFIC status can be made for any particular year. To the extent that we hold a significant amount of cash or other passive assets in the future, as a general matter, it is more likely that we would be treated as a PFIC in such future taxable years. You will generally be treated as holding stock of a PFIC in the first taxable year of your holding period in which we became a PFIC and subsequent taxable years even if we cease to satisfy the tests to be classified as a PFIC in subsequent taxable years, unless you make certain elections.

In general, we will be a PFIC if for any taxable year in which you held our ADSs:

- at least 75% of our gross income for the taxable year is passive income; or

- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. In general, if a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

Because we believe that we likely were classified as a PFIC for our immediately prior taxable year, for the taxable year ended December 31, 2016 and before the taxable year ended December 31, 2014, you will generally be subject to the special PFIC tax rules if you held our ADSs in a taxable year while we were treated as a PFIC with respect to you.

If we are a PFIC with respect to a U.S. holder for any taxable years during which a U.S. holder holds our ADSs and any of our subsidiaries (including any entities treated as being owned by us for United States federal income tax purposes) is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of each such subsidiary classified as a PFIC for purposes of the application of these rules.

If we are treated as a PFIC, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the ADSs during the three preceding taxable years or, if shorter, your holding period for the ADSs).

Under these rules:

- the gain or excess distribution (collectively, an "excess distribution") will be allocated ratably over your holding period for the ADSs;
- the amount allocated to the taxable year in which you realized excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year generally will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Moreover, your ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your ADSs, even if we are not currently a PFIC at the time of a distribution or recognition of gain, unless certain elections are made.

The adverse tax consequences mentioned above may be mitigated if a U.S. holder is eligible and does elect to annually mark-to-market the ADSs; however, the mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. Our ADSs were delisted from the NYSE and are now quoted on the OTC Markets. Accordingly, our stock will no longer qualify as "marketable stock" for the purpose of the mark-to-market election, U.S. holders of our stock will no longer be eligible to make a mark-to-market election with respect to our stock, and U.S. holders of our stock that had made mark-to-market elections with respect to our stock in the past will be subject to the special PFIC rules for the taxable year ended December 31, 2017 and for future taxable years.

If we are or were a PFIC for any taxable year during which you hold or held our ADSs, we will continue to be treated as a PFIC with respect to you for all subsequent years during which you hold the ADSs, unless we have ceased to be classified as a PFIC under the tests described above and you make a "deemed sale" election. If you make a deemed sale election, you will be deemed to have sold your ADSs at their fair market value on the last day of the last taxable year in which we qualified as a PFIC and any gain from such deemed sale would be subject to the excess distribution rules described above. After the deemed sale election, so long as we do not become a PFIC in a subsequent taxable year, your ADSs with respect to which a deemed sale election was made will not be treated as equity interests in a PFIC. However, as discussed above, even if we cease to be treated as a PFIC, we may be treated as a PFIC in subsequent taxable years, in which case you would be subject to the excess distribution rules discussed above with respect to such subsequent taxable years.

In certain circumstances, a U.S. holder of stock in a PFIC may avoid the adverse tax and interest charge regime applicable to excess distributions described above by making a "qualified electing fund" election. U.S holders of our ADSs are not expected to be able to make this election.

If you own ADSs during any year that we are a PFIC with respect to you, you generally must file Internal Revenue Service Form 8621 with your U.S. federal income tax return. You should discuss this filing requirement with your tax advisor.

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You should consult your own tax advisor regarding the application of the PFIC rules to your ownership and disposition of the ADSs or shares, the effect of our not being treated as a PFIC for the taxable year ended December 31, 2017 and the availability, application and consequences of the elections discussed above.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs and proceeds from the sale, exchange or redemption of ADSs may be subject to information reporting to the Internal Revenue Service and possible United States backup withholding. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certifications or who is otherwise exempt from backup withholding, and demonstrates such exemption when requested. U.S. holders can generally avoid being subject to backup withholding by providing a properly completed Internal Revenue Service form W-9. U.S. holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules. Backup withholding is not an additional tax. Amounts withheld as backup withholding generally are allowed as a credit against your United States federal income tax liability, and you may be entitled to obtain a refund of any excess amounts withheld under the backup withholding rules if you file an appropriate claim for refund with the IRS and furnish any required information in a timely manner. U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Individual U.S. holders, and certain entities, that own "specified foreign financial assets" with an aggregate value in excess of $50,000 are generally required to file an information statement along with their tax returns, currently on Internal Revenue Service Form 8938, with respect to such assets. "Specified foreign financial assets" generally include financial accounts held at non-U.S. financial institutions, as well as securities issued by a non-U.S. issuer (which would include our ADSs) that are not held in accounts maintained by certain financial institutions. Higher reporting thresholds apply, including to certain individuals living abroad and to certain married individuals. Regulations have been issued extending this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets. U.S. holders who fail to report the required information could be subject to substantial penalties. U.S. holders should consult their own tax advisors concerning the application of these rules to their investment in our ADSs in their particular circumstances.

U.S. holders of ADSs should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences resulting from purchasing, holding or disposing of our ADSs, including the applicability and effect of the tax laws of any state, local or non-U.S. jurisdiction.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

You can read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference room located at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

I. Subsidiary Information

Not Applicable.

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Item 11. Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Risk

As of December 31, 2017, we had no short-term or long-term borrowings. Our exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits with the banks. We have not used any derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may fall short of expectations due to changes in interest rates. In addition, we may borrow loans in the future and changes in interest rates may affect our finance cost.

Foreign Currency Risk

Although the conversion of the Renminbi is highly regulated in the PRC, the value of the Renminbi against the value of the U.S. dollar (or any other currency) nonetheless may fluctuate and be affected by, among other things, changes in the political and economic conditions in the PRC. Under the currency policy in effect in the PRC today, the Renminbi is permitted to fluctuate in value within a narrow band against a basket of certain foreign currencies. The PRC is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the U.S. dollar.

In 2017, substantially all of our revenues and cost of revenues of our continuing operations are generated from our PRC subsidiaries and are denominated in Renminbi. However, fluctuations in exchange rates may affect our revenues, costs, profit margins and net income (loss), when they are reported in U.S. dollar.

Fluctuations in exchange rates may also affect our balance sheet. For example, to the extent that we need to convert U.S. dollars received in our initial public offering into the Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. Considering the amount of our cash and cash equivalents as of December 31, 2017, a 1.0% appreciation of the Renminbi against the U.S. dollar will result in an estimated increase of approximately US$0.1 million in our total amount of cash and cash equivalents, and a 1.0% appreciation of the U.S. dollar against the Renminbi will result in a decrease of approximately US$0.1 million in our total cash and cash equivalents.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Public of China—Fluctuations in exchange rates could result in foreign currency exchange losses."

In April and May 2011, we entered into foreign currency forward contracts to facilitate the payment of a special cash dividend declared in November 2010, in an effort to reduce our exposure to foreign currency exchange risk. These foreign currency forward contracts expired in the second quarter of 2012.

Inflation

In recent years, inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in the PRC was 1.4%, 2.0% and 1.6% in 2015, 2016 and 2017, respectively. Although we have not been materially affected by inflation since our inception, we cannot assure you that we will not be affected in the future by higher rates of inflation in the PRC.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not Applicable.

B. Warrants and Rights

Not Applicable.

C. Other Securities

Not Applicable.

D. American Depositary Shares

Fees and Charges for Holders of American Depositary Receipts

Our American Depositary Receipt, or ADR, facility is maintained by DBTCA, pursuant to a deposit agreement dated as of October 11, 2007, or the Deposit Agreement, by and among us, DBTCA, and holders and beneficial owners of ADSs evidenced by ADRs issued thereunder. We use the term "holder" in this discussion to refer to the person in whose name an ADR is registered.

In accordance with the terms of the Deposit Agreement, DBTCA may charge holders of our ADSs, either directly or indirectly, fees or charges up to the amounts described below.

- US$5.00 for each 100 ADSs, or any portion thereof, issued or surrendered, for:

- each issuance of ADSs, including upon the deposit of shares or to any person to whom an ADS distribution is made pursuant to share dividends or other free distributions of shares, bonus distributions, share splits or other distributions (except where converted to cash); and

- each surrender of ADSs for cancellation and withdrawal of deposited securities, including cash distributions made pursuant to a cancellation or withdrawal;

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US$2.00 per 100 ADSs for distribution of cash proceeds pursuant to a cash distribution (so long as the charging of such fee is not prohibited by any exchange upon which the ADSs are listed), sale of rights and other entitlements, not made pursuant to a cancellation or withdrawal;

- US$5.00 per 100 ADSs, or any portion thereof, issued upon the exercise of rights;

- an annual fee of US$0.02 per ADS for the operation and maintenance costs in administering the facility; and

- in connection with inspections of the relevant share register maintained by the local registrar, if applicable, undertaken by DBTCA, its custodian or their respective agents: an annual fee of US$0.01 per ADS (such fee to be assessed against holders of record as of the date or dates set by DBTCA as it sees fit and collected at the sole discretion of DBTCA by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions).

In addition, holders or beneficial owners of our ADSs, persons depositing shares for deposit and persons surrendering ADSs for cancellation and withdrawal of deposited securities may be required to pay DBTCA the following charges:

- taxes, including applicable interest and penalties, and other governmental charges;

- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities, including those of a central depository for securities (where applicable);

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- certain cable, telex, facsimile and electronic transmission and delivery expenses;
- expenses incurred by DBTCA in connection with the conversion of foreign currency into U.S. dollars;
- fees and expenses incurred by DBTCA in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares, deposited securities and ADSs; and
- any additional fees, charges, costs or expenses that may be incurred by DBTCA from time to time.

The fees charged upon issuance of ADSs are imposed on the person to whom ADSs are issued, and in the case of withdrawals and cancellations, on the person surrendering the ADSs. In the case of cash distributions, service fees are generally deducted from the cash being distributed. In the case of distributions other than cash, such as stock dividends and rights, the depositary charges the applicable ADS record date holder concurrent with the distribution. Annual fees may be collected from holders of ADSs in a manner determined by DBTCA. In the case of ADSs registered in the name of the investor (whether certificated or in book-entry form), DBTCA sends invoices to holders of our ADSs as of the applicable record date. In the case of ADSs being held in brokerage and custodian accounts (via The Depositary Trust and Clearing Corporation, or DTCC), DBTCA may, if permitted by the settlement systems provided by DTCC, collect the fees through such settlement systems (whose nominee is the registered holder of the ADSs held in DTCC) from the brokers and custodians holding the ADSs in their DTCC accounts. The brokers and custodians who hold their clients' ADSs in DTCC accounts in such case may, in turn, charge their clients' accounts the amount of the service fees paid to DBTCA.

The ADS holders are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities underlying their ADSs. The custodian of DBTCA may refuse to deposit shares and DBTCA may refuse to issue ADSs, deliver ADRs, register the transfer, split up or combination of ADRs, or allow the relevant ADS holder to withdraw the deposited securities underlying the ADSs until such taxes or other charges, including any applicable interest and penalty, are paid. DBTCA may apply payments owed to the relevant ADS holder or sell deposited securities underlying the ADSs to pay any taxes, including interest and penalty owed, and the relevant ADS holder will remain liable for any deficiency. If DBTCA sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to the relevant ADS holder any proceeds, or send to the relevant ADS holder any property remaining after it has paid the taxes.

Payment Made by DBTCA to Our Company

For the year ended December 31, 2017, DBTCA reimbursed us US$0.7 million for contributions towards our investor relations activities and other miscellaneous expenses related to the listing of our ADSs on the NYSE. In addition, DBTCA paid an aggregate of US$13,293 on our behalf for organizing our annual general shareholders' meeting for the year 2017.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Material Modifications to the Rights of Security Holders

See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

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Use of Proceeds

Not Applicable.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report. Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were designed, and were effective to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company’s assets that could have a material effect on the consolidated financial statements.

Due to its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation, and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management, with the participation of our chief executive officer and chief financial officer, assessed the effectiveness of the internal control over financial reporting as of December 31, 2017 using criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation, we have concluded that our internal control over financial reporting was effective as at December 31, 2017.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management’s report in this annual report.

Remediation of Prior Year Material Weakness

We previously disclosed in our annual report on Form 20-F for the fiscal year ended December 31, 2016 that we identified the following control deficiencies that constitute material weakness: insufficient accounting personnel with appropriate U.S. GAAP knowledge for accounting, presentation and disclosure of complex unusual transactions.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We have taken measures to address the material weakness, including designing and implementing more robust financial reporting and management controls for complex and unusual transactions. As of December 31, 2017, we concluded that the material weakness described in our annual report on Form 20-F for the fiscal year ended December 31, 2016 had been remediated.

Changes in Internal Control over Financial Reporting

Other than the implementation and refinement of the controls necessary to remediate the previous year's material weakness, there were no significant changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) under the Exchange Act that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16.

Item 16A. Audit Committee Financial Expert

Not Applicable.

Item 16B. Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all our directors, officers and employees, including our chief executive officer, chief financial officer and financial controller. We have filed the Code of Business Conduct and Ethics as an exhibit to our registration statement on Form F-1 (No. 333-146072) and have posted the text of such codes on our Internet website at http://ir.chinadtv.cn.

Item 16C. Principal Accountant Fees and Services

KPMG Huazhen LLP, or KPMG, had served as our independent registered public accounting firm for the fiscal years ended December 31, 2016 and December 31, 2017. KPMG is appointed by our board of directors and will hold office until our board of directors appoints another auditor.

Audit Fees

The aggregate fees paid or accrued in each of 2016 and 2017 for professional services rendered by our principal accountant for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory or regulatory filings or engagements were US$1.0 million and US$0.6 million, respectively.

Audit-Related Fees

The aggregate fees billed in each of 2016 and 2017 for assurance and related services rendered by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under the caption "Audit Fees" above were nil and nil, respectively.

Tax Fees

The aggregate fees billed in each of 2016 and 2017 for professional services relating to tax compliance, tax advice and tax planning rendered by our principal accountant were US$10 and nil thousand, respectively.

All Other Fees

The aggregate fees billed in each of 2016 and 2017 for products and services provided by our principal accountant, other than the services reported above under the captions "Audit Fees," "Audit-Related Fees" and "Tax Fees," were nil and nil, respectively.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F. Change in Registrant's Certifying Accountant

None.

Item 16G. Corporate Governance

Not Applicable.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III

Item 17. Financial Statements

We have elected to provide financial statements and related information specified in Item 18.

Item 18. Financial Statements

See "Index to Consolidated Financial Statements" for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

Number	**Description of Exhibit**
1.1	Second Amended and Restated Memorandum and Articles of Association of China Digital TV Holding Co., Ltd.[1] and Notice containing a Special Resolution passed on March 2, 2018, amending the Second Amended and Restated Articles of Assciation of China Digital TV Holding Co., Ltd.

