



**China Digital TV
Third Quarter 2015 Earnings Conference Call Script**

Operator:

Good morning and good evening everyone and welcome to China Digital TV's Third Quarter 2015 Earnings Conference Call. All participants are now in listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press * then 1 on your touch-tone phone. To withdraw your question, please press * then 2.

Please note: this event is being recorded.

I would now like to turn the conference over to your host for today, Charles Eveslage. Please go ahead.

Charles Eveslage:

Thank you, operator.

Good morning and good evening everyone, and thank you for joining China Digital TV's third quarter 2015 earnings conference call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session.

The company's earnings results were released earlier today, and are available on the company's IR website at ir.chinadtv.cn, as well as through newswire distribution.

Today, you will hear from Mr. Jianhua Zhu, China Digital TV's chief executive officer, who will provide remarks regarding the strategic highlights and future objectives, followed by Ms. Yue Qian, the Company's acting Chief Financial Officer, who will discuss the financial results. After the prepared remarks, we will conduct the question and answer session.

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the company's registration statement on Form 20-F and other documents filed with the U.S. Securities and Exchange Commission. China Digital TV does not assume any obligation to update any forward-looking statements except as required under applicable law.

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As a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on China Digital TV's investor relations website. I will now turn the call over to China Digital TV's chief executive officer, Mr. Jianhua Zhu.

Jianhua Zhu

大家好，感谢大家参加公司 2015 年 3 季度业绩电话会议。
Hello everyone. Welcome to our third quarter 2015 earnings conference call.

虽然传统智能卡市场需求的持续下降影响到了公司三季度的业绩。但是，公司长期的布局依旧着重于围绕电视机和移动终端屏幕提供综合播控技术解决方案和内容运营服务。Despite facing some challenges in our traditional smart card business with the weaker demand environment, which impacted our third quarter results, the long-term strategy of our evolving company has not changed, as we remain focused on providing comprehensive broadcasting solutions and content operation services for television and mobile devices.

三季度，智能卡市场需求量持续下降，导致公司的收入和发卡量低于市场预期。另外受到智能卡单价和需求的持续下降的压力，我们判断传统业务在未来依旧会持续下滑。In the third quarter, the overall smart card market further contracted, and as a result our total revenues and smart card shipments came in lower than expectations. Furthermore, with downward pressure on ASPs and continued soft demand, we anticipate continued sluggish growth in this traditional segment for the foreseeable future.

今后，我们依旧把打造屏屏通和云平台的服务作为公司增长的主要驱动力。这个季度，屏屏通和云平台两块业务继续在市场上取得进展。我们希望通过前期的市场铺垫加速产品后期的快速推广并对公司的业绩有所贡献。Going forward we will look to our emerging NBP and cloud platform offerings to provide new engines of growth. In the third quarter, we continued to make progress with these emerging offerings that will set the stage for accelerating growth in future periods and contribute to the top and bottom line.

屏屏通网关能够把传统直播电视信号从客厅延伸到户外，用户可以通过移动终端在公共场所如医院，工厂以及机场等地方无缝观看直播电视。Our NBP business enables our cable operator partners to extend the reach of their content, by facilitating access to live television programming for subscribers over mobile devices in public areas such as hospitals, factories, campuses, and airports.

这个季度，屏屏通和市场主要的 WIFI 运营商开始洽谈合作，其中已经签约了 2 家运营商。洽谈合作的 WIFI 运营商覆盖了中国主要公共场所的 WIFI 信号。通过和 WIFI 运营商的合作，能够把我们的产品服务快速叠加到无线网络中，在主要场所提供多屏直播电视服务。

We made great headway establishing NBP partnerships with several wifi operators across China that can provide us access to the majority of public places, among which we have already signed agreements with two operators. Through these partnerships we will be able to rapidly deploy our

product and offer live programming services to people over their mobile devices and particularly provide multi-screen cable TV services.

