



GIGAMEDIA Fourth-Quarter and Full- Year 2005 Financial Results

CONFERENCE CALL SCRIPT

MARCH 23, 2006 AT 8:30 A.M. (EST)

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 2005 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 23rd of March 2006. 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 2005 results conference call for GigaMedia Limited. Here again 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 2005.

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The agenda for today's call includes first a review by Arthur Wang of 2005 Q4 and full-year business activities and financial performance, as well as our outlook. Thomas Hui will then follow with details on our financial results during the fourth-quarter and for the full-year period. 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.

We are very pleased to report today our fourth-quarter 2005 and full-year 2005 results – the best ever for GigaMedia.

For the full year 2005, our net profit climbed 277 percent to a record \$6.3 million. Consolidated EBITDA for the year grew 73 percent to \$12.0 million, also an all-time high.

Throughout 2005, we delivered consistent improvements in our financial performance quarter over quarter – and ended with a strong increase in our business momentum and profitability. Fourth-quarter 2005 consolidated net profit jumped 37 percent from third quarter to an all-time high of \$2.4 million. Fourth-quarter consolidated EBITDA climbed 24 percent over Q3 to a record \$3.8 million.

I want to spend most of my time with you today talking about the exciting plans and growth we see immediately ahead of us. But before going on, let's take a moment to put 2005 into context, to review what we have achieved, to understand why today we are both confident and enthusiastic.

First, 2005 was an important internal restructuring year. When the new management team came in to Giga in 2004, we inherited a broken company with an unbroken record of loss making. We worked hard to

rework, to rebuild the old Giga, delivering first-ever profitability within two quarters. In 2005, we continued this hard but important work, culminating with the sale of our loss-making music distribution business in the Third Quarter, and at a small profit. This move reflects our commitment to focus on high-growth, high-margin businesses with large addressable markets. We remain determined to shed non-core businesses, and are currently evaluating our long-term future in the broadband ISP business, which while profitable, is our only remaining legacy business.

Second, 2005 was a key internal investment year. Beginning in 2004 and continuing in 2005, we invested heavily in our online entertainment business, building a world-class gaming platform with a robust and scalable architecture... and introducing new and exciting games onto this platform. In late 2004, we released the single-table Everest poker product, followed in April 2005, with the full functionality multi-table tournament poker product. The dramatic improvement in our financial performance in 2005 represents the early returns from these investments, with more and stronger growth yet to come.

Looking ahead, we are very excited by our prospects in 2006 and beyond. Let me discuss our primary drivers in turn.

First, our traditional poker and gaming software business. In the fourth quarter 2005 and into this the first quarter of 2006, we are seeing a

very rapid ramp-up of our Everest Poker and Everest Casino business. Our strategy has been to bypass the crowded North American market and concentrate on the rest of the world, the giant non-English language marketplace, by offering our Everest Poker and Everest Casino software in end-to-end native solutions in 11 languages. By leveraging the experience gained from operating in the European and Asian markets for over seven years, we have enjoyed dramatic growth, with more to come. In the Fourth Quarter, active real money players increased 58% from the previous three months. This strong growth trend continues in the First Quarter of this year, where we are seeing another over 40% QoQ growth, lifting peak concurrent players on Everest Poker to an expected 8000 players.

Everest Poker user and revenue growth has been driven by marketing and brand-building initiatives. Everest Poker was the exclusive sponsor of the 2005-2006 French Poker Tour, the 2005 German Poker Tour and the Japanese Poker Players Association. Everest Poker also offered as prizes seats to major land-based events during the year, such as the World Series of Poker and the World Poker Tour. Our Everest Poker European Championship is underway now. The German leg of the Championship, which is being conducted in partnership with the German Poker Players Association, has been a sell-out, with poker players being turned away at every event.

We are committed to capitalizing on our position as one of the leading non-English language gaming solutions. Our poker software remains the only solution on the market available in 11 languages.