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Number	Description of Exhibit
2.1[(1)]	Specimen of Share Certificate.
2.2[(1)]	Form of Deposit Agreement, including form of American Depositary Receipts.
2.3[(1)]	First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated September 13, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd., China Digital TV Technology Co., Ltd., China Capital Investment Holdings Limited, China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.
4.1[(1)]	Asset Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.
4.2[(1)]	Equity Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and related (i) Equity Entrustment Agreement, dated September 10, 2004, and (ii) Equity Purchase Entrustment Agreement, dated April 1, 2004, both between the same parties.
4.3[(1)]	Asset Purchase Agreement, dated June 8, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.4[(1)]	Equity Transfer Agreement, dated August 4, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and related Equity Transfer Agreement, dated March 15, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Panasonic Corporation of China.
4.5[(1)]	Asset Transfer Agreement, dated August 5, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and the Supplemental Agreement thereto, dated April 6, 2007.
4.6[(1)]	Trademark Licensing Agreement entered into in March 2007 between Beijing Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.7[(1)]	Equipment Leasing Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.8[(1)]	Technical Support and Related Service Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.9[(1)]	Technology License Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.10[(1)]	Technology Development Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.11[1]	Products and Software Purchase Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.12[3]	Letter of Consent, dated April 30, 2009, issued by Beijing Super TV Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd.
4.13[3]	Equity Transfer Agreement, dated June 20, 2008 between Wei Gao and Junming Wu for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.14[3]	Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Shizhou Shen for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.15[3]	Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Lei Zhang for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.16	Equity Transfer Option Agreement, dated June 7, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Li Yang[1]; the Supplemental Agreement thereto, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.[1]; the No. 2 Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao[1]; the No. 3 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu[3]; the No. 4 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen[3]; and the No. 5 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang[6].
4.17[1]	Share Pledge Agreement, dated September 1, 2005, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.18[3]	Termination Agreement of Share Pledge, dated November 24, 2008, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.
4.19	Share Pledge Agreement, dated September 1, 2005, between Li Yang and Beijing Super TV Co., Ltd.[1]; the Supplemental Agreement thereto, dated August 18, 2007, among Li Yang, Beijing Super TV Co., Ltd. and Wei Gao[1]; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Wei Gao and Junming Wu[3]; and the Share Pledge Termination Agreement, dated July 11, 2011 between Beijing Super TV Co., Ltd. and Junming Wu[6].

4.20[3]	Share Pledge Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.21[3]	Share Pledge Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.22	Business Operating Agreement, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.[(1)]; the Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao[(1)]; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu[(3)]; the No. 3 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen[(3)]; and the No. 4 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang[(6)].
4.23[(1)]	Power of Attorney, dated September 1, 2005, of Novel-Tongfang Information Engineering Co., Ltd.
4.24[(1)]	Power of Attorney, dated August 18, 2007, of Wei Gao.
4.25[(3)]	Power of Attorney, dated June 20, 2008, of Junming Wu.
4.26[(3)]	Power of Attorney, dated November 24, 2008, of Shizhou Shen.
4.27[(3)]	Power of Attorney, dated November 24, 2008, of Lei Zhang.
4.28[(1)]	Entrusted Loan Agreement, dated August 23, 2004, among Beijing Super TV Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.29[(1)]	Entrusted Loan Agreement, dated July 13, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.30[(1)]	Entrusted Loan Agreement, dated August 25, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.31[(1)]	Loan Agreement, dated April 4, 2007, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and the related Entrusted Loan Agreement, dated April 12, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.32[(3)]	Loan Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.33[(3)]	Loan Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
4.34[(1)]	Service Agreement, dated April 2, 2007, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.35[(1)]	

Interest Payment Agreement, dated November 30, 2006, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.36[(1)] Form of Property Lease Agreement.

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Number	Description of Exhibit
4.37[1]	Fixed Assets Transfer Agreement, dated March 28, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.38[1]	Form of Employment Agreement and related Form of Agreement on Confidentiality and Intellectual Property.
4.39[1]	Form of Non-Disclosure, Non-Competition, Commitment and Proprietary Information Agreement.
4.40[1]	Form of Indemnification Agreement for Directors.
4.41[1]	Amended and Restated 2005 Stock Incentive Plan of China Digital TV Holding Co., Ltd. and form of share option agreement.
4.42[1]†	Cooperation Agreement, dated January 5, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Jiangsu Qingda Science and Technology Industries Co., Ltd.
4.43[1]	Cooperation Agreement, dated July 18, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and China Electronics Smart Card Co., Ltd.
4.44[1]	2008 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.45[2]	Agreement for Equity Transfer of Beijing Novel-Super Digital TV Technology Co., Ltd., dated December 2007, between China Digital TV Technology Co., Ltd. and Golden Benefit Technology Co., Ltd.
4.46[3]	Intellectual Property Transfer Agreement, dated August 13, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.47[3]	Equity Transfer Agreement, dated October 5, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.48[3]	Framework Agreement for Purchase of Computer Chips, dated December 12, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.49[4]	Framework Agreement for Sale of Software Products, dated July 14, 2009, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.50[4]	Equity Transfer Agreement, dated February 26, 2010, between Beijing Novel-Super Digital TV Technology Co., Ltd. and Beijing Shi Xun Hu Lian Technology Co., Ltd.
4.51[5]	Shareholders' Agreement, dated December 1, 2010, between Beijing Super TV Co., Ltd. and Beijing Yuewu Yuntian Software Technology Ltd.
4.52[5]	Shareholders' Agreement, dated April 29, 2011, between Beijing Super TV Co., Ltd. and Beijing Ying Zhi Cheng Technology Co., Ltd.

4.53[5]	2010 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.54[6]	Loan Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.55[6]	Loan Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.56[6]	Loan Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.57[6]	Capital Increase and Equity Transfer Agreement, dated July 11, 2011, between Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang, Tianxing Wang and Beijing Novel-Super Digital TV Technology Co., Ltd.

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Number	Description of Exhibit
4.58(6)	Power of Attorney, dated July 11, 2011, of Lei Zhang.
4.59(6)	Power of Attorney, dated July 11, 2011, of Shizhou Shen.
4.60(6)	Power of Attorney, dated July 11, 2011, of Tianxing Wang.
4.61(6)	Power of Attorney, dated July 11, 2011, of Wenjun Wang.
4.62(6)	Share Pledge Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.63(6)	Share Pledge Agreement, dated July 11, 2011, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.64(6)	Share Pledge Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.65(6)	Share Pledge Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.66(6)	Written Undertaking, dated November 22, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.67(6)	Power of Attorney, dated January 16, 2012, of Lei Zhang.
4.68(6)	Power of Attorney, dated January 16, 2012, of Shizhou Shen.
4.69(6)	Power of Attorney, dated January 16, 2012, of Tianxing Wang.
4.70(6)	Power of Attorney, dated January 16, 2012, of Wenjun Wang.
4.71(6)	Share Pledge Agreement, dated January 16, 2012, between Lei Zhang and Beijing Super TV Co., Ltd.
4.72(6)	Share Pledge Agreement, dated January 16, 2012, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.73(6)	Share Pledge Agreement, dated January 16, 2012, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.74(6)	Share Pledge Agreement, dated January 16, 2012, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.75(6)	Supplemental Agreement to Loan Agreements, dated January 16, 2012, among Beijing Super TV Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.76(6)	Supplemental Agreement, dated February 9, 2012, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.77(6)	Cooperation Termination Agreement, dated November 9, 2011, between Dongguan Super TV Video Info Co., Ltd. and the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd.
4.78(6)	

Capital Increase Agreement, dated May 24, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Ying Zhi Cheng Technology Co., Ltd. and Beijing Joysee Technology Co., Ltd.

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Number	Description of Exhibit
4.79[6]	First Amendment to First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated June 14, 2011, among China Digital TV Technology Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.
4.80[7]	China Digital TV Holding Co., Ltd. 2012 Stock Incentive Plan.
4.81[7]	Second Supplemental Agreement to Loan Agreement, dated April 12, 2013, between Beijing Super TV Co., Ltd. and Tianxing Wang.
4.82[8]	Share Transfer Agreement, dated April 30, 2014, among Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center, Beijing Cyber Cloud Co., Ltd. and Beijing Xinsi Yijia Technology Co., Ltd.
4.83[8]	Share Transfer Agreement, dated April 30, 2014, among Beijing Super TV Co., Ltd., China Super Media Holdings Limited, Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center and Beijing Cyber Cloud Co., Ltd.
4.84[8]	Termination Agreement of Existing Contractual Agreements, dated June 20, 2014, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Tianxing Wang, Wenjun Wang and Shizhou Shen.
4.85[8]	Termination Agreement of Existing Contractual Agreements, dated April 14, 2015, among Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.86[8]	Share Transfer Agreement, dated June 20, 2014, among Lei Zhang, Tianxing Wang, Wenjun Wang, Shizhou Shen and Beijing Super TV Co., Ltd.
4.87[9]	Framework Agreement, dated June 13, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
4.88[9]	Framework Agreement Amendment, dated October 9, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
4.89[9]	Share Transfer Agreement, dated October 9, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
4.90[8]	Supplementary Share Transfer Agreement, dated October 27, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
4.91[9]	Profit Compensation Agreement, dated October 9, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.

4.92[9]	Supplementary Profit Compensation Agreement, dated October 27, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.
4.93[9]	Share Subscription Agreement, dated October 9, 2014, between Shanghai Tongda Venture Capital Co., Ltd. and Golden Benefit Technology Limited.

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Number	Description of Exhibit
4.94[10]	Equity Transfer Agreement, dated November 7, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
4.95[11]	Supplemental Agreement to the Equity Transfer Agreement, dated December 26, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
4.96[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Yang Tingling
4.97[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Zhang Xi
4.98[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Liu Yu
4.99[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Yang Tingling and Wu Zhenhua
4.100[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Zhang Xi and Hu Yongxin
4.101[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Liu Yu and Ma Bin
4.102[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Wu Zhenhua
4.103[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Hu Yongxin
4.104[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Ma Bin
4.105[12]	Power of Attorney, dated June 23, 2014, of Wu Zhenhua
4.106[12]	Power of Attorney, dated June 23, 2014, of Hu Yongxin
4.107[12]	Power of Attorney, dated June 23, 2014, of Ma Bin
4.108[12]	Equity Transfer Option Agreement, dated June 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Ma Bin, Hu Yongxin and Wu Zhenhua
4.109[12]	Technical Support and Related Service Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Beijing Dingyuan Technology Co., Ltd.
8.1	List of Subsidiaries of China Digital TV Holding Co., Ltd.

11.1[(1)]	Code of Business Conduct and Ethics of China Digital TV Holding Co., Ltd.
12.1	CEO Certification pursuant to Rule 13a - 14(a).
12.2	CFO Certification pursuant to Rule 13a - 14(a).
13.1	CEO Certification pursuant to Rule 13a - 14(b).
13.2	CFO Certification pursuant to Rule 13a - 14(b).

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Number	Description of Exhibit
23.1	Consent of KPMG Huazhen LLP.
23.2	Consent of Han Kun, PRC Lawyers.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

†† Portions of the agreement have been omitted pursuant to a confidential treatment request and have been filed with the SEC separately with a confidential treatment request.

(1) Previously filed as an exhibit to the Registration Statement on Form F-1 (File No. 333-146072) of China Digital TV Holding Co., Ltd. and incorporated herein by reference thereto.

(2) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on June 18, 2008 and incorporated herein by reference thereto.

(3) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 20, 2009 and incorporated herein by reference thereto.

(4) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 30, 2010 and incorporated herein by reference thereto.

(5) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 12, 2011 and incorporated herein by reference thereto.

(6) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 17, 2012 and incorporated herein by reference thereto.

(7) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 16, 2013 and incorporated herein by reference thereto.

(8) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 28, 2015 and incorporated herein by reference thereto.

(9) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 10, 2014 and incorporated herein by reference thereto.

(10) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 7, 2016 and incorporated herein by reference thereto.

(11) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on December 28, 2016 and incorporated herein by reference thereto.

(12) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 21, 2017 and incorporated herein by reference thereto.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA DIGITAL TV HOLDING CO., LTD.

By:	/s/ Jianhua Zhu
Name:	Jianhua Zhu
Title:	Chief Executive Officer and Chairman

Date: April 20, 2018

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China digital tv holding co., lTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

China Digital TV Holding Co., Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of China Digital TV Holding Co., Ltd. and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), change in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule I (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the Company’s auditor since 2015.

Bejing, China
April 20, 2018

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China digital tv holding co., lTD.

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share and per share data)

	As of December 31,	
	2016	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,292	$ 24,425
Restricted cash	4,753	-
Term deposits	2,344	2,376
Short-term investments	-	3,783
Notes receivable	81	-
Accounts receivable, net of allowance for doubtful accounts of $89 and $110 as of December 31, 2016 and 2017, respectively	500	1,931
Inventories	4	145
Prepaid expenses and other current assets	1,611	1,124
Total current assets	126,585	33,784
Property and equipment, net	421	-
Intangible assets, net	258	-
Goodwill	655	-
Deferred income tax assets	52	-
TOTAL ASSETS	$ 127,971	$ 33,784
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable (of which $115 and $303 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	445	350
Accrued expenses and other current liabilities (of which nil and $473 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	2,557	2,347
Advance from customer, deferred revenue and deferred income-current (of which $8 and $29 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	1,382	1,526
Government subsidies-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	81	70
Total current liabilities	4,465	4,293
	125	248

Deferred revenue-non-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)		
Government subsidies-non-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	310	261
Total liabilities	4,900	4,802
Commitments and Contingencies (Note 19)		
Equity:		
China Digital TV Holding Co., Ltd. shareholders' equity:		
Ordinary shares ($0.0005 par value; 200,000,000 and 200,000,000 shares authorized, 60,285,087 and 63,508,656 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	30	32
Additional paid-in capital	45,273	29,805
Statutory reserve	88	96
Retained earnings/(accumulated deficit)	75,104	(3,226)
Subscription receivable	(596)	(1,001)
Accumulated other comprehensive (loss)/income	(289)	430
Total China Digital TV Holding Co., Ltd. shareholders' equity.	119,610	26,136
Noncontrolling interest	3,461	2,846
Total equity	123,071	28,982
TOTAL LIABILITIES AND EQUITY	$127,971	$33,784

The accompanying notes are an integral part of these consolidated financial statements.

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China digital tv holding co., lTD.

CONSOLIDATED statements of COMPREHENSIVE INCOME (lOSS)

(U.S. dollars in thousands, except share and per share data)

	For the years ended December 31, 2015	2016	2017
Revenues			
Products	$ 248	$ 618	$ 790
Services	1,674	3,622	5,411
Total revenues	1,922	4,240	6,201
Taxes and surcharges	(2)	(12)	(41)
Net revenues	1,920	4,228	6,160
Cost of revenues (including share-based compensation of $3, nil and nil for 2015, 2016 and 2017, respectively)			
Products	143	506	511
Services	1,237	1,011	1,067
Total cost of revenues	1,380	1,517	1,578
Gross profit	540	2,711	4,582
Operating expenses:			
Research and development (including share-based compensation of $49, $463 and $463 for 2015, 2016 and 2017, respectively)	8,798	5,655	3,985
Selling and marketing (including share-based compensation of $30, $447 and $152 for 2015, 2016 and 2017, respectively)	4,114	2,747	1,758
General and administrative (including share-based compensation of $36, $2 and $21 for 2015, 2016 and 2017, respectively)	3,220	3,739	3,618
Impairment of goodwill	-	-	690
Impairment of property and equipment	-	-	425
Impairment of intangible assets	-	-	217
Gain from disposal of assets	-	-	(822)
Total operating expenses	16,132	12,141	9,871
Operating loss from continuing operations	(15,592)	(9,430)	(5,289)
Interest income	104	105	1,206

Gain from disposal of an equity method investment	-	95	-
Other income, net	354	1,088	710
Loss from continuing operations before income tax expenses	(15,134)	(8,142)	(3,373)
Income tax expenses/(benefits):			
Income tax-current	293	131	285
Income tax-deferred	(1)	(17)	52
Total income tax expenses	292	114	337
Net loss from continuing operations before share of loss on an equity method investment	(15,426)	(8,256)	(3,710)
Share of loss on an equity method investment, net of nil income taxes	(101)	-	-
Net loss from continuing operations	(15,527)	(8,256)	(3,710)
Discontinued operations (Note 3):			
Income/(loss) from the operations of discontinued operations, net of income tax expenses of $4,286, $2,492 and nil for 2015, 2016 and 2017, respectively	16,155	10,445	(389)
Gain from disposal of discontinued operations, net of income tax expenses of nil, $8,286 and nil for 2015, 2016 and 2017, respectively (including net gain of $16,685 from accumulated other comprehensive income reclassification in 2016)	-	43,190	-
Income/(loss) from discontinued operations, net of income tax expenses of $4,286, $10,778 and nil for 2015, 2016 and 2017, respectively	16,155	53,635	(389)
Net income/(loss)	628	45,379	(4,099)
Less: Net loss attributable to noncontrolling interest	(900)	(39)	(1,031)
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	1,528	45,418	(3,068)
Amounts attributable to ordinary shareholders of China Digital TV Holding Co., Ltd:			
Net loss from continuing operations	(14,627)	(7,226)	(2,679)
Income/(loss) from discontinued operations, net of income taxes	16,155	52,644	(389)
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$ 1,528	$ 45,418	$ (3,068)

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China digital tv holding co., lTD.

