



# GIGAMEDIA Fourth-Quarter and Full-Year 2004 Financial Results

## CONFERENCE CALL SCRIPT

### JUNE 8, 2005 AT 9:00 A.M. (EST)

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**Operator:** Good day ladies and gentlemen and thank you for standing by. Welcome to the GIGAMEDIA LIMITED (“GigaMedia” or the “Company”) conference call to discuss fourth-quarter and full-year 2004 operating and financial results. At this time, all participants are in a listen only mode. Following the formal presentation, instructions will be given for the question and answer session. If anyone needs assistance at any time during the conference, please press the “\*” followed by the “0” for operator assistance. As a reminder this conference is being recorded today, the 8th of June 2005. I would now like to turn the conference over to Mr. Brad Miller. Please go ahead Mr. Miller.

**Brad:** Thank You. This is Brad Miller, investor relations director of GigaMedia. Welcome to our fourth-quarter and full-year 2004 results conference call for GigaMedia Limited. Here to speak with you and answer your questions today are Arthur Wang, our CEO, and Thomas Hui, our CFO.

Before I turn it over to today’s speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of GigaMedia and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, GigaMedia’s actual

results could differ materially from these statements. Information about factors that could cause, and in some cases have caused, such differences can be found in GigaMedia's Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission in June 2004.

This presentation is being made on June 8th, 2005. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcast, retransmitted, or redistributed at a later date, GigaMedia will not be reviewing or updating the material that is contained therein.

The agenda for today's call includes first a review of 2004 business activities and financial performance, as well as a look at what we expect going forward, by Arthur Wang. Thomas Hui will then follow with a review of each of our business units and further insight into our expectations for 2005. After the speaker presentations, we will go into a question and answer session. With that, I would like to turn the call over to Arthur, our CEO.

**Arthur:** Thanks Brad and thank you all for joining us.

I am happy to report that GigaMedia has today announced its best ever financial performance and our first-ever profitable year.

For 2003, GigaMedia – the old GigaMedia – reported a net loss of US\$14.1 million. Just one year later, thanks to the hard work and discipline of the new management team and the entire GigaMedia family, we report today a consolidated net profit of \$1.7 million for 2004, representing a \$15.8 million year-on-year increase.

Consolidated EBITDA for 2004 was \$9.1 million, up year-on-year over \$19 million from a \$10.1 million deficit in 2003.

This clearly represents a significant turnaround from 2003 and the old Giga. In just one year, GigaMedia has climbed out a \$14 million hole and into the light of the day. We stand above ground now, confident in our future, excited about our prospects. We are building a new GigaMedia, with growing shareholder value as its cornerstone.

For those of you unfamiliar with our story, please allow me to provide a high level review of the past year:

- We began to assemble our new management team in early 2004. For over five years, Giga had always been loss-making, so it was clear what our prime objective needed to be: to stop the bleeding. So we began a comprehensive internal restructuring to reinvigorate the Company and overcome a history of underperformance. We set an aggressive and demanding agenda for change, raised the bar on operational excellence and ramped up internal targets for all aspects of our business. Reshaping our corporate culture and building better systems is a major undertaking, but we accomplished a lot in this area in 2004.
- We were able to deliver results in Q2 – when GigaMedia recorded its first ever profitable quarter. With more hard work, we then grew net income by 23% Q-o-Q in Q3 and then more in Q4, increasing net income a further 76% Q-o-Q.
- We also took advantage of opportunities to grow our business by acquisition. In April of 2004 we acquired Cambridge Entertainment Software, a very successful developer of online entertainment software based outside of Boston in Cambridge, Massachusetts. CES (formerly known as Grand Virtual) has strengthened our entertainment product portfolio and revenue base, and provided GigaMedia with an outstanding platform for growth.

- We have also taken major steps to adopt new systems and international best practices into GigaMedia, including beginning the full implementation of the Sarbanes-Oxley 404 internal control procedures – one year ahead of our required adoption. We have strengthened our finance and legal teams, and established an internal audit department reporting directly to the independent Audit Committee of the Board.

In this context, let's look at our business units....

We are very encouraged about our online entertainment subsidiary – Cambridge Entertainment Software, or CES. In the past year, CES invested heavily in new gaming products, including both new variations of our traditional gaming offerings as well as new product lines such as multi-party poker under the brand “Everest Poker”. I think most of you are familiar with the amazing success of on-line poker in North America; our strategy is to become a first mover and market leader in Europe and Asia. We are happy to announce that Everest Poker is now available in native language offerings in 11 languages. While we are not releasing numbers at this time, we are very encouraged by the numbers growth, which has exceeded our internal forecasts. We are very bullish on this business unit and are strongly focused on further penetrating the online gaming market through organic growth and via acquisition to drive our financial performance.

Our ISP business continues to improve its performance despite difficult operating conditions for our consumer ISP division. Our residential ADSL service faces some, limited pricing pressure, but this is offset by improvements in our cable modem service, resulting in essentially no ARPU decline. Our corporate ISP business is showing good growth. We believe we are well positioned here to offer valuable, in-demand data transit services, as well as other value-added services for businesses. As a result of our positive experiences in Taiwan, we are

now exploring opportunities in this sector in China, but it is too early to speak of this at present.

Music retail remains a challenging business. On the one hand, we have completed a thorough overhaul of the entire business, installing a chain-wide POS and inventory system, negotiating new consignment terms with our suppliers, enforcing strict inventory controls, subletting or sharing of store space to retailers interested in capitalizing on our high foot-traffic, increasing the proportion of video products such as DVDs and numerous other in-store improvements. Our music business is almost unrecognizable from a year ago.