Our second major driver is our FunTown casual game portal. On January first, we acquired the computer game division of Acer Computers, FunTown, in a highly strategic, highly accretive transaction.

With FunTown, GigaMedia enters the rapidly growing casual game business in Asia as a market leader, with FunTown's base of 4 million registered users as our foundation. Market projections for growth in online games are exciting. According to the PricewaterhouseCoopers report entitled "Global Entertainment and Media Outlook: 2005-2009," the online games market in the Asia/Pacific region is expected to grow by 45 percent on a compound annual rate to the year 2009, increasing from \$1.1 billion in 2004 to \$7 billion in 2009, as online game subscribers grow from 10 million in 2004 to an expected 75 million in 2009.

In this first quarter of 2006 – the post-acquisition period generally considered the most sensitive in an M&A deal – we are happy to report that FunTown is running ahead of budget, exceeding our internal revenue and net income targets, while at the same time releasing new games and a new 3D virtual community called FunTown Village where players can chat, shop, trade items, give gifts and even get married!

Peak concurrent players on FunTown Village has already exceeded 25,000. We are very excited about the prospects for the FunTown casual game portal.

Our third major driver, a new business, will be real money MahJong and Asian games. MahJong is the traditional game of choice for over a billion people. We intend to leverage FunTown's number one Mahjong position by bringing real-money MahJong to this market.

One avenue will be to offer FunTown's leading MahJong and other Asian games to online gaming operators around the world, allowing them to target the highly valued Asian punter. We are happy to report that we currently are in discussions with the premiere names in global online gaming who have all expressed a strong interest in Asian games.

Real-money online MahJong is a huge, untapped market and a huge opportunity for GigaMedia. We begin with market leadership and are committed to obtain market dominance, capitalizing on the natural advantage offered by superior starting position.

Overall, by way of outlook, we see a very strong first quarter 2006 with the top line expected to grow over 40% above the prior quarter, Q4 of 2005, all the while holding operating margins essentially stable. We are very excited about our prospects for the rest of the year, both organically, from our current business drivers, and from our new real

money MahJong and Asian game offerings as they begin to contribute in the second half.

We also continue to examine and evaluate strategic acquisition and partnership opportunities, which we believe may accelerate our growth and market penetration.

2005 was a watershed year for GigaMedia as we successfully restructured our legacy business, focused on strong execution of a solid growth plan, and invested heavily in our growth drivers for 2006 and beyond – all resulting in record growth and net earnings. We have built a new GigaMedia with growing shareholder value as its cornerstone. We thank you for your interest and continued support.

Let me now turn the call over to Thomas Hui, our CFO.

Thomas: Thanks Arthur.

Let me turn now to look at our financial performance for full-year 2005 and for the fourth quarter. I will begin by taking you through consolidated results and follow that with a look at the details for each business unit.

Starting with the income statement, GigaMedia delivered the Company's best-ever results in 2005. Consolidated revenues grew 34

percent year-over-year to \$44.2 million. As noted in our release today, full-year 2004 revenues incorporate the results of CESL only for the nine months following the acquisition of the business in April 2004. Adjusting for this to compare like-for-like relevant nine-month 2005 and 2004 periods, consolidated revenues grew approximately 21 percent year-over-year.

Operating income for 2005 rose 76 percent to \$4.4 million, with our operating income margin expanding to 9.9 percent from 7.5 percent a year ago. Our best operating results ever. Driving these improvements were strong revenue growth and significant operating margin expansion in our entertainment software business, CESL.

We also recorded approximately \$2.7 million in non-operating income during the year. This included treasury gains of approximately \$1.3 million, gains from the sale of our GigiGaGa Web site, and reversal of certain legal contingent liability provisions.

The end result – net income jumped 277 percent year-over-year to a record \$6.3 million.