CONSOLIDATED statements of COMPREHENSIVE INCOME (lOSS) - continued

(U.S. dollars in thousands, except share and per share data)

	For the years ended December 31,		
	2015	2016	2017
Net income/(loss)	$628	$45,379	$(4,099)
Other comprehensive (loss)/income, net of nil income taxes:			
Foreign currency translation adjustment	(3,892)	(5,652)	866
Reclassification of foreign currency translation adjustment	-	(16,685)	-
Total other comprehensive (loss)/income, net of nil income taxes	(3,892)	(22,337)	866
Comprehensive (loss)/income	(3,264)	23,042	(3,233)
Less: Comprehensive loss attributable to noncontrolling interest	(933)	(437)	(884)
Comprehensive (loss)/income attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$(2,331)	$23,479	$(2,349)
Earnings/(loss) per share – basic and diluted:			
Net loss from continuing operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$(0.24)	$(0.12)	$(0.04)
Net income/(loss) from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	0.27	0.87	(0.01)
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$0.03	$0.75	$(0.05)
Weighted average shares outstanding, basic and diluted	59,968,346	60,199,096	62,372,111

The accompanying notes are an integral part of these consolidated financial statements.

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China digital tv holding co., lTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(U.S. dollars in thousands, except share and per share data)

	China Digital TV Holding Co., Ltd. Shareholders									
	Ordinary Shares	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Statutory reserve	Retained earnings	Subscription receivable	Total China Digital TV Holding Co., Ltd Shareholders Equity	Noncontrolling Interest	Total equity
Balance at January 1, 2015	59,705,570	$30	$35,639	$25,509	$17,977	$22,307	$-	$101,462	$565	$102,027
Share-based compensation	-	-	106	-	-	-	-	106	12	118
Appropriation for statutory reserve	-	-	-	-	384	(384)	-	-	-	-
Exercise of stock option	468,427	-	700	-	-	-	-	700	-	700
Capital injection by noncontrolling interest (Note 20(a))	-	-	1,531	-	-	-	-	1,531	741	2,272
Acquisition of noncontrolling interest (Note 20(b))	-	-	12	-	-	-	-	12	(59)	(47)
Net income	-	-	-	-	-	1,528	-	1,528	(900)	628
Foreign currency translation adjustment	-	-	-	(3,859)	-	-	-	(3,859)	(33)	(3,892)

Balance at December 31, 2015	60,173,997	30	37,988	21,650	18,361	23,451	-	101,480	326	101,806
Share-based compensation	-	-	4,591	-	-	-	-	4,591	295	4,886
Appropriation for statutory reserve	-	-	-	-	1	(1)	-	-	-	-
Exercise of stock option	111,090	-	68	-	-	-	-	68	-	68
Special cash dividend to shareholders	-	-	-	-	-	(12,038)	-	(12,038)	-	(12,038)
Capital injection by noncontrolling interest (Note 20(c))	-	-	2,704	-	-	-	-	2,704	10,028	12,732
Share subscription receivables of Cyber Cloud (Note 20(c))	-	-	-	-	-	-	(596)	(596)	-	(596)
Acquisition of noncontrolling interest (Note 20(d))	-	-	(78)	-	-	-	-	(78)	(548)	(626)
Disposal of discontinued operations	-	-	-	(16,685)	(18,274)	18,274	-	(16,685)	(6,203)	(22,888)
Net income	-	-	-	-	-	45,418	-	45,418	(39)	45,379
Foreign currency translation adjustment	-	-	-	(5,254)	-	-	-	(5,254)	(398)	(5,652)
Balance at December 31, 2016	60,285,087	30	45,273	(289)	88	75,104	(596)	119,610	3,461	123,071
Share-based compensation	-	-	756	-	-	-	-	756	269	1,025
Appropriation for statutory reserve	-	-	-	-	8	(8)	-	-	-	-
Exercise of stock option	3,223,569	2	3,785	-	-	-	-	3,787	-	3,787
Subscription receivable from exercise	-	-	-	-	-	-	(364)	(364)	-	(364)

of stock option										
Special cash dividend to shareholders	-	-	(20,009)	-	-	(75,254)	-	(95,263)	-	(95,263)
Foreign currency translation adjustment of subscription receivable of Cyber Cloud	-	-	-	-	-	-	(41)	(41)	-	(41)
Net loss	-	-	-	-	-	(3,068)	-	(3,068)	(1,031)	(4,099)
Foreign currency translation adjustment	-	-	-	719	-	-	-	719	147	866
Balance at December 31, 2017	63,508,656	$32	$29,805	$430	$96	$(3,226)	$(1,001)	$26,136	$2,846	$28,982

The accompanying notes are an integral part of these consolidated financial statements.

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China digital tv holding co., lTD.

CONSOLIDATED statements of cash flows

(U.S. dollars in thousands)

	For the years ended December 31,		
	2015	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/(loss)	$ 628	$ 45,379	$ (4,099)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization	607	670	326
Share-based compensation	118	4,886	1,025
Gain on disposal of assets	-	-	(822)
Impairment of goodwill	-	-	690
Impairment of property and equipment	-	-	425
Impairment of intangible assets	-	-	217
Income from short-term investments	-	-	(68)
Allowance for doubtful accounts	2,771	1,747	15
Write-down of inventory	1,050	219	-
Warranty accrual	50	17	-
Unrealized exchange losses	-	-	199
Share of loss/(income) on equity method investments	47	(195)	-
Gain from disposal of equity method investments	(184)	(95)	-
Gain from disposal of a subsidiary	-	(233)	-
Gain from disposal of discontinued operations	-	(43,190)	-
Changes in operating assets and liabilities:			
Accounts receivable and notes receivable	5,566	98	(1,277)
Inventories	(1,159)	785	(135)
Prepaid expenses and other current assets	3,017	(340)	(94)
Accounts payable	(639)	577	(121)
Income tax payable	(946)	(860)	-
Accrued expenses and other current liabilities	(3,083)	(1,766)	(6)
Deferred revenue and deferred income	(1,223)	195	167
Government subsidies	(538)	(1,030)	(83)
Deferred income taxes	1,170	(2,420)	52
Other assets	216	-	-
Net cash provided by/(used in) operating activities	7,468	4,444	(3,589)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(167)	(749)	(265)

Purchase of term deposits	-	(2,344)	(32)
Proceeds from disposal of discontinued operations, net of $24,822 cash disposed of, net of withholding income tax and stamp duties of $8,330	-	54,706	-
Payment of costs for disposal of discontinued operations	-	(933)	-
Proceeds from disposal of a subsidiary, net of $16 cash disposed of	-	134	-
Purchase of short-term investments	-	-	(8,362)
Proceeds from maturity of short-term investments	-	-	4,786
Proceeds from disposal of assets	2,816	-	830
Proceeds from disposal of an equity method investment	-	512	-
Purchase of an equity method investment	(541)	-	-
Net cash provided by/(used in) investing activities	2,108	51,326	(3,043)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock option exercise	700	80	3,423
Special cash dividend paid to shareholders	-	(12,034)	(95,236)
Capital contribution from noncontrolling interest shareholders	-	6,766	5,421
Acquisition of noncontrolling interests	(47)	(301)	(342)
Net cash provided by /(used in) financing activities	653	(5,489)	(86,734)
Effect of exchange rate changes on cash and cash equivalents	(2,133)	(3,127)	499
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	8,096	47,154	(92,867)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	16,610	18,713	117,292
CASH AND CASH EQUIVALENTS RECORDED IN CURRENT ASSETS OF SUPER TV, BEGINNING OF THE YEAR	45,432	51,425	-
LESS: CASH AND CASH EQUIVALENTS BALANCE RECORDED IN CURRENT ASSETS OF SUPER TV, END OF THE YEAR	(51,425)	-	-
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 18,713	$ 117,292	$ 24,425
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATIONS			
Income tax paid	$ 4,472	$ 5,775	$ 300
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Receivable from noncontrolling shareholders for capital injection (Note 20(c))	$ -	$ 1,213	$ 576
Payable for acquisition of noncontrolling interest (Note 12)	$ -	$ 338	$ (338)

The accompany notes are an integral part of these consolidated financial statements.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Digital TV Holding Co., Ltd. (the "Company" or "CDTV Holding") was incorporated in the Cayman Islands in 2007. The Company, through its subsidiaries and consolidated variable interest entity (“VIE”) (collectively, the "Group"), is primarily engaged in providing cable TV value added services which enables cable TV and IPTV network operators to offer diversified TV content services in the People's Republic of China ("PRC").

Prior to December 2016, the Group was also engaged in the installation and integration of conditional access systems ("CA Systems"), subscriber management systems and electronic program guidance systems to cable TV operators and the sale of digital TV intelligent cards ("smart cards") to these operators. These operations were conducted through the Company’s subsidiary, Beijing Super TV Co., Ltd (“Beijing Super TV”) and Beijing Super TV’s wholly owned subsidiary Beijing Novel-Super Digital TV Technology Co., Ltd. (“N-S Digital TV”). Beijing Super TV and N-S Digital TV’s (collectively “Super TV”) operations and cash flows were clearly distinguished, operationally and for financial reporting, from the rest of the Group.

On November 7, 2016 and December 26, 2016, the Group entered into share transfer agreement and supplemental share transfer agreement to dispose Beijing Super TV, including N-S Digital TV, and the sale closed on December 29, 2016 (see Note 3). The sale of Super TV represented a strategic shift and had a major effect on the Group’s result of operations. Accordingly, revenues, costs and expenses related to Super TV have been reclassified in the accompanying consolidated financial statements as discontinued operations for all the periods presented.

VIE contractual agreements

Beijing Dingyuan Technology Co., Ltd. ("Dingyuan") is a PRC entity held by several nominee shareholders ("Shareholders"), all of which are employees of the Company. Beijing Xinsi Yijia Technology Co., Ltd. ("Xinsi Yijia"), a majority-owned subsidiary of the Company, has entered into a series of contractual agreements with

Dingyuan, and the Shareholders. As a result of these contractual agreements, since June 2014, when the Company acquired Xinsi Yijia, the Company (1) had the power to direct the activities that most significantly affected the economic performance of Dingyuan, and (2) received the economic benefits of Dingyuan. A summary of the contractual agreements entered into among Xinsi Yijia, Dingyuan, and the Shareholders is as follows:

- **Loan Agreements and Supplemental Agreements to Loan Agreements:** Under loan agreements between Xinsi Yijia and the Shareholders, Xinsi Yijia extended loans to the Shareholders for contributing registered capital to Dingyuan. The term of each loan is ten years, which is renewable upon the approval of each party. With consent of Xinsi Yijia, the Shareholders may transfer the equity interests in Dingyuan to any third party, and their obligations under the loan agreements shall be borne by such transferee.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

VIE contractual agreements – continued

- **Equity Pledge Agreements:** Pursuant to the equity pledge agreements, each of the Shareholders pledged all of their respective equity interests in Dingyuan to Xinsi Yijia to secure the Shareholders' performance of their respective obligations under the contractual arrangements between the Shareholders and Xinsi Yijia. In addition, each of the Shareholders agreed not to transfer their equity interests in Dingyuan or create, or allow the creation of, any pledge over their respective equity interests in Dingyuan that may affect Xinsi Yijia's interests without Xinsi Yijia's consent. Xinsi Yijia is entitled to receive the dividends on the pledged equity interests during the term of the pledges. The duration of each of the equity pledge agreements is equivalent to the maximum duration of the contractual arrangements between the Shareholders and Xinsi Yijia. The agreements may only be terminated: (i) by Xinsi Yijia in writing; or (ii) upon the fulfillment of the Shareholders' respective obligations under the contractual arrangements between the Shareholders and Xinsi Yijia, which is subject to Xinsi Yijia's written confirmation.

- **Powers of Attorney:** Each of the Shareholders has executed an irrevocable power of attorney appointing Xinsi Yijia, or any person designated by Xinsi Yijia, as the attorney-in-fact to vote on their respective behalves on all matters of Dingyuan requiring shareholder approval under PRC laws, rules and regulations and the articles of association of Dingyuan. Each power of attorney has a term of ten years, subject to earlier termination in the event of the termination of the relevant loan agreement. The powers of attorney will be automatically renewed upon the extension of the term of the relevant loan agreement.

- **Equity Transfer Option Agreement:** Under this agreement, the Shareholders jointly granted Xinsi Yijia an exclusive and irrevocable option to purchase all of the equity interests held by them in Dingyuan at any time that Xinsi Yijia deems fit. Xinsi Yijia may purchase these equity interests itself or designate another party to purchase the equity interests.

- **Exclusive Technical Support and Related Services Agreement:** Dingyuan irrevocably appoints and designates Xinsi Yijia as its exclusive service provider to provide services, including but not limit to technical support, technical training and personnel services to Dingyuan. Service fees are determined based on the content and quality of the services provided by Xinsi Yijia, which could be up to all of Dingyuan’s pre-tax profit. The term of this agreement was 15 years, which is renewable upon the approval of each party.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

VIE contractual agreements - continued

In making the conclusion that Xinsi Yijia was the primary beneficiary of the VIE, the Company believes Xinsi Yijia's rights under the terms of the equity transfer option agreement had provided it with a substantive kick out right. More specifically, the Company believes the terms of the equity transfer option agreement were valid, binding and enforceable under PRC laws and regulations currently in effect. The Company also believes that the minimum amount of consideration permitted by the applicable PRC law to exercise the option did not represent a financial barrier or disincentive for Xinsi Yijia to exercise its rights under the equity transfer option agreement. In addition, the articles of association of Dingyuan provided that the Shareholders of Dingyuan had the power to, in a shareholders' meeting: (i) approve the operating strategy and investment plan; (ii) elect the members of board of directors and approve their compensation; and (iii) review and approve the annual budget and earnings distribution plan. Consequently, Xinsi Yijia's rights under the powers of attorney have reinforced the Company's abilities to direct the activities most significantly impacting Dingyuan’s economic performance. The Company also believes that this ability to exercise control ensured that Dingyuan would continue to execute and renew service agreements and pay service fees to Xinsi Yijia. By charging service fees in whatever amounts Xinsi Yijia deemed fit, and by ensuring that service agreements were executed and renewed, Xinsi Yijia had the rights to receive substantially all of the economic benefits from Dingyuan.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The following financial statement amounts and balances of the Company's consolidated VIE were included in the accompanying consolidated financial statements as of and for the years ended December 31:

	As of December 31,	
	2016	2017
Total current assets	$ 746	$ 1,155
Total assets	$ 746	$ 1,155
Total current liabilities	123	805
Total liabilities	$ 123	$ 805

	For the years ended December 31,		
	2015	2016	2017
Net revenues from continuing operations	$ 25	$ 394	$ 437
Net loss from continuing operations	$ (137)	$ (200)	$ (303)
Net income from discontinued operations	$ -	$ -	$ -

	For the years ended December 31,		
	2015	2016	2017
Net cash provided by /(used in) operating activities	$ 63	$ (6)	$ 397
Net cash used in investing activities	$ -	$ -	$ (659)
Net cash provided by financing activities	$ -	$ 151	$ -

In accordance with the contractual agreements, relevant PRC subsidiary of the Company has the power to direct activities of the consolidated VIE, and can have assets transferred out of the Group's VIE. Therefore, the Company considers that there is no asset in the Group's VIE that can be used only to settle its obligations. None of the assets of the consolidated VIE have been pledged or collateralized. The creditors of the consolidated VIE do not have recourse to the general credit of the Company and its consolidated subsidiary.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

As of December 31, 2017, the Company's subsidiaries and consolidated variable interest entity consist of the following entities:

Subsidiaries	Date of incorporation	Place of incorporation /establishment	Percentage of economic ownership
China Digital TV Technology Co., Ltd. ("CDTV BVI")	March 9, 2004	BVI	100%
Golden Benefit Technology Limited ("Golden Benefit")	December 6, 2007	Hong Kong	100%
China Super Media Holdings Limited ("CSM Holdings")	February 25, 2008	Hong Kong	100%
Beijing N-S Information Technology Co., Ltd. ("N-S Information Technology")	July 23, 2010	the PRC	100%
Beijing Cyber Cloud Co., Ltd. ("Cyber Cloud")	January 19, 2011	the PRC	57.7%
Beijing Joysee Technology Co., Ltd. ("Joysee")	May 13, 2011	the PRC	76.9%
Xinsi Yijia	December 31, 2012	the PRC	57.7%
Beijing Shibo Movie Technology Co., Ltd. ("Shibo Movie")	February 15, 2012	the PRC	100%
Beijing Shibo Qihang Technology Co., Ltd. ("Shibo Qihang", originally named as Beijing Dagong Technology Co. Ltd.)	December 24, 2015	the PRC	100%
Beijing Novel-Super Media Investment Co., Ltd. ("N-S Media Investment")	December 19, 2007	the PRC	100%
Hubei Shibo Screen Cross Technology Development Co., Ltd. ("Hubei Shibo")	August 12, 2015	the PRC	65.0%
Nanjing Yunyao Shibo Information Technology Co., Ltd. ("Nanjing Yunyao")	April 19, 2017	the PRC	57.7%

Variable interest entity

Dingyuan	August 21, 2013	the PRC	57.7%

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) ***Basis of presentation***

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) ***Basis of consolidation***

The consolidated financial statements of the Company include the financial statements of CDTV Holding, its subsidiaries, and consolidated VIE. All inter-company transactions and balances have been eliminated upon consolidation.