继续扩充云平台部署和优化云游戏的运营策略和扩展用户是我们目前打造云平台的三个重点方向，这也是未来云平台能否实现货币化的基础。

Currently for the cloud business, our focus remains on platform deployment expansion, operational optimization and user base expansion, which will establish a strong foundation for large scale monetization through platform sales and platform operations in the future.

和投资者再强调一下，云计算平台是基于私有云打造的一个多元化应用平台商店。运营商通过该平台可以给用户提供基于电视的娱乐应用，例如游戏，教育，金融等。目前在云平台上打造的应用主要以游戏为主。

To remind investors, our cloud-based content platform is an exciting new offering which enables cable operators to essentially offer their household subscribers a TV-enabled app store. From here the possibilities are limitless: games, educational programs, financial services and much more, all based in the cloud and brought into the living room. Currently, our focus is on providing game applications over our cloud platform.

现在云平台注册的用户从二季度 100 万人增加到 150 万人，其中一半的注册用户来自于北京歌华的用户。歌华从四季度开始第二轮流化平台的扩展，预计增加 4000 个并发流用于优化云平台。

We now have over 1.5 million registered users on the cloud side, up from 1 million in the previous quarter, with half coming from Beijing Gehua. Beijing Gehua recently started its second round of streaming deployment, and expects to deploy another 4,000 streams in the coming quarter, for the purpose of cloud platform optimization.

在这里我们跟大家分享一些云游戏的运营数据。截至前三季度，平台中的游戏用户累计达到 106 万，日活用户达到 3 万人，付费转换率达到 7.8%，ARPU 值人民币 50 元。

I would like to also share some operating data for cloud gaming. As of September 30, the registered users and daily active users for cloud games is 1.06 million and 30,000, respectively. Among these users we are seeing the payment conversion rate of 7.8% and ARPU of RMB50.

我们坚信公司推出的新业务能够给处在快速发展和变革的有线电视市场带来更丰富多元化的增值服务。我们将利用公司在传统业务中所积累的资源优势为下一代广播电视提供综合的技术解决方案和内容服务。我们对公司的转型战略充满信心，希望在明年能够逐步实现公司的战略规划。

We believe our emerging offerings will bring diversified value-added services to China's dynamic and rapidly-evolving cable TV sector. We will leverage our core competencies in the traditional business to provide next-generation broadcasting solutions and content services to cable operators. We remain confident in our business transformation strategy, and hope to see a smooth transition in future periods.

下面我将把话筒交给我们的 CFO 岳茜女士来和大家分享传统业务发展状况和三季度业绩情况。

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With this I'll hand it to Yue Qian to discuss our traditional smart card business and the financial results in third quarter of 2015.

Yue Qian:

Thanks Jianhua and hello everyone.

Our traditional smart card business continued to show signs of slowing down and we expect that to remain the case over the next couple of quarters as the smart card market reaches maturity and demand cools and puts greater downward pressure on ASPs. On top of declining ASPs, it was also lower-than-expected overseas demand for smart cards, as well as weak demand from domestic cable operators caused our net revenues and smart card shipments volumes to come in lower than expectations. With 85% of our net revenues coming from smart cards shipments, our business is still very impacted by secular trends in this market.

But as we mentioned today and in previous quarters, our company is currently transitioning from being primarily a technology provider in a maturing industry to being a diversified content services provider in the lucrative internet industry. In these times, we are tirelessly working to expand and diversify into new fields through offering unique cloud-based applications and content services. Going forward, we will look to our emerging cloud platform and NBP offerings to fuel our business expansion and financial growth.

We are cautiously optimistic regarding the prospects of our business as we navigate this challenging market environment in our traditional business and develop next-generation content services for our expanding base of customers and users alike.

Turning to the financial highlights for the third quarter. Please note that, unless otherwise stated, all monetary amounts are in US dollars.

In the third quarter of 2015, China Digital TV shipped approximately 2.29 million **smart cards**, compared to 3.35 million in the prior year period.