On the other hand, secular declines in the sales of recorded music have continued and will continue. And we are unable to predict with certainty the implementation of strong anti-piracy legislation and the adoption of anti-copying digital rights management coding – although there has been progress on both fronts.

As a result, we continue to manage defensively with strict inventory and purchasing controls. At the same time, we continue to think deeply about larger strategic issues including our long-term future in this business.

Overall then, we as a management team are pleased with the results we announced today, but by no means complacent or satisfied. Our turn-around and restructuring is still but at mid-stream. But the results we report today are strong evidence that our direction is correct and that our methods are sound. In addition to improving our current businesses, we also are very focused on strategic acquisitions, targeting profitable companies with strong growth potential in transactions that are accretive to our shareholders.

We expect continued quarterly profitability and continued growth, in particular from our online entertainment software subsidiary.

To conclude, GigaMedia is today a company undergoing a profound transformation, but we are building a much-improved Company poised to deliver another record year in 2005. We are confident in our future, excited about our prospects. We are building a new GigaMedia, with growing shareholder value as its cornerstone.

Thank you. I will now turn the call over to Thomas Hui, our CFO.

**Thomas:** Thanks Arthur. Let me now take a few minutes to highlight certain details in each of our business units and end with a few additional comments on our outlook.

### **Entertainment Software Business**

As stated in our press release, we believe that the online gaming industry continues to offer significant growth potential. Our entertainment software unit is well positioned to capitalize on the rapid growth of this market. Our online casino games software is one of the only end-to-end solutions that offers localization in up to 16 languages, and our poker product remains the only poker software available in up to 11 languages.

During 2004, we devoted a great deal of resources to improving back-office functions, software clean up, and upgrading customer relationship management tools to enable more efficient marketing campaigns. We also invested in upgrading the attractiveness of our casino products and developing our new poker product. We believe these investments will further enhance the competitiveness of this unit going forward.

The entertainment software unit made strong contributions to our 2004 financial results. During the fourth quarter, results of this unit were also favorably impacted by a few factors: (1) a q-on-q decrease in restructuring charges related to the integration of this business unit, (2)

seasonality inherent in this business, as the winter months are a peak period of play, and (3) reclassification of certain intangible assets during the year-end audit process, which lowered amortization expenses.

In sum, with upgraded back-end functionality, more attractive casino game software, and newly launched poker software we are excited about the long-term growth prospects of the entertainment software business. We expect strong top-line and bottom-line performance from this unit in 2005.

### **Broadband ISP Business**

As Arthur has alluded to, our broadband ISP unit faces strong challenges with market leaders continuing to undercut prices. We expect the environment to remain very competitive.

Let me now take a moment to briefly go through each part of our broadband ISP business.

In our consumer broadband ISP operations, our goal is to maintain our subscriber base and revenue streams in Taiwan's highly penetrated market. We continued to upgrade our ADSL subscribers through sales of packaged bundles that highlight our large email and Web storage space. During the quarter, our subscriber base dropped slightly from 97K to 95K. However, we were able to increase our ARPU from \$12 in the previous quarter to \$12.40 in the fourth quarter.

In our corporate broadband ISP operations, we believe there is room for more top-line growth. We will continue to leverage our domestic peering advantage to increase transit and collocation revenue. We are able to achieve better margins in this business, as the market is less mature compared to the retail ISP business. There is less price competition and services tend to be more customized.

During the fourth quarter, we were able to grow both the number of service lines and the bandwidth provided per line in this business. The corporate ISP business represented approximately 24% of our overall broadband ISP revenues in the fourth quarter, and we expect that to grow in 2005.

By continuing to focus on the corporate side of the business where margins are more attractive and tightly controlling costs, we expect our broadband ISP unit to deliver continued profitability in 2005.

### **Music Distribution Business**

As Arthur has mentioned, our legacy music distribution unit, G-Music, continues to face the clear challenge of a secular downtrend in Taiwan's music distribution market.

Fourth-quarter revenues in this unit declined 25% Y-o-Y, in line with the overall market decline. We have aggressively managed for this market downturn, and as a result we recorded a net profit of \$1.3 million during the quarter, versus a net loss of \$4.6 million during the same period in 2003. Our strong focus in 2004 on improving inventory management was the key reason for the turnaround in performance. We were able to obtain more flexible product distribution terms featuring larger percentages of returnable inventory, which led to a reduction in overall provisioning needs. Our results also benefited from lower fixed costs – we closed 10 stores in 2004, two during the fourth quarter. We also converted three into combined stores, sharing retail space with other stores and reducing rental costs.

Going forward, inventory management will remain a top priority, supported by our new Point-of-Sale system, which is now fully functional. We will also continue to focus on reducing costs in an attempt to protect margins as we expect the market to continue to deteriorate.

Given the speed of the industry downturn, the long-term viability of this business unit is something we are looking at very closely.

To conclude, in 2004 we made rapid progress in improving our financial performance. We are now delivering healthy quarterly earnings with three consecutive quarters of net profit growth. In addition, we are actively reviewing opportunities in strategic acquisitions that would provide us with revenue growth and be accretive to our earnings. With positive cash flow from operations, a solid balance sheet and a strong management team, we are well positioned to deliver attractive long-term growth in shareholder value.

Thank you.

**Brad:** Thanks Thomas.

We will now move into a question and answer session. Operator, at this point, we would like to open the call up to questions.

**- Q&A Session -**

**Brad:** Thank you again for joining us today. We look forward to speaking with you on our next conference call for GigaMedia's first quarter 2005 financial results, which we anticipate will be announced in July. For further information about GigaMedia or if you have questions and would like to contact the Company, please see our Web site at <http://ir.giga.net.tw>.