(c) ***Use of estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues, costs and expenses in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance for doubtful accounts, valuation of inventories, valuation allowance for deferred income tax assets, impairment of long-lived assets, impairment of goodwill and fair value of share-based payments. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

(d) ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(e)*Accounts receivable and allowance for doubtful accounts*

Accounts receivable are stated at the amount the Group expects to collect. The Group maintains allowances for doubtful accounts for estimated losses. Management considers the following factors when determining the collectability of specific accounts: historical experience, credit worthiness of the clients, aging of the receivables and other specific circumstances related to the accounts. Allowance for doubtful accounts is made and recorded into general and administrative expenses based on aging of accounts receivable and on any specifically identified accounts receivable that may become uncollectible. Accounts receivable which are deemed to be uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. There is a time lag between when the Company estimates a portion of or the entire account balances to be uncollectible and when a write off of the account balances is taken. The Company takes a write off of the account balances when the Company can demonstrate all means of collection on the outstanding balances have been exhausted.

From time to time, certain accounts receivable balances are settled in the form of notes receivable. As of December 31, 2016, notes receivable represents bank acceptance drafts that are non-interest bearing and due within six months. Upon maturity of the bank acceptance drafts, the Group collects the face amount from the banks.

(f)*Investment*

Equity method investments

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest are accounted for using the equity method. Significant influence is generally considered to exist when the Group has an ownership interest in the voting stock of the investee between 20% and 50%, and other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. The Group did not incur any impairment loss on equity method investments for the years ended December 31, 2015, 2016 and 2017.

Cost method investments

Investee companies over which the Group does not have significant influence or a controlling interest are carried at cost and recognized as income for any dividend received from distribution of the investee's earnings.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and determined to be other-than-temporary.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(g) ***Financial instruments***

Financial instruments of the Group primarily consist of cash and cash equivalents, restricted cash, term deposits, notes receivable, accounts receivable and accounts payable. The carrying values of the Group's financial instruments approximate their fair values, principally because of the short-term maturity of these instruments or their terms.

(h) ***Short-term investments***

As of December 31, 2017, the Company held investments in financial products managed by three PRC financial institutions. The terms of the financial products range between 33 days and 181 days. The financial products matured before March 2018 and provided the Company a return of $37, of which the Company recognized unrealized holding gain of $17 as of December 31, 2017.

(i) ***Concentration of credit risk***

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, term deposits, short-term investments, notes receivable and accounts receivable. The Group places their cash and cash equivalents, restricted cash, term deposits and short-term investments in financial institutions with high-credit ratings and quality.

Approximately 93.4% of the Group's cash deposits were placed with two commercial banks in the PRC as of December 31, 2017. The Group takes into account a number of factors, including, among other things, the industry rankings, credit rating and reputation, in determining the creditworthiness and quality of the financial institutions in the PRC with which it has placed its cash and cash equivalents, restricted cash and term deposits (collectively "cash deposits"). The following table sets forth information relating to the two largest proportions of the Group's cash deposits held by banks as of December 31, 2016 and 2017, respectively.

Details of the banks accounting for 10% or more of total cash deposits are as follows:

Bank	As of December 31, 2016	2017
	%	%
Bank A	83.7	69.8
Bank B	10.8	23.6

The Group conducts credit worthiness evaluations of customers and generally does not require collateral or other security from customers. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors relevant to determining the credit risk of specific customers.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(i)*Concentration of credit risk - continued*

Customers accounting for 10% or more of total revenues from continuing operations are as below:

Customer	For years ended December 31, 2015	2016	2017
	%	%	%
Customer A	54.8	40.5	31.9
Customer B	*	14.6	*
Customer C	-	-	14.6

Customers accounting for 10% or more of accounts receivable are as below:

Customer	As of December 31, 2016	2017
	%	%
Customer B	24.7	*
Customer D	17.3	-
Customer E	11.6	-
Customer C	-	52.1

*The amount was less than 10%.

(j) ***Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. The components of inventory cost include raw materials, processing cost of finished goods and purchase cost of products. We routinely evaluate quantities and value of our inventories in light of current market conditions and market trends, and record a write-down against the cost of inventories for net realizable value below cost.

(k) ***Property and equipment***

Property and equipment are carried at cost less accumulated depreciation and any recorded impairment. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Computer and electronic equipment	3 years
Furniture and fixture	5 years
Leasehold improvement	Shorter of useful life of the asset or the lease term
Motor vehicles	5 years

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in earnings.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(l) ***Intangible assets***

Intangible assets, other than goodwill, acquired in connection with a business combination are estimated by management with the assistance of a third party valuer based on the fair value of the assets acquired.

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of intangible assets with finite useful lives is computed using the straight-line method over the following estimated average useful lives, which are as follows:

Core technology	3 years
Customer relationship	9.5 years

(m) ***Impairment of long-lived assets other than goodwill***

The Group evaluates the recoverability of long-lived assets, including property and equipment and intangible assets with finite useful lives, whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset (assets group) against the estimated undiscounted future cash flows associated with the asset (assets group). Impairment exists when the sum of the undiscounted cash flows expected to be generated by that asset is less than the carrying value of the asset (assets group) being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset (assets group) exceeds its fair value. Fair value is estimated based on various techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(n) ***Goodwill***

The excess of the purchase price over the fair value of identifiable net assets acquired in a business combination is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for the Company's business, estimation of the useful life over which cash flows will be generated, and determination of the Company's weighted average cost of capital.

In the evaluation of the goodwill for impairment, the Group first assesses qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The Group has determined to perform the annual impairment test on December 31 of each year. The Group recognized nil, nil and $690 impairment loss on goodwill for the years ended December 31, 2015, 2016 or 2017, respectively.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) ***Revenue recognition***

The Group’s revenues are derived from sales of products and services, and are recorded net of value added tax (“VAT”). Revenue is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery of the products has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. These criteria are related to each of the following major revenue generating activities described below.

Specifically, sales of products include:

(1) Sales of smart cards; and

(2) Sales of other products.

Sales of services include the following arrangements:

(1) Cloud-based application platform (“cloud platform”) operating services;

(2) Head-end software, hardware and related system integration service ("SI service");

(3) Head-end system development service ("SD service");

(4) Licensing income; and

(5) Royalty income.

All the revenues from sales of smart cards, licensing and royalty fees and substantially all of SI service and SD service were derived from the operation of Super TV. Since Super TV was disposed by the Company in December 2016, the related revenues are included in income from operations of discontinued operations for the years ended December 31, 2015 and 2016 (see Note 3).

Sales of smart cards

Smart cards are manufactured by third-party manufacturers based on the Group's blueprints. When the Group receives these products from the manufacturers, the Group programs each one with a unique security code so that it can communicate with the Group's CA Systems.

For sales to customers in the PRC, revenue is recognized when acceptance of delivery is signed by customers. Whereas sales to customers outside the PRC, revenue is recognized when delivery occurs according to the term in agreements with customers.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) ***Revenue recognition - continued***

Sales of smart cards - continued

The Group also offers a certain amount of free cards when the cumulative volume of smart card purchases from the same customer is greater than a set volume during a specific period. The Group accounts for volume based sales incentives as deferred revenue which is deducted against the initial revenue.

The Group generally guarantees the quality of smart cards for periods ranging from one to three years, and if any smart cards are found defective during the warranty period, the Group is obligated to replace them at the Group's cost. Historically, the defect rate of smart cards has been low and the Group accrues warranty liabilities based on historical information.

Sales of others products

The Group also derives revenues from the sales other products.

For sales to customers in the PRC, revenue is recognized when acceptance of delivery is signed by customers. Whereas sales to customers outside the PRC, revenue is recognized when delivery occurs according to the term in agreements with customers.

The Group guarantees the quality of a part of the products for a period after sale, and if any products are found defective during the warranty period, the Group is obligated to replace them at the Group's cost. Historically, the defect rate has been low and the Group accrues warranty liabilities based on historical information.

Cloud platform operating services

The Group enters into agreements with cable TV network operators and publishes games developed by third party game developers onto the cloud platforms. The end users are able to access the cloud platforms on cable TV. The cloud platforms enable the end users to purchase in-game virtual items by converting virtual currencies, which is purchased in the uniform platform virtual currency system. The cable TV network operators receive the service fees paid by end users and they will pay the Group a pre-agreed portion of the cash received.

The Group views cable TV network operators as the Group's customers. In the arrangements with cable TV network operators, cable TV network operators enter into agreements with end users and are in the role of operating the cable TV network system. The Group's cloud platform service is one of the value added services embedded in the cable TV network system.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) ***Revenue recognition - continued***

Cloud platform operating services - continued

The Group is not able to estimate amount of revenue before billing statements are mutually agreed with cable TV network operators. Amount of revenue earned is only determinable, when the Group receives billing statements from cable TV network operators.

The Group considers itself as the primary obligor, as it operates the cloud platforms, including initiating promotion activities, providing bug fixing and upgrades services of the platforms, maintaining virtual currency system, managing interfaces of the platform, and maintaining the servers, as needed. In addition, the Group has the discretion in supplier selection and the latitude in establishing price. As such, the Group recognizes such revenue on a gross basis.

Once the end users convert the platform virtual currency to in-game virtual items, the in-game virtual items are normally used by the end users in a very short period of time. In addition, substantially most of the in-game virtual items can be used only once and provide one-time advantages to the end users upon usage in the game without further substantial benefits.

At each period end, the Group summarizes consumed virtual currencies and the balance of unconsumed virtual currencies. The Group recognizes revenue for consumed virtual currencies based on the billing statements mutually agreed with cable TV network operators and defers revenue for unconsumed balance as of each period end.

SI service

For cloud platform and CA System, the Group signs contracts with cable network operators to install and integrate the Group's software with the hardware and software purchased from third-party suppliers.

Deliverables of SI service include: software, hardware, integration, installation, and post-contract customer support ("PCS").

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) ***Revenue recognition - continued***

SI service - continued

For multi-element arrangements of SI service, which include delivery, integration, and installation of hardware products containing software essential to the hardware product's functionality, and provision of PCS. The Group allocates revenue to deliverables based on their relative selling prices. In such circumstances, the Group uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Group sells the deliverable separately and is the price actually charged by the Group for that deliverable. ESPs reflect the Group's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

When the Group delivers the hardware and software, installs and integrates them together to customers, customers sign the preliminary acceptance. Final acceptance is typically signed six months to one year after the issuance of the preliminary acceptance if no major technical problems are discovered. Hardware, software, integration, and installation are considered delivered to customers when preliminary acceptance is signed because only at that time customers are able to use the integrated system. Therefore, revenue for the SI service, except PCS, is recognized when the installation and integration of software is completed, which is indicated by obtaining the preliminary acceptance from customers. The Group defers the revenue for PCS and recognizes it over the period of PCS.

SD service

The Group develops head-end system applications relating to cloud platform and digital TV technology for its customers.

Deliverables in SD service include the completed software application. A few arrangements also include free PCS for a period, generally less than one year, starting from customer acceptance. Payment terms vary based on the stage of the service. Normally a portion of the contract amount is paid when the contract is signed, and the remaining is paid upon the completion of the project and customer acceptance. The cost of providing free PCS has historically been insignificant.

Because a system development arrangement requires significant production, modification, or customization of software, the Group refers to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-35, "Construction-Type and Production-Type Contracts" for revenue recognition. As the system development service is generally completed within several weeks or months, the completed-contract method is used. Revenue for system development is recognized when the system development is finished and accepted by the customer.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(o) *Revenue recognition - continued*

Licensing income

The Group coordinates with network operators to produce set-top boxes compatible with the Group’s CA Systems. The Group enters into contracts with set-top box manufacturers selected by the network operators and provides these manufacturers with CA Systems terminal-end technology that is integrated in the set-top boxes and which permits the unscrambling of digital TV broadcasts that have been transmitted by TV network operators who use the Group’s CA Systems. The Group provides testing and certifying service on the CA Systems’ terminal-end technology so that the set-top box is compatible with the Group’s CA system. The set-top box manufacturers pay the Group a one-time license fee, which includes a testing and certifying fee, for obtaining the blueprints and technologies. According to the contracts, these manufacturers are required to provide a set-top box prototype to the Group in order to obtain a certificate from the Group which indicates the set-top box is compatible with the Group’s CA Systems and suitable for mass-production. The licenses to set-top box manufacturers are perpetual once provided. No PCS is offered in the licensing arrangement.

Licensing income is recognized when all revenue recognition criteria have been met, which is indicated by the Group receiving acceptance note of license issued by the set-top box manufacturers.

Royalty income

The Group receives royalties on sales of CA Systems terminal-end technology from set-top box manufacturers. Royalty revenue is recognized when both of the following criteria are met: (1) sales reports are received from set-top box manufacturers; and (2) payments are received.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(p) ***VAT and VAT refund***

VAT on sales is calculated at 17% on revenue from product sales and SI Services or 6% on revenue from other services and subsequently paid to the PRC tax authorities after netting input VAT on purchases. The excess of output VAT over input VAT is reflected in Accrued expenses and other current liabilities, and the excess of input VAT over output VAT is reflected in Prepaid expenses and other current assets in the consolidated balance sheets.

For certain software related products that qualify as "software products" by PRC tax authorities, the Group pays VAT at 17% first and then receives a 14% refund. The Group records VAT refund receivables on an accrual basis. VAT refund is recorded in revenue in the consolidated statements of comprehensive income (loss).