Net revenues were 10.5 million, as compared to 17.0 million in the prior year period. The decrease was primarily due to decreases in revenue from the sales of smart cards caused by the general market decline of the mature CAS business, and the decline in smart card ASPs.

Revenues from our top five customers accounted for 40.1% of total revenues, as compared to 20.8% in the prior year period.

Revenues from smart cards were 9.0 million in the third quarter of 2015, as compared to 14.4 million in the prior year period. The decrease was mainly due to a decrease in shipment volumes of smart cards, as well as a decline in smart card ASPs. Sales of smart cards and other products accounted for 84.6% of total revenues in the third quarter of 2015, as compared to 83.8% in the prior year period. **ASPs** for smart cards in the quarter decreased by 8.1% year over year, while the unit cost of smart cards increased by 7.2% year over year.

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Revenues from other products were 0.3 million in the third quarter of 2015, as compared to 1.6 million in the prior year period. The decrease was mainly attributable to lower sales of surface mounted chips. Sales of other products accounted for 3.0% of total revenues in the third quarter of 2015, as compared to 9.1% in the prior year period.

Revenues from services increased by 7.4% to 1.3 million in the third quarter of 2015, from 1.2 million in the prior year period. The increase was primarily due to the increase in shared revenues from cloud computing games, as well as licensing income, which was partially offset by a decrease in head-end system integration. Revenues from services accounted for 12.4% of total revenues in the third quarter of 2015, as compared to 7.2% in the prior year period.

Cost of revenues from smart cards and other products were 2.1 million in the third quarter of 2015, as compared to 3.3 million in the prior year period. The decrease was mainly due to a decline in cost of revenues from smart cards resulting from decreased shipment volumes of smart cards, as well as a decline in cost of revenues from surface mounted chips resulting from decreased shipment volumes of surface mounted chips. Cost of revenues from smart cards and other products accounted for 58.7% and 6.9%, respectively, of total cost of revenues in the third quarter of 2015, as compared to 61.3% and 17.4% in the prior year period.

Cost of revenues from services was 1.1 million in the third quarter of 2015, as compared to 0.9 million in the prior year period. The increase was mainly due to an increase in cost of revenues from cloud computing games. Cost of revenues from services accounted for 34.5% of total cost of revenues, as compared to 21.3% in the prior year period.

Gross profit was 7.4 million, as compared to 12.8 million in the prior year period. **Gross margin** was 69.8%, as compared to 75.5% in the prior year period. The decline in gross margin was primarily due to a decrease in gross margin of smart cards, attributable to increased unit cost of smart cards, which account for a high proportion of total revenues.

Operating expenses decreased to 8.4 million from 10.5 million in the prior year period, primarily due to decreased personnel related expenses resulting from lower R&D headcount, as well as lower marketing and G&A expenses.

Loss from operations was 1.0 million, as compared to an income from operations of 2.3 million in the prior year period.

Income tax expenses were 0.7 million, as compared to 1.6 million in the prior year period. The decline was mainly due to a decrease in taxable income.

Net loss attributable to holders of ordinary shares was 0.5 million, compared to a net income attributable to holders of ordinary shares of 1.5 million in the prior year period. **Net margin** was negative 4.5%, as compared to positive 8.8% in the prior year period.

Non-GAAP net loss attributable to holders of ordinary shares was 0.4 million, compared to a non-GAAP net income attributable to holders of ordinary shares of 1.7 million in the prior year period.

Turning to our balance sheet.

As of September 30, 2015, China Digital TV had cash and cash equivalents and restricted cash totaling 67.3 million. In the third quarter of 2015, cash flow generated from operations was approximately 0.8 million.

Now, let me provide you our business outlook.

Based on information available as of November 17, 2015, China Digital TV expects smart card shipments for the fourth quarter of 2015 to be in the range of 2.6 million and 2.9 million. Net revenues for Q4 2015 are expected to be in the range of 10.6 million and 11.2 million dollars.

Thank you for listening; we will now take your questions.

Closing Remarks from Charles Eveslage:

Once again, thank you for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support and we look forward to talking with you in the coming months.