(q) ***Taxes and surcharges***

The Company’s PRC subsidiaries and consolidated VIE are subject to taxes and surcharges which are calculated based on the net amounts of VAT payable to tax authority.

(r) ***Government subsidies***

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote economic development of the local technology industry. When the Group receives the subsidies related to government sponsored projects, the subsidies are recorded as a liability and are recognized as subsidy income when there is no further performance obligation. Government subsidies that compensate the acquisition cost of an asset are recognized in profit or loss over the useful life of the asset as other income. Subsidy income of $197,

$460 and $91 from continuing operations were recognized in other income and $1,250, $863 and nil from discontinued operations were recognized in income from operations of discontinued operations, for the years ended December 31, 2015, 2016 and 2017, respectively.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(s) ***Operating leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease periods.

(t) ***Foreign currency translation***

The functional and reporting currency of the Company is the US dollar. The functional currency of the Company's subsidiaries outside the PRC is the US dollar. The functional currency of the Company's subsidiaries and consolidated VIE in the PRC is Renminbi ("RMB").

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of comprehensive income (loss).

For translating the financial statements of the Company's PRC subsidiaries (including consolidated VIE) into the reporting currency of the Company (US dollar), assets and liabilities are translated from each subsidiary's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss) in the consolidated statements of comprehensive income (loss).

When the Company deconsolidates any of its subsidiaries which functional currencies are not US Dollar, the amount of accumulated other comprehensive income related to foreign currency translation adjustment of the deconsolidated subsidiaries will be reclassified to profit or loss and included in the calculation of gain or loss from deconsolidation.

Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China ("PBOC") or other institution authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(u) ***Income taxes***

Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for net operating losses available for carry-forwards and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the amount of deferred income tax assets if it is considered more likely than not that some portion of, or all of the deferred income tax assets will not be realized.

Income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than not to be sustained upon audit of the related tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group records interest and penalties related to unrecognized tax benefits (if any) in interest expenses and general and administrative expenses, respectively.

(v) ***Earnings/(loss) per share***

Basic earnings/(loss) per ordinary share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(loss) per ordinary share reflect the potential dilution that could occur if dilutive potential common shares were exercised or converted into ordinary shares. The Group has stock options which could potentially dilute basic earnings/(loss) per share. The dilutive effect of stock options is computed using the treasury stock method. Potential dilutive securities are not included in the calculation of diluted earnings/(loss) per share if the impact is anti-dilutive.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(w) ***Research and development expenses***

Research and development expenses are costs incurred in the development of the Group's products and technologies, including significant improvements and refinements to existing products and services. All research and development expenses are expensed as incurred.

(x) ***Share-based compensation***

Share-based payment transactions with employees and directors are measured based on the grant date fair value of the equity instrument issued. Share-based compensation expenses, net of an estimated forfeiture rate, are recognized over the requisite service period based on the graded vesting attribution method, with a corresponding impact reflected in additional paid-in capital.

The Group recognizes the estimated compensation expenses of performance-based stock options based on the grant date fair value. The awards are earned upon attainment of identified performance goals. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expenses only for those awards that are expected to vest.

A change in any of the terms or conditions of share options shall be accounted for as a modification of the plan. Therefore, the Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Group would recognize incremental compensation cost in the period the modification occurred and for unvested options, the Group would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(y) ***Fair value***

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

- Level 1-inputs are based upon unadjusted quoted prices for identical assets or liabilities traded in active markets.
- Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

The carrying amounts of cash and cash equivalents, restricted cash, term deposits, notes receivable, accounts receivable, and accounts payable, as of December 31, 2015, 2016 and 2017, approximate fair value because of the short maturity of these instruments.

Short-term investments include financial products issued by financial institutions, which are valued based on prices per units quoted by issuers. They are categorized in level 2 of the fair value hierarchy.

The Group measures certain financial assets, including cost method investments and equity method investments, at fair value on a nonrecurring basis only if an impairment loss were to be recognized. The Group's non-financial assets, such as goodwill, intangible assets and property and equipment, would be measured at fair value only if they were determined to be impaired.

The inputs used to measure the estimated fair value of goodwill, intangible assets and property and equipment are classified as Level 3 fair value measurement due to the significance of unobservable inputs using company-specific information. The valuation methodology used to estimate the fair value of goodwill and long-lived assets is income approach based on its discounted cash flow.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(z)*Business combinations*

Business combinations are recorded using the acquisition method of accounting. The purchase price of the acquisition is allocated to the tangible assets, liabilities, identifiable intangible assets acquired and noncontrolling interest, if any, based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. If the purchase price is less than those fair values, the difference is recognized directly in the consolidated statements of comprehensive income (loss). Acquisition-related expenses and restructuring costs are expensed as incurred.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

Where the consideration in an acquisition includes contingent consideration and the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings.

(aa)*Transactions between entities under common control*

When accounting for a transfer of assets or exchange of shares between entities under common control of the Company, the carrying amounts of the assets and liabilities transferred shall remain unchanged subsequent to the transaction, and no gain or loss shall be recorded in the Company's consolidated statements of comprehensive income (loss).

(bb) ***Commitments and contingencies***

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(cc) ***Discontinued operations***

The Company reports disposal of subsidiaries in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results, when either the subsidiaries are classified as held for sale or are disposed by sale.

When a discontinued operation is disposed of before being classified as held for sale, the Company presents the assets and liabilities of the discontinued operation separately from other assets and liabilities on the consolidated balance sheet before the period that includes the disposal.

(dd) ***Segment reporting***

The Company considers the internal reporting used by the Company's chief operating decision maker for making operating decisions about the allocation of resources of the segment and the assessment of its performance in determining the Company's reportable operating segments. Management has determined that the Company has one operating segment, which is digital television related products and services.

(ee) ***Recently adopted accounting standards***

Effective from January 1, 2017, the Company adopted the FASB ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The standard simplified certain aspects of the accounting for share-based payment transactions, including recognition of excess tax benefits and deficiencies, classification of awards and classification in the statement of cash flows and forfeitures. As a result of adoption, the Company elected to estimate the number of awards that are expected to vest. The adoption of this standard had no impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) ***Recently issued accounting pronouncements not yet adopted***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, which deferred the effective date of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The new revenue standard may be adopted retrospectively to each prior period presented (“the full retrospective method”) or retrospectively with the cumulative effect recognized as of the date of adoption (“the modified retrospective method”). The new standard and its related amendments are collectively known as “ASC 606”.

The Group adopted ASC 606 as of January 1, 2018 and will recognize the cumulative effect of initial applying the guidance recognized at the date of initial application (modified retrospective method). The group has completed the evaluation and concluded that the impact on accumulated deficit as of January 1, 2018 upon adoption of this standard relates to the manner in which the Company recognizes revenue for its cloud platform operating services. Under the current accounting policies, the Group recognizes revenue upon receiving the billing statements. Under ASC 606, the Group recognizes revenue based on its estimate of the variable consideration it expects to be entitled. Adopting this new accounting standard will result in a decrease in the absolute value of accumulated deficit of approximately $162.

In February 2016, the FASB issued ASC Topic 842, *Leases* through ASU No. 2016-02. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease. All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. The Group is currently evaluating the impact ASU No. 2016-02 will have on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(ff) ***Recently issued accounting pronouncements not yet adopted - continued***

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group evaluated the impact of ASU No. 2016-15 and does not expect the adoption of ASU No. 2016-15 will have material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted cash.* This ASU requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Group evaluated the impact of ASU No. 2016-18 and determined to fully adopt the new standards starting from January 1, 2018 and will apply a retrospective transition method to each period presented.

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3. DISCONTINUED OPERATIONS

On November 7, 2016 and December 26, 2016, the Company's subsidiary Golden Benefit entered into an equity transfer agreement and a supplemental agreement to equity transfer agreement (collectively the "Equity Transfer Agreements") with Beijing Super TV and Changxing Bao Li Rui Xin Technology Co., Ltd. ("Bao Li"), a limited liability company.

Mr. Zhu Jianhua, Chief Executive Officer and Director of the Company, owns interests in and then had significant influence on Bao Li.

According to the Equity Transfer Agreements, Bao Li agreed to pay cash consideration of RMB610 million to acquire all of the equity interest in Beijing Super TV owned by Golden Benefit, which represents 90.09% of outstanding equity interests of Beijing Super TV (the "Transaction").

A PRC subsidiary of the Company received total purchase consideration of RMB552 million, net of withholding income tax and stamp duties of RMB58 million from Bao Li in Renminbi, on December 27, 2016. Beijing Super TV completed the legal registration update of its shareholder information with the relevant PRC governmental authorities on December 29, 2016.

As a result, the Company no longer retained power of control over Beijing Super TV and deconsolidated Beijing Super TV and its wholly owned subsidiary, N-S Digital TV from the Company's consolidated financial statements on December 29, 2016. $43,190 was recognized as gain from disposal of discontinued operations in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2016.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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3. DISCONTINUED OPERATIONS - continued

The operating results from discontinued operations included in the Company's consolidated statements of comprehensive income (loss) were as follows for the years ended December 31, 2015, 2016 and 2017.

	For years ended December 31,		
	2015	2016	2017 (Note c)
Major classes of line items constituting pretax profit of discontinued operations			
Net revenues	$ 50,944	$ 47,328	$ -
Cost of revenues (including share-based compensation of nil, $181 and $6 for 2015, 2016 and 2017, respectively)	(13,767)	(12,719)	(6)
Selling, research and development, and general and administrative expenses (including share-based compensation of nil, $3,793 and $383 for 2015, 2016 and 2017, respectively)	(19,452)	(23,823)	(383)
Other income and expenses that are not major	2,662	1,956	-
Income/(loss) from the operations of the discontinued operations, before income taxes (Note a)	20,387	12,742	(389)
Income tax expenses (Note b)	(4,286)	(2,492)	-
Net income/(loss) from the operations of discontinued operations, before share of income on equity method investments	16,101	10,250	(389)
Share of income on equity method investments	54	195	-
Income /(loss) from the operations of the discontinued operations, net of income taxes	16,155	10,445	(389)
Gain from disposal of discontinued operations, net of income taxes	-	43,190	-
Income/(loss) from discontinued operations, net of income taxes	$ 16,155	$ 53,635	$ (389)
Net income/(loss) from discontinued operations attributable to China Digital TV Holding Co., Ltd.	$ 16,155	$ 52,644	$ (389)

a. Income/(loss) from the operations of discontinued operations, before income taxes, attributable to China Digital TV Holding Co., Ltd. was income of $20,387, $11,750 for the years ended December 31, 2015 and 2016, respectively, and loss of $389 for the year ended December 31, 2017.

b. Golden Benefit incurred withholding income tax expense relating to retained earnings of Beijing Super TV at a 10% income tax rate. This withholding tax expense is included as income tax expenses for the discontinued operations at the amount of $1,608 and $2,045 for the years ended December 31, 2015 and 2016, respectively.

c. Incremental cost of $389 was incurred related to the modification of vested share options granted to the grantees employed by Beijing Super TV and N-S Digital TV under the share incentive plans of the Company.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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3. DISCONTINUED OPERATIONS - continued

The condensed cash flows of Super TV were as follows for the years ended December 31, 2015, 2016 and 2017:

	For years ended December 31,		
	2015	2016	2017
Net cash provided by operating activities	$ 22,847	$ 18,278	$ -
Net cash provided /(used in) by investing activities	2,507	(206)	-
Net cash provided by financing activities	-	5,015	-
Effect of exchange rate changes on cash and cash equivalents	(1,752)	(2,041)	-

China digital tv holding co., lTD.

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4. SEGMENT INFORMATION AND REVENUE ANALYSIS

The Group's chief operating decision maker is the Chief Executive Officer, who reviews consolidated results of operations when making decisions about allocating resources and assessing performance of the Group.

The Group primarily operates in the PRC, all of the Group's long-lived assets are located in the PRC and majority of the Company's revenues for the years ended December 31, 2015, 2016 and 2017 were generated from the PRC.

After the disposal as described in Note 3, the Company still has one operating segment, which is digital television related products and services. The gross revenues consist of the following:

	For the years ended December 31,		
	2015	2016	2017
Revenues from continuing operations			
Products	$ 248	$ 618	$ 790
Services			
Cloud platform operations	412	2,019	2,341
Head-end system integration	527	708	1,846
Head-end system development	735	895	1,224
Subtotal	1,674	3,622	5,411
Total revenues	$ 1,922	$ 4,240	$ 6,201

Revenues generated by the discontinued operations, which were included in income from operations of discontinued operations, consisted of revenues from products of $46,150, $43,504 and nil, and revenues from services of $5,630,

$4,541 and nil for the years ended December 31, 2015, 2016, and 2017, respectively.

VAT refunds of $9, $57 and $92 from continuing operations were included in revenues and $4,120, $3,062 and nil from discontinued operations were included in income from operations of discontinued operations for the years ended December 31, 2015, 2016 and 2017, respectively.

China digital tv holding co., lTD.

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5. RESTRICTED CASH

Restricted cash consists of the following:

	As of December 31,	
	2016	2017
Bank deposits in an escrow account (Note 20(c))	$ 4,753	$ -
Restricted cash	$ 4,753	$ -

6. SHORT-TERM INVESTMENTS

Short-term investments consist of the following:

	As of December 31,	
	2016	2017
Aggregate cost basis	$ -	$ 3,766
Gross unrealized holding gain	$ -	$ 17
Aggregate fair value	$ -	$ 3,783

The Group’s short-term investments represent financial instruments issued by financial institutions with variable interest rates indexed to the performance of underlying assets. As of December 31, 2017, there was no unrealized holding losses.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of the following:

	As of December 31,	
	2016	2017
Accounts receivable	$ 589	$ 2,041
Less: allowance for doubtful accounts	(89)	(110)
Accounts receivable, net	$ 500	$ 1,931

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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7. ACCOUNTS RECEIVABLE, NET - continued

Movement of allowance for doubtful accounts is as follows:

	Balance at beginning of the year	Charge to expenses	Exchange rate difference	Balance at end of the year
2016	$ 21	$ 73	$ (5)	$ 89
2017	$ 89	$ 15	$ 6	$ 110

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	As of December 31, 2016	As of December 31, 2017
Computers and other electronic equipment	$ 989	$ 1,132
Furniture and fixtures	6	3
Leasehold improvements	35	38
Motor vehicles	13	-
	1,043	1,173
Less: accumulated depreciation	(622)	(742)
Less: accumulated impairment loss	-	(431)

$ 421	$ -

For the years ended December 31, 2015, 2016 and 2017, depreciation expense was $273, $368 and $273 for continuing operations, respectively, and $259, $231 and nil for discontinued operations which was included in income from operations of discontinued operations, respectively.

For the years ended December 31, 2015, 2016 and 2017, the Group recognized impairment loss of nil, nil, and $425, respectively, for property and equipment from continuing operations, based on the evaluation of the recoverability of property and equipment.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

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9. INTANGIBLE ASSETS, NET

Intangible assets, net, consist of the following:

	As of December 31,	
	2016	2017
Core technology	$ 101	$ 107
Customer relationship	327	348
	428	455
Less: accumulated amortization		
Core technology	(84)	(107)
Customer relationship	(86)	(128)
	(170)	(235)
Less: accumulated impairment loss		
Customer relationship	-	(220)
	$ 258	$ -

For the years ended December 31, 2015, 2016 and 2017, the Group recorded amortization expense of $75, $71 and $53 for continuing operations, respectively, and nil amortization expense for discontinued operations for each of the periods presented.

For the years ended December 31, 2015, 2016 and 2017, the Group recognized impairment loss of nil, nil and $217, respectively, for intangible assets with definite lives, based on the evaluation of the recoverability of intangible assets.

10. GOODWILL

The changes in the carrying amount of goodwill were as follows:

	For years ended December 31, 2016	2017
Balance at beginning of the year	$ 1,343	$ 655
Transfer out by the sale of Super TV	(597)	-
Impairment of Goodwill	-	(690)
Exchange rate difference	(91)	35
Balance at end of the year	$ 655	$ -

For the years ended December 31, 2015, 2016 and 2017, the Group recognized impairment loss of nil, nil and $690 for the reporting unit of cloud computing-based services as the carrying amount exceeded its fair value due to negative estimated future cash flows.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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11. EQUITY METHOD INVESTMENT

In August 2015, the Group, Guoshi Communication (Beijing) Co., Ltd. (“Guoshi”) and certain third party individuals set up Sinoscreens Media (Beijing) Co., Ltd. ("Sinoscreens"), in which the Group held 34% of the equity interest. The Group injected cash of RMB3.4 million (equivalent to $541) to Sinoscreens in 2015. The Group has accounted for this long-term investment using equity method accounting because the Group does not control the investee but has the ability to exercise significant influence over the operating and financial policies of the investee.

In June 2016, the Group sold its equity interest in Sinoscreens to a third party for a cash consideration of $512.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2016	2017
Accrued payroll and bonus	$ 752	$ 841
Other taxes payable	135	400
Accrued professional fees	1,088	809
Social insurance withholding	149	165
Payable for acquisition of noncontrolling interest*	338	-
Dividend payable	4	31
Others	91	101
	$ 2,557	$ 2,347

* In December 2016, N-S Information Technology purchased the remaining 20% of the equity interest in Shibo Qihang held by Beijing Quanda Technology Center ("Quanda") for a cash consideration of $626, among which $338 remained payable as of December 31, 2016 (see Note 20(d)). The payable was paid in February 2017.

China digital tv holding co., lTD.

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13. ADVANCE FROM CUSTOMERS, DEFERRED REVENUE AND DEFERRED INCOME

Deferred revenue and deferred income consists of the following:

	As of December 31,	
	2016	2017
Current:		
Advance from customers	857	1,078
Reimbursements to expenses incurred from Deutsche Bank Trust Company Americas	173	-
Deferred revenue for SI service contracts with remaining PCS period within one year	16	315
Unconsumed virtual currency balance estimated to be consumed within one year	336	133
	1,382	1,526
Non-current:		
Deferred revenue for SI service contracts with remaining PCS period longer than one year	6	9
Unconsumed virtual currency balance estimated to be consumed longer than one year	119	239
	125	248
Total	$ 1,507	$ 1,774

14. INCOME TAXES

CDTV Holdings and CDTV BVI are tax-exempted companies incorporated in the Cayman Islands and the British Virgin Islands, respectively.

Golden Benefit and CSM Holdings are subject to Hong Kong Profits Tax on its activities conducted in Hong Kong. No provision for Hong Kong Profits tax has been made in the consolidated financial statements as they both have no assessable profits for the years presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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14. INCOME TAXES - continued

The Company's PRC subsidiaries and consolidated VIE file separate tax returns in the PRC. Effective from January 1, 2008, the PRC statutory income tax rate is 25% according to the Enterprise Income Tax Law which was passed by the National People's Congress on March 16, 2007 and amended on February 24, 2017 (the "EIT Law").

In October 2014, Cyber Cloud obtained the High-and-New Technology Enterprise" ("HNTE") certificate for the tax years from 2014 to 2016 and was entitled to a preferential income tax rate of 15% for a three year period. In October 2017, Cyber Cloud renewed its HNTE certificate and was entitled for a preferential tax rate of 15% from 2017 to 2019.

Deferred income taxes result principally from differences in the recognition of certain assets and liabilities for tax and financial reporting purposes and the tax effect of tax loss carry forwards.

The components of (loss)/income before income taxes from continuing operations are as follows:

	For the years ended December 31,		
	2015	2016	2017
PRC, excluding Hong Kong	$ (14,101)	$ (6,805)	$ (2,503)
Cayman Islands	(702)	(1,241)	(1,607)
BVI	(2)	(6)	(1)
Hong Kong	(329)	(90)	738
Total loss before income taxes	$ (15,134)	$ (8,142)	$ (3,373)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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14. INCOME TAXES - continued

The principal components of the deferred income tax assets (liabilities) are as follows:

	As of December 31, 2016	As of December 31, 2017
Deferred income tax assets		
Write-down of inventory value	$ 72	$ 77
Allowance for doubtful accounts	22	26
Accrued expenses	150	143
Accrued bonus	90	120
Deferred revenue	124	108
Government subsidies	66	57
Impairment of long-lived assets	-	126
Tax loss carry-forward deferred tax assets	8,716	8,477
Valuation allowance	(9,124)	(9,076)
Total deferred income tax assets, net	116	58
Deferred income tax liabilities		
Unrealized holding gain	-	(3)
Acquired intangible assets	(64)	(55)
Total deferred income tax liabilities	(64)	(58)
Net deferred income tax assets	52	-
Net deferred income tax liabilities	$ -	$ -

The Company's subsidiaries registered in the PRC have total net operating loss carry forwards of $38,832 as of December 31, 2017 which will expire on various dates between December 31, 2018 and December 31, 2022. Valuation allowances have been established because the Group believes that it is more likely than not that its deferred income tax assets will not be realized as it does not expect to generate sufficient taxable income before those temporary differences expire.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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14. INCOME TAXES - continued

Movement of valuation allowance is as follows:

	For the years ended December 31,		
	2015	2016	2017
Balance at beginning of the year	$ 6,719	$ 9,376	$ 9,124
Additions	3,173	939	375
Expired tax losses	(141)	(547)	(1,010)
Exchange rate difference	(375)	(644)	587
Balance at end of the year	$ 9,376	$ 9,124	$ 9,076

The Group is currently not the subject of any income tax examinations. According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000. In the case of transfer pricing issues, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion. The income tax returns of the Group's consolidated PRC subsidiaries and VIE for the years from 2015 are open to examination by the PRC tax authorities.

Reconciliation between the provision for income taxes of continuing operations computed by applying the PRC statutory income tax rates of 25% to loss before income taxes and the actual provision of income taxes is as follows:

	For the years ended December 31,		
	2015	2016	2017

Loss before provision for income taxes	$ (15,134)	$ (8,142)	$ (3,373)
PRC statutory tax rate	25 %	25 %	25 %
Income tax at statutory tax rate	(3,784)	(2,036)	(843)
Expenses not deductible for tax purposes	179	682	173
Research and development expenses bonus deduction	(165)	(726)	(26)
Effect of preferential income tax rate	346	450	144
Effect of income tax rate difference in other jurisdictions	543	805	514
Change in valuation allowance	3,173	939	375
Income tax expenses	$ 292	$ 114	$ 337

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14. INCOME TAXES - continued

The EIT Law and its implementation rules impose a withholding income tax at 10%, unless reduced by a tax treaty or arrangement, on the amount of dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC that are related to earnings accumulated beginning on January 1, 2008. As a result, withholding tax of $1,608 and $2,045 was recorded to income tax expenses for discontinued operations in 2015 and 2016, respectively. Upon the disposal of Super TV, the balance of deferred income tax liabilities related to withholding income tax on the undistributed earnings generated by Beijing Super TV was derecognized in the year ended December 31, 2016.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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15. EARNINGS/(LOSS) PER SHARE

	For the years ended December 31,		
	2015	2016	2017
Numerator:			
Net loss from continuing operations attributable to China Digital TV Holding Co., Ltd.	$(14,627)	$(7,226)	$(2,679)
Net income/(loss) from discontinued operations attributable to China Digital TV Holding Co., Ltd.	16,155	52,644	(389)
Net income/(loss) attributable to China Digital TV Holding Co., Ltd., basic and diluted	$1,528	$45,418	$(3,068)
Denominator:			
Weighted average shares outstanding, basic and diluted	59,968,346	60,199,096	62,372,111
Earnings/(loss) per share – basic and diluted:			
Net loss from continuing operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$(0.24)	$(0.12)	$(0.04)
Net income/(loss) from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	0.27	0.87	(0.01)
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	$0.03	$0.75	$(0.05)

Outstanding stock options were excluded in the computation of diluted earnings/(loss) per share as they are anti-dilutive in all the periods presented.

16. SPECIAL CASH DIVIDEND TO SHAREHOLDERS

In April 2016, the Group declared a special cash dividend of $0.2 per share on the Company's ordinary shares. $12,034 was paid in 2016 and $4 remained payable as of December 31, 2017.

In April 2017, the Group declared a special cash dividend of $1.5 per share on the Company's ordinary shares. $95,236 was paid in 2017 and $27 remained payable as of December 31, 2017.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

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17. SHARE-BASED COMPENSATION

(a) Option granted by the Company

Option granted to employees

Pursuant to the directors' resolution, the Company adopted Share Incentive Plans in 2005, under which the Company may grant options to purchase up to 4,444,440 ordinary shares of the Company, to its employees, directors, and consultants, subject to vesting requirements. Under the 2005 Share Incentive Plans, there are four schemes of the options granted: Scheme I, Scheme II, Scheme III and Scheme IV, which were granted on February 3, 2005, September 22, 2006, December 5, 2006 and October 5, 2008, respectively. There were no share options granted under Scheme I, Scheme II, Scheme III and Scheme IV outstanding as of December 31, 2017.

On September 13, 2007, the board of directors of CDTV Holding approved the 2008 Stock Incentive Plan, pursuant to which the Company may grant options to purchase up to 1,200,000 ordinary shares to its employees and other eligible people. Under the 2008 Share Incentive Plans, there are four schemes of the options granted: Scheme V, Scheme VI, Scheme VII and Scheme VIII, which were granted on October 5, 2008, June 2, 2009, February 10, 2010 and November 15, 2010, respectively. There were no share options granted under Scheme VII and Scheme VIII outstanding as of December 31, 2017.

On November 19, 2010, the board of directors of CDTV Holding approved the 2010 Stock Incentive Plan, pursuant to which the Company may grant options to purchase up to 3,600,000 ordinary shares to its employees and other eligible people. Under the 2010 Share Incentive Plans, there are four schemes of the options granted: Scheme IX, Scheme X, Scheme XI and Scheme XII, which were granted on November 19, 2010, May 16, 2011, September 30, 2011 and November 19, 2011, respectively. There were no share options granted under Scheme IX and Scheme XI outstanding as of December 31, 2017.

On May 1, 2012, the board of directors of CDTV Holding approved the 2012 Stock Incentive Plan, pursuant to which the Company may grant options to purchase up to 1,200,000 ordinary shares to its employees. Under the 2012 Share Incentive Plans, Scheme XIII was granted on January 8, 2013.

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Modification of option plans

On November 19, 2010, the board of directors of CDTV Holding approved that the exercise price of all options which were granted under the 2005 Plan, the 2008 Plan and the 2010 Plan prior to December 23, 2010 (the "Adjusted Options") and remain outstanding as of December 23, 2010 shall be adjusted as follows to reflect the declaration and payment of the special cash dividend.

The per share exercise price of all Adjusted Options with a per share exercise price higher than $2.00 was reduced by $2.00 on December 23, 2010; the per share exercise price of all Adjusted Options with a per share exercise price no more than $2.00 was reduced to $0.01. The board also determined that if any future dividend is declared by the Board of the Company on all ordinary shares of the Company, the per share exercise price of all options granted prior to and outstanding as of the date of record of such dividend shall be reduced by an amount equal to the dividend payable on each ordinary shares, provided that the per share exercise price after adjustment shall not be less than $0.01.

As the Company declared special cash dividends of $0.56, $2.3, $0.5, $0.2 and $1.5 per share, on May 20, 2011, November 12, 2012, April 2, 2014, April 15, 2016 and April 19, 2017, respectively, on the Company's ordinary shares, the per share exercise price of all options granted prior to and remaining outstanding as of the respective record dates, which were June 20, 2011, November 26, 2012, April 14, 2014, April 29, 2016 and June 15, 2017 was reduced by $0.56, $2.3, $0.5, $0.2 and $1.5, respectively, provided that the per share exercise price after adjustment shall not be less than $0.01.

On January 18, 2017, the Company extended the period for the exercise of options held by employees of Beijing Super TV and N-S Digital TV from 30 days after Beijing Super TV and N-S Digital TV ceased to be subsidiaries of the Company to the end of the contractual life of each stock option agreement under the Stock Incentive Plans. Incremental cost of $389 was recorded in loss from operations of discontinued operations for the year ended December 31, 2017 (see Note 3).

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Details of the Share Incentive Plans:

Scheme V

Grant date: October 5, 2008

Exercise price per share- original: $7.89

Exercise price per share after modification: $0.83

Expiration date: October 4, 2018

Number of options granted: 406,776

Vesting schedule: (1) 25% of the total number of the option shares on the first anniversary of the grant date and (2) the remaining 75% of the Option Shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following the month in which the first anniversary of the Grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

Scheme VI

Grant date: June 2, 2009

Exercise price per share- original: $9.09

Exercise price per share after modification: $2.03

Expiration date: June 1, 2019

Number of options granted: 357,548

Vesting schedule: (1) 25% of the total number of the option shares on the first anniversary of the grant date and (2) the remaining 75% of the Option Shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following the month in which the first anniversary of the Grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Details of the Share Incentive Plans: - continued

Scheme X

Grant date: May 16, 2011

Exercise price per share- original: $4.90

Exercise price per share after modification: $0.01

Expiration date: May 15, 2021

Number of options granted: 1,600,000

Type I under Scheme X:

Number of options granted: 1,457,000

Vesting schedule: (1) 25% of the total number of option shares on November 19, 2011; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following November 19, 2011 and an additional installment vesting on the last day of each of the 35 months thereafter.

Type II under Scheme X:

Number of options granted: 143,000

Vesting schedule: The vesting of the options is conditional upon whether the performance of the optionee can meet certain performance targets as of April 1, 2012.

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Details of the Share Incentive Plans: - continued

Scheme XII

Grant date: November 19, 2011

Exercise price per share-original: $4.34

Exercise price per share after modification: $0.01

Expiration date: November 18, 2021

Number of options granted: 300,000

Vesting schedule: (1) 25% of the total number of option shares immediately on November 19, 2011; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following November 19, 2011 and an additional installment vesting on the last day of each of the 35 months thereafter.

Scheme XIII

Grant date: January 8, 2013

Exercise price per share-original: $1.18

Exercise price per share after modification: $0.01

Expiration date: January 7, 2023

Number of options granted: 1,200,000

Vesting schedule: (1) 25% of the total number of option shares immediately on January 8, 2013; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments with the first installment vesting on February 28, 2013 and an additional installment vesting on the last day of each of the 35 months thereafter.

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Termination of options

If the grantee ceases to be employed by or ceases to provide services to the Group, (a) the grantee will have until the date that is 30 days after his or her severance date to exercise the options (or portion thereof) to the extent that they were vested on the severance date; (b) the options, to the extent not vested on the severance date, shall terminate on the severance date; (c) the options, to the extent exercisable for the 30-day period following the severance date and not exercised during such period, shall terminate at the close of the business on the last day of the 30-day period.

Option exercise

A summary of stock option activity is as follows:

	Number of options	Weighted average exercise price
Options outstanding as of January 1, 2017*	3,930,974	1.41
Exercised	(3,223,569)	0.56
Options outstanding as of December 31, 2017	707,405	1.02
Options exercisable as of December 31, 2017	707,405	1.02

* The Company declared a special cash dividend of $1.5 per share on April 19, 2017. The per share exercise price of all options outstanding was reduced by $1.5, provided that the per share exercise price after adjustment shall not be less than $0.01. The weighted average exercise price as of January 1, 2017 and exercise price of 1,332,667 options exercised in the year ended December 31, 2017 was the exercise price prior to such reduction.

The following table summarizes information with respect to share options outstanding at December 31, 2017:

	Weighted-average exercise price	Number outstanding	Number exercisable	Weighted-average remaining contractual life
Scheme V	0.83	229,468	229,468	0.76 years
Scheme VI	2.03	260,554	260,554	1.42 years
Scheme X	0.01	174,529	174,529	3.38 years
Scheme XII	0.01	35,875	35,875	3.89 years
Scheme XIII	0.01	6,979	6,979	5.02 years
		707,405	707,405	

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17. SHARE-BASED COMPENSATION - continued

(a) Option granted by the Company - continued

Option exercise - continued

There were no options granted during 2015, 2016 and 2017.

The aggregate intrinsic value of options outstanding and exercisable as of December 31, 2017 was both $35. The total intrinsic value of options exercised during the years ended December 31, 2015, 2016 and 2017 was $1,250, $97 and $1,627, respectively.

For the years ended December 31, 2015, 2016 and 2017, the Company recorded the share-based compensation expense of $80, $3 and nil for continuing operations and nil, nil and $389 for discontinued operations, respectively.

There were no share options unvested as of December 31, 2016 and 2017. Total fair value of stock options vested during the years ended December 31, 2015 and 2016 was $299 and $24, respectively.

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17. SHARE-BASED COMPENSATION - continued

(b) Options granted by Cyber Cloud

On January 18, 2012, Cyber Cloud, a majority-owned subsidiary of the Company, approved the Cyber Cloud 2012 Stock Incentive Plan, under which Cyber Cloud granted 551,000 options to its employees. The share option plan has a term of ten years, which will expire on January 17, 2022 unless terminated earlier by its shareholders and board of directors. The exercise price of the options is $0.17 per share.

On January 31, 2013, Cyber Cloud approved the Cyber Cloud 2013 Stock Incentive Plan, under which Cyber Cloud granted 613,000 options to its employees. The share option plan has a term of ten years, which will expire on January 30, 2023 unless terminated earlier by its shareholders and board of directors. The exercise price of the options is $0.16 per share.

On April 1, 2015, Cyber Cloud approved the Cyber Cloud 2015 Stock Incentive Plan, under which Cyber Cloud granted 542,000 options to its employees. The share option plan has a term of ten years, which will expire on March 31, 2025 unless terminated earlier by its shareholders and board of directors. The exercise price of the options is $0.16 per share.

On February 16, 2017, Cyber Cloud modified the exercise price of share options granted under 2012, 2013 and 2015 Stock Incentive Plans from RMB1.00 ($0.15) to RMB9.259 ($1.37) and determined that the per share exercise price of all options outstanding would be adjusted accordingly if there is any future change in the capital restructure of Cyber Cloud, such as stock split, new issuance and dividend declaration, etc. Since the benefits of employees were adversely affected by the modification, there was no incremental cost.

On February 16, 2017, Cyber Cloud modified the vesting term of the 2015 Stock Incentive Plan from 48 months to 24 months after the grant date. Incremental cost of $39 was incurred for this modification.

On March 1, 2017, Cyber Cloud approved the Cyber Cloud 2017 Stock Incentive Plan, under which Cyber Cloud granted 323,028 options to its employees. The share option plan has a term of ten years, which will expire on February 28, 2027 unless terminated earlier by its shareholders and board of directors. The exercise price of the options is $1.35 per share.

The following table summarizes the Cyber Cloud's share option activities with employees:

	Number of options	Weighted average exercise price
Options outstanding as of January 1, 2017*	992,000	0.16
Granted	323,028	1.35
Forfeited	(52,656)	1.35
Options outstanding as of December 31, 2017	1,262,372	1.35
Options vested and expected to vest as of December 31, 2017	1,258,877	1.35
Options exercisable as of December 31, 2017	1,085,405	1.35

* The per share exercise price of all options outstanding was modified from RMB1 to RMB9.259. The weighted average exercise price as of January 1, 2017 was the exercise price prior to such modification.

Management used Binomial model to estimate the fair value of the following options granted in the years ended December 31, 2015 and 2017 on their respective grant date with the following assumptions:

	Expected volatility range	Risk-free interest rate	Contractual term	Expected dividends
Options granted under 2015 Stock Incentive Plan	51.00 %	1.87 %	10 years	-
Options granted under 2017 Stock Incentive Plan	51.00 %	3.40 %	10 years	-

There were no options granted in 2016.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

17. SHARE-BASED COMPENSATION - continued

(b) Option granted by Cyber Cloud - continued

In calculating the fair value of the options using the Binomial option pricing model, the following major assumptions were used:

(1) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock prices volatility of listed comparable companies over a period comparable to the expected term of the options.

(2) Risk free interest rate

Risk free interest rate was estimated based on the yield to maturity of government bonds with a maturity period close to the expected term of the options.

(3) Contractual term

The contractual term of the options was determined and approved by Cyber Cloud’s board of directors.

(4) Time to vest

Cyber Cloud estimated the time to vest as the weighted average remaining vesting period of the options based on the vesting schedule of the options.

(5) Dividend yield

The dividend yield was estimated by Cyber Cloud based on its expected dividend policy over the expected term of the options and its historical special cash dividend payments.

(6) Exercise price

The exercise price of the options was determined and approved by Cyber Cloud's board of directors.

(7) Fair value of underlying ordinary shares

The estimated fair value of the ordinary shares underlying the options as of the grant date was determined based on a retrospective valuation.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

17. SHARE-BASED COMPENSATION - continued

(b) Option granted by Cyber Cloud - continued

Cyber Cloud recorded share-based compensation expense of $40, $19 and $636 for the years ended December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2017, total unrecognized compensation expense related to the unvested share options was $171, which is expected to be recognized over a weighted-average period of 0.67 years according to the graded vesting schedule.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

17. SHARE-BASED COMPENSATION - continued

(c) Option granted by Joysee

On February 17, 2012, Joysee, a majority-owned subsidiary of the Company, approved the Joysee 2012 Stock Incentive Plan, under which Joysee granted 520,000 options to its employees. The share option plan has a term of ten years, which will expire on February 16, 2022 unless terminated earlier by its shareholders and board of directors. The options will vest equally in 4 years after the grant date. The exercise price of the options is $0.17 per share. All the share options were forfeited as of December 31, 2015.

For options granted under Joysee's stock incentive plan, Joysee reversed share-based compensation expense of $2 for the year ended December 31, 2015 to reflect the actual forfeiture.

(d) Immediately vested share-based compensation

On May 11, 2016, the board of directors of Beijing Super TV approved capital injection of RMB33.0 million, representing 9.91% of Beijing Super TV’s equity interests after the capital injection, from certain employees of Beijing Super TV. The consideration of capital injection was lower than its proportion of the fair value of Beijing Super TV as of the date of approval. The difference of RMB25.8 million between proportionate fair value and the consideration paid was recognized as shared-based compensation costs immediately, as there are not any vesting conditions in such arrangement. The share-based compensation costs were included in net income of operations of discontinued operations for the year ended December 31, 2016.

On August 12, 2016, the board of directors of Cyber Cloud approved capital injection of RMB8.4 million, representing 5.0% of Cyber Cloud’s equity interests after the capital injection, from two management members of Cyber Cloud. The consideration of capital injection was lower than its proportion of the fair value of Cyber Cloud as of the date of approval. The difference of RMB6.2 between proportionate fair value and the consideration paid was recognized as shared-based compensation costs immediately, as there are not any vesting conditions in such arrangement.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

18. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits from continuing operations were $2,629, $1,548 and $1,263 and from discontinued operations were $2,855, $3,425 and nil for the years ended December 31, 2015, 2016 and 2017, respectively.

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitment

The Group has operating lease agreements principally for its office spaces in the PRC. These leases expire through 2018 and are renewable upon negotiation. Rental expense under operating leases for the years ended December 31, 2015 and 2016 and 2017 were $1,119, $744 and $336 for continuing operations and $1,177, $1,569 and nil for discontinued operations, respectively.

Future minimum lease payments under non-cancelable operating lease agreements are as follows:

2018	$68
	$68

Purchase commitments

As of December 31, 2017, the Group has purchase commitments of $625, mainly for services and products.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

20. NONCONTROLLING INTEREST

	Cyber Cloud	Joysee	Shibo Qihang	Beijing Super TV	Others	Total
Balance as of January 1, 2015	$ 522	$ 43	$ -	$ -	$ -	$ 565
Share-based compensation	12	-	-	-	-	12
Capital injection by noncontrolling interests (Note a)	741	-	-	-	-	741
Acquisition of noncontrolling interests of Joysee (Note b)	-	(59)	-	-	-	(59)
Net (loss)/income	(972)	72	-	-	-	(900)
Foreign currency translation adjustment	(30)	(3)	-	-	-	(33)
Balance as of December 31, 2015	273	53	-	-	-	326
Share-based compensation	295	-	-	-	-	295
Capital injection by noncontrolling interests (Note c)	3,741	-	763	5,524	-	10,028
Acquisition of noncontrolling interests of Shibo Qihang (Note d)	-	-	(548)	-	-	(548)
Disposal of Super TV	-	-	-	(6,203)	-	(6,203)
Net (loss)/income	(817)	(34)	(180)	991	1	(39)
Foreign currency translation adjustment	(48)	(3)	(35)	(312)	-	(398)
Balance as of December 31, 2016	3,444	16	-	-	1	3,461
Share-based compensation	269	-	-	-	-	269
Net loss	(1,026)	(5)	-	-	-	(1,031)
Foreign currency translation adjustment	147	1	-	-	(1)	147
Balance as of December 31, 2017	$ 2,834	$ 12	$ -	$ -	$ -	$ 2,846

The following summarized the effects of changes in the Group's ownership interests in its subsidiaries on the Group's equity:

	For the years ended December 31,		
	2015	2016	2017
Net income/(loss) attributable to the Company	$ 1,528	$ 45,418	$ (3,068)
Transfers from the noncontrolling interest			
Increase in the Group's additional paid-in capital from capital injection of noncontrolling interest (Note a and Note c)	1,531	2,704	-
Increase/(decrease) in the Group's additional paid-in capital for acquisition of noncontrolling interest (Note b and Note d)	12	(78)	-
Net transfers from noncontrolling interest	1,543	2,626	-
Changes from net income attributable to the Company and transfers from noncontrolling interest	$ 3,071	$ 48,044	$ (3,068)

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

20. NONCONTROLLING INTEREST – continued

a. In June 2015, Beijing Gehua CATV Network Co., Ltd. (“Gehua”) made a capital contribution of RMB13.9 million (equivalent to $2,272) to Cyber Cloud. As a result, the Group, Yuewu Yuntian, Gehua and Holch Capital held 67.5%, 13.5%, 10% and 9% of the equity interest in Cyber Cloud, respectively. The Group’s additional paid-in capital and noncontrolling interest were increased by $1,531 and $741 from this capital injection, respectively.

b. In September 2015, N-S Information Technology purchased the 30% of the equity interest in Joysee held by Intel in consideration of RMB0.3 million (equivalent to $47). As a result of this transaction, the Group and Ying Zhi Cheng Technology held 76.9% and 23.1% of the equity interest in Joysee, respectively. The Group’s additional paid-in capital was increased by $12 and noncontrolling interest was decreased by $59 from this transaction.

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China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

20. NONCONTROLLING INTEREST – continued

c. In February 2016, CSM Holdings and Bejing Quanda Technology Center ("Quanda") made cash contribution of $3,815 and $763 to establish Shibo Qihang, representing 80% and 20% of the equity interest in Shibo Qihang, respectively.

In May 2016, certain key employees of Beijing Super TV made a cash investment in amount of RMB33 million (equivalent to $5,015) to Beijing Super TV in exchange of a 9.91% equity interest in Beijing Super TV. As a result, the Group held 90.09% of the equity interest in Beijing Super TV. The Group's additional paid-in capital was decreased by $509 and noncontrolling interest was increased by $5,524 from this capital injection.

In May 2016, the existing noncontrolling shareholders of Cyber Cloud, Yuewu Yuntian, Gehua and Holch Capital, made cash contribution in aggregate of RMB20 million (equivalent to $3,040) to Cyber Cloud according to their proportion of equity interest in Cyber Cloud to increase the share capital of Cyber Cloud. As a result, the Group's noncontrolling interest was increased by $988.

In October 2016, Tianjin Xuanwutianxia Network Technology Center ("Xuanwutianxia"), an entity owned by two management of Cyber Cloud entered into a share contribution agreement to make a cash contribution of RMB8.4 million (equivalent to $1,213) to Cyber Cloud in return of 5.0% of equity interests of Cyber Cloud after such contribution. $399 and $218 were received in January 2017 and March 2017, respectively, and $596 which remained outstanding as of the release date of this financial report was recognized as subscription receivable. The Group's additional paid-in capital and noncontrolling interest were increased by $688 and $525 from this capital injection, respectively.

In December 2016, Ningbo Meishan Free Trade Port Area Jinxinronghui Investment Partnership ("Jinxinronghui"), a third-party investor, made a cash contribution in amount of RMB33 million (equivalent to $4,753) to Cyber Cloud. As a result, the Group, Yuewu Yuntian, Jinxinronghui, Gehua, Holch Capital and Xuanwutianxia held 57.7%, 11.5%, 10.0%, 8.6%, 7.7% and 4.5% of the equity interests in Cyber Cloud, respectively. The Group's additional paid-in capital and noncontrolling interest were increased by $2,525 and $2,228 from this capital injection, respectively. The capital injection was paid to an escrow account of Cyber Cloud in December 2016.

The capital injection was transferred to a current deposit account of Cyber Cloud in January 2017.

d. In December 2016, N-S Information Technology purchased the remaining 20% of the equity interest in Shibo Qihang held by Quanda in consideration of RMB4.35 million (equivalent to $626). As a result of the completion of this transaction, Shibo Qihang became a wholly owned subsidiary of the Group. The Group's additional paid-in capital and noncontrolling interest were decreased by $78 and $548 from this acquisition, respectively.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

21. RELATED PARTY BALANCES AND TRANSACTIONS

In the year ended December 31, 2015, the Group's discontinued operations purchased certain media information system amounting to $82 from Guangzhou Rujia Network Technology Co., Ltd. ("Rujia"), of which Beijing Super TV had the ability to exercise significant influence over the operating and financial policies.

China digital tv holding co., lTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(U.S. dollars in thousands, except share and per share data)

22. STATUTORY RESERVES AND RESTRICTED NET ASSETS

As stipulated by the relevant law and regulations in the PRC, the Company's subsidiaries in the PRC are required to maintain non-distributable statutory reserves. Appropriations to the statutory reserves are required to be made at 10% of profit after taxes as reported in these entities' statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the statutory reserves are accumulated to 50% of these entities' registered capital, these entities can choose not to provide further statutory reserves. The statutory reserves may be applied against prior year losses, if any, and may be used for general business expansion and production and an increase in registered capital of these entities. Amounts contributed to the statutory reserves from continuing operations were $3, $1 and $8 for 2015, 2016 and 2017, respectively. Amounts contributed to the statutory reserves from discontinued operations were $381 for 2015. The balance of statutory reserve of $18,274 from discontinued operations was reclassified to retained earnings in the consolidated financial statements upon disposal of Super TV in the year ended December 31, 2016.

Relevant PRC laws and regulations restrict the foreign invested enterprises ("FIEs") and VIEs established in the PRC from transferring a portion of their net assets to the Company in the form of loans, advances or cash dividends.

Based on the Company’s group structure and as advised by the Company’s PRC legal counsel, the registered capital of the Company’s FIEs and its consolidated VIE (all of which are domestic PRC entities) may be reduced as approved by their respective shareholders, subject to the minimum registered capital requirements under PRC law and after repayment of or provision for guarantees of debt as required by creditor (if any), and any excess registered capital after such reduction ("Excess Capital") may be transferred to such shareholders within the PRC without the consent of a third party pursuant to relevant PRC laws, rules and regulations. Such Excess Capital may be transferred to the FIEs, which could in turn transfer it to the parent of the FIEs (a non-PRC entity) and then ultimately transferred to the Company in the form of dividend distributions.

As a result, the Company’s restricted net assets (which consist of the registered capital and the statutory reserve of FIEs and the VIE, attributable to the Company) was $32,236 as of December 31, 2017.

China digital tv holding co., lTD.

Financial Statement Schedule I

Additional Information

Condensed Financial Information of Parent Company

BALANCE SHEETS

(U.S. dollars in thousands)

	As of December 31, 2016	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$616	$7,024
Amounts due from subsidiaries - current	1,862	-
Dividend receivable	6,001	-
Prepaid expenses and other current assets	301	625
Total current assets	8,780	7,649
Accounts due from subsidiaries-non-current and investments in subsidiaries and VIE	111,694	19,052
Deferred income tax assets	52	-
TOTAL ASSETS	$120,526	$26,701
TOTAL LIABILITIES AND EQUITY		
Current liabilities:		
Accrued expenses and other current liabilities	743	565
Deferred income-current	173	-
Total current liabilities	916	565
Total Liabilities	916	565
Equity:		
Ordinary shares	30	32
Additional paid-in capital and subscription receivable	44,677	28,804
Retained earnings/(accumulated deficit)	75,192	(3,130)
Accumulated other comprehensive (loss)/income	(289)	430

Total shareholders' equity	119,610	26,136
TOTAL LIABILITIES AND EQUITY	$ 120,526	$ 26,701

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China digital tv holding co., lTD.

Financial Statement Schedule I

Additional Information

Condensed Financial Information of Parent Company

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in thousands)

	For the years ended December 31, 2015	2016	2017
Operating expenses	$ (702)	$ (1,241)	$ (1,607)
Interest income	-	-	1
Equity in earnings/(loss) of subsidiaries and VIE	2,535	46,864	(1,125)
Net income/(loss) before provision for income taxes	1,833	45,623	(2,731)
Provision for income taxes	(305)	(205)	(337)
Net income/(loss) attributable to ordinary shareholders	1,528	45,418	(3,068)
Other comprehensive (loss)/income, after reclassification, net of tax			
Foreign currency translation adjustment	(3,859)	(21,939)	719
Comprehensive (loss)/income attributable to ordinary shareholders	$ (2,331)	$ 23,479	$ (2,349)

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China digital tv holding co., lTD.

Financial Statement Schedule I

Additional Information

Condensed Financial Information of Parent Company

STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	For the years ended December 31,		
	2015	2016	2017
Net cash (used in)/provided by operating activities	$ (1,631)	$ 11,050	$ 98,221
Net cash provided by investing activities	-	-	-
Net cash provided by /(used in) financing activities	700	(11,985)	(91,813)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(931)	(935)	6,408
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	2,482	1,551	616
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 1,551	$ 616	$ 7,024

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China digital tv holding co., lTD.

Financial Statement Schedule I

Additional Information

Condensed Financial Information of Parent Company

NOTES TO THE FINANCIAL STATEMENTS

(U.S. dollars in thousands, except share and per share data)

1. Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year.

2. The condensed financial information of China Digital TV Holding Co., Ltd. has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries.

3. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Group.

4. As of December 31, 2017, there were no material contingencies, significant provisions of long-term obligations, mandatory dividend or redemption requirements of redeemable stocks or guarantees of the Company.

5. Nil, $13,481 and $99,293 of cash dividends were paid to the Company by its subsidiary in the years ended December 31, 2015, 2016 and 2017, respectively.

EXHIBIT INDEX

Number	Description of Exhibit
1.1	Second Amended and Restated Memorandum and Articles of Association of China Digital TV Holding Co., Ltd.(1) and Notice containing a Special Resolution passed on March 2, 2018, amending the Second Amended and Restated Articles of Assciation of China Digital TV Holding Co., Ltd.
2.1(1)	Specimen of Share Certificate.
2.2(1)	Form of Deposit Agreement, including form of American Depositary Receipts.
2.3(1)	First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated September 13, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd., China Digital TV Technology Co., Ltd., China Capital Investment Holdings Limited, China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.
4.1(1)	Asset Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.
4.2(1)	Equity Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and related (i) Equity Entrustment Agreement, dated September 10, 2004, and (ii) Equity Purchase Entrustment Agreement, dated April 1, 2004, both between the same parties.
4.3(1)	Asset Purchase Agreement, dated June 8, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.4(1)	Equity Transfer Agreement, dated August 4, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and related Equity Transfer Agreement, dated March 15, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Panasonic Corporation of China.
4.5(1)	Asset Transfer Agreement, dated August 5, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and the Supplemental Agreement thereto, dated April 6, 2007.
4.6(1)	Trademark Licensing Agreement entered into in March 2007 between Beijing Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.7(1)	Equipment Leasing Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.8(1)	

	Technical Support and Related Service Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.9[(1)]	Technology License Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.10[(1)]	Technology Development Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

Number	Description of Exhibit
4.11[1]	Products and Software Purchase Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.12[3]	Letter of Consent, dated April 30, 2009, issued by Beijing Super TV Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd.
4.13[3]	Equity Transfer Agreement, dated June 20, 2008 between Wei Gao and Junming Wu for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.14[3]	Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Shizhou Shen for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.15[3]	Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Lei Zhang for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.16	Equity Transfer Option Agreement, dated June 7, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Li Yang[1]; the Supplemental Agreement thereto, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.[1]; the No. 2 Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao[1]; the No. 3 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu[3]; the No. 4 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen[3]; and the No. 5 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang[6].
4.17[1]	Share Pledge Agreement, dated September 1, 2005, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.18[3]	Termination Agreement of Share Pledge, dated November 24, 2008, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.
4.19	Share Pledge Agreement, dated September 1, 2005, between Li Yang and Beijing Super TV Co., Ltd.[1]; the Supplemental Agreement thereto, dated August 18, 2007, among Li Yang, Beijing Super TV Co., Ltd. and Wei Gao[1]; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Wei Gao and Junming Wu[3]; and the Share Pledge Termination Agreement, dated July 11, 2011 between Beijing Super TV Co., Ltd. and Junming Wu[6].

4.20(3)	Share Pledge Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.21(3)	Share Pledge Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.

Number	Description of Exhibit
4.22	Business Operating Agreement, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.[(1)]; the Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao[(1)]; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu[(3)]; the No. 3 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen[(3)]; and the No. 4 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang[(6)].
4.23[(1)]	Power of Attorney, dated September 1, 2005, of Novel-Tongfang Information Engineering Co., Ltd.
4.24[(1)]	Power of Attorney, dated August 18, 2007, of Wei Gao.
4.25[(3)]	Power of Attorney, dated June 20, 2008, of Junming Wu.
4.26[(3)]	Power of Attorney, dated November 24, 2008, of Shizhou Shen.
4.27[(3)]	Power of Attorney, dated November 24, 2008, of Lei Zhang.
4.28[(1)]	Entrusted Loan Agreement, dated August 23, 2004, among Beijing Super TV Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.29[(1)]	Entrusted Loan Agreement, dated July 13, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.30[(1)]	Entrusted Loan Agreement, dated August 25, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.31[(1)]	Loan Agreement, dated April 4, 2007, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and the related Entrusted Loan Agreement, dated April 12, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
4.32[(3)]	Loan Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.33[(3)]	Loan Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
4.34[(1)]	Service Agreement, dated April 2, 2007, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.35[(1)]	

Interest Payment Agreement, dated November 30, 2006, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.36[1] Form of Property Lease Agreement.

Number	Description of Exhibit
4.37[1]	Fixed Assets Transfer Agreement, dated March 28, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.38[1]	Form of Employment Agreement and related Form of Agreement on Confidentiality and Intellectual Property.
4.39[1]	Form of Non-Disclosure, Non-Competition, Commitment and Proprietary Information Agreement.
4.40[1]	Form of Indemnification Agreement for Directors.
4.41[1]	Amended and Restated 2005 Stock Incentive Plan of China Digital TV Holding Co., Ltd. and form of share option agreement.
4.42[1]†	Cooperation Agreement, dated January 5, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Jiangsu Qingda Science and Technology Industries Co., Ltd.
4.43[1]	Cooperation Agreement, dated July 18, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and China Electronics Smart Card Co., Ltd.
4.44[1]	2008 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.45[2]	Agreement for Equity Transfer of Beijing Novel-Super Digital TV Technology Co., Ltd., dated December 2007, between China Digital TV Technology Co., Ltd. and Golden Benefit Technology Co., Ltd.
4.46[3]	Intellectual Property Transfer Agreement, dated August 13, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.47[3]	Equity Transfer Agreement, dated October 5, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.48[3]	Framework Agreement for Purchase of Computer Chips, dated December 12, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.49[4]	Framework Agreement for Sale of Software Products, dated July 14, 2009, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.50[4]	Equity Transfer Agreement, dated February 26, 2010, between Beijing Novel-Super Digital TV Technology Co., Ltd. and Beijing Shi Xun Hu Lian Technology Co., Ltd.
4.51[5]	Shareholders' Agreement, dated December 1, 2010, between Beijing Super TV Co., Ltd. and Beijing Yuewu Yuntian Software Technology Ltd.
4.52[5]	Shareholders' Agreement, dated April 29, 2011, between Beijing Super TV Co., Ltd. and Beijing Ying Zhi Cheng Technology Co., Ltd.

4.53[5]	2010 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.54[6]	Loan Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.55[6]	Loan Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.56[6]	Loan Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.57[6]	Capital Increase and Equity Transfer Agreement, dated July 11, 2011, between Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang, Tianxing Wang and Beijing Novel-Super Digital TV Technology Co., Ltd.

Number	Description of Exhibit
4.58(6)	Power of Attorney, dated July 11, 2011, of Lei Zhang.
4.59(6)	Power of Attorney, dated July 11, 2011, of Shizhou Shen.
4.60(6)	Power of Attorney, dated July 11, 2011, of Tianxing Wang.
4.61(6)	Power of Attorney, dated July 11, 2011, of Wenjun Wang.
4.62(6)	Share Pledge Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.63(6)	Share Pledge Agreement, dated July 11, 2011, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.64(6)	Share Pledge Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.65(6)	Share Pledge Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.66(6)	Written Undertaking, dated November 22, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.67(6)	Power of Attorney, dated January 16, 2012, of Lei Zhang.
4.68(6)	Power of Attorney, dated January 16, 2012, of Shizhou Shen.
4.69(6)	Power of Attorney, dated January 16, 2012, of Tianxing Wang.
4.70(6)	Power of Attorney, dated January 16, 2012, of Wenjun Wang.
4.71(6)	Share Pledge Agreement, dated January 16, 2012, between Lei Zhang and Beijing Super TV Co., Ltd.
4.72(6)	Share Pledge Agreement, dated January 16, 2012, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.73(6)	Share Pledge Agreement, dated January 16, 2012, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.74(6)	Share Pledge Agreement, dated January 16, 2012, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.75(6)	Supplemental Agreement to Loan Agreements, dated January 16, 2012, among Beijing Super TV Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.76(6)	Supplemental Agreement, dated February 9, 2012, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
4.77(6)	Cooperation Termination Agreement, dated November 9, 2011, between Dongguan Super TV Video Info Co., Ltd. and the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd.
4.78(6)	

Capital Increase Agreement, dated May 24, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Ying Zhi Cheng Technology Co., Ltd. and Beijing Joysee Technology Co., Ltd.

Number	Description of Exhibit
4.79(6)	First Amendment to First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated June 14, 2011, among China Digital TV Technology Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.
4.80(7)	China Digital TV Holding Co., Ltd. 2012 Stock Incentive Plan.
4.81(7)	Second Supplemental Agreement to Loan Agreement, dated April 12, 2013, between Beijing Super TV Co., Ltd. and Tianxing Wang.
4.82(8)	Share Transfer Agreement, dated April 30, 2014, among Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center, Beijing Cyber Cloud Co., Ltd. and Beijing Xinsi Yijia Technology Co., Ltd.
4.83(8)	Share Transfer Agreement, dated April 30, 2014, among Beijing Super TV Co., Ltd., China Super Media Holdings Limited, Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center and Beijing Cyber Cloud Co., Ltd.
4.84(8)	Termination Agreement of Existing Contractual Agreements, dated June 20, 2014, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Tianxing Wang, Wenjun Wang and Shizhou Shen.
4.85(8)	Termination Agreement of Existing Contractual Agreements, dated April 14, 2015, among Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.86(8)	Share Transfer Agreement, dated June 20, 2014, among Lei Zhang, Tianxing Wang, Wenjun Wang, Shizhou Shen and Beijing Super TV Co., Ltd.
4.87(9)	Framework Agreement, dated June 13, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
4.88(9)	Framework Agreement Amendment, dated October 9, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
4.89(9)	Share Transfer Agreement, dated October 9, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
4.90(8)	Supplementary Share Transfer Agreement, dated October 27, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
4.91(9)	Profit Compensation Agreement, dated October 9, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.

4.92[(9)]	Supplementary Profit Compensation Agreement, dated October 27, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.
4.93[(9)]	Share Subscription Agreement, dated October 9, 2014, between Shanghai Tongda Venture Capital Co., Ltd. and Golden Benefit Technology Limited.

Number	Description of Exhibit
4.94[10]	Equity Transfer Agreement, dated November 7, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
4.95[11]	Supplemental Agreement to the Equity Transfer Agreement, dated December 26, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
4.96[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Yang Tingling
4.97[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Zhang Xi
4.98[12]	Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Liu Yu
4.99[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Yang Tingling and Wu Zhenhua
4.100[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Zhang Xi and Hu Yongxin
4.101[12]	Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Liu Yu and Ma Bin
4.102[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Wu Zhenhua
4.103[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Hu Yongxin
4.104[12]	Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Ma Bin
4.105[12]	Power of Attorney, dated June 23, 2014, of Wu Zhenhua
4.106[12]	Power of Attorney, dated June 23, 2014, of Hu Yongxin
4.107[12]	Power of Attorney, dated June 23, 2014, of Ma Bin
4.108[12]	Equity Transfer Option Agreement, dated June 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Ma Bin, Hu Yongxin and Wu Zhenhua
4.109[12]	Technical Support and Related Service Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Beijing Dingyuan Technology Co., Ltd.
8.1	List of Subsidiaries of China Digital TV Holding Co., Ltd.

11.1[(1)]	Code of Business Conduct and Ethics of China Digital TV Holding Co., Ltd.
12.1	CEO Certification pursuant to Rule 13a - 14(a).
12.2	CFO Certification pursuant to Rule 13a - 14(a).
13.1	CEO Certification pursuant to Rule 13a - 14(b).
13.2	CFO Certification pursuant to Rule 13a - 14(b).

Number	Description of Exhibit
23.1	Consent of KPMG Huazhen LLP.
23.2	Consent of Han Kun, PRC Lawyers.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

†† Portions of the agreement have been omitted pursuant to a confidential treatment request and have been filed with the SEC separately with a confidential treatment request.

(1) Previously filed as an exhibit to the Registration Statement on Form F-1 (File No. 333-146072) of China Digital TV Holding Co., Ltd. and incorporated herein by reference thereto.

(2) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on June 18, 2008 and incorporated herein by reference thereto.

(3) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 20, 2009 and incorporated herein by reference thereto.

(4) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 30, 2010 and incorporated herein by reference thereto.

(5) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 12, 2011 and incorporated herein by reference thereto.

(6) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 17, 2012 and incorporated herein by reference thereto.

(7) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 16, 2013 and incorporated herein by reference thereto.

(8) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 28, 2015 and incorporated herein by reference thereto.

(9) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 10, 2014 and incorporated herein by reference thereto.

(10) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 7, 2016 and incorporated herein by reference thereto.

(11) Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on December 28, 2016 and incorporated herein by reference thereto.

(12) Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 21, 2017 and incorporated herein by reference thereto.