Turning to look briefly now at our balance sheet, we ended 2005 with a strong financial position. At year end we had cash, cash equivalents, and short-term investments of \$62.1 million, with no debt. This represented an increase of approximately \$6.4 million from the third

quarter of 2005. The increase was mainly due to strong operating cash flow and a reclassification of one of our equity investments from non-current to current.

Overall then, we successfully executed our strategic growth plans and delivered steady improvements in our financial results in 2005. With our high-margin entertainment software business, CESL, driving rapid growth in our revenues, we were able to enhance overall operating margin and significantly increase bottom line.

This trend was also demonstrated in the fourth quarter of 2005. Consolidated revenues from continuing operations for the period increased 6 percent to \$11.8 million, driving a 56 percent quarter-over-quarter growth in consolidated operating income from continuing operations to \$1.7 million. As a result, GigaMedia delivered best-ever consolidated quarterly net income of \$2.4 million, up 37 percent from the previous quarter.

To break down these results in more detail now, let's look at our business unit results.

Entertainment Software Business

The entertainment software business delivered outstanding growth in 2005. The poker software products drove all-time highs in revenues and profitability.

For the full year, the business unit generated \$22.5 million in revenues. As I mentioned earlier, 2004 results include results of CESL only for the nine months following the acquisition of the business. Adjusting for this to compare like-for-like relevant nine-month periods in 2005 and 2004, revenues grew approximately 55 percent year-over-year. Operating income increased 133 percent year-over-year, and net income grew 102 percent over the same periods.

As the scale of CESL's operations increased during the year, operating margin for the business grew. Comparing like-for-like relevant nine-month 2005 and 2004 periods, operating margin increased to 28 percent from 19 percent.

We ended the year on a very positive note with best-ever quarterly results from the entertainment software business in the fourth quarter. Fourth-quarter revenues in the entertainment software business increased 22 percent quarter-over-quarter to \$7.0 million. Operating income grew 56 percent to \$2.4 million. Net income rose 42 percent to \$1.9 million.

We also continued to invest in scaling up and developing new products

in the entertainment software business. During the fourth quarter, capital expenditure amounted to approximately \$400 thousand, of which 51 percent related to software capitalization.

Let me now briefly go over the two products in the entertainment software business: poker software and traditional gaming software.

During the fourth quarter, the poker software business achieved dramatically increased financial performance on the back of investments made throughout the year to enhance and expand the business. Revenues from the poker software products were \$2.2 million, up 102 percent from the previous quarter. Approximately 19,000 active real-money customers played Everest Poker during the fourth quarter, up 58 percent from approximately 12,000 in the previous quarter.

We continue to see strong growth potential for our poker software business in non-English Western European countries, which are our principal markets. We continue to offer poker software products in 11 languages. Our licensee has increased its marketing spending on building the Everest poker brand through sponsorship of events such as the French Poker Tour and the German Poker Tour. As a result, we are seeing growing customer trust and excitement over the Everest Poker products. Hence, we are very excited about the prospects for

our poker software business and expect continued strong growth in 2006.

While poker is driving strong growth in the entertainment software business, the traditional gaming software business is continuing to deliver strong profitability. Fourth quarter revenues from the traditional gaming software business were \$4.8 million. This represented a 20 percent increase from the same period in 2004 and an increase of 3 percent from the previous quarter. The year-over-year increase in revenues was related to the launch of new games, enhanced lobby and menu interfaces, and our licensee's launch of Everest Casino.

Broadband ISP Business

Turning now to our broadband ISP business, we achieved improved profitability in this business unit in 2005. This was the result of continued strict cost and expense control measures and a shift in focus to our corporate broadband business.

Full-year 2005 revenues declined slightly to \$21.7 million versus \$22.0 million in 2004, with increased contributions from the corporate broadband business offsetting decreased contributions from the consumer side of the business. Operating income increased by approximately 47 percent to \$2.2 million in 2005. The year-over-year variance in operating income was primarily due to reduced general and

administrative expenses, reductions in sales and marketing expenses, and lowered operating costs in 2005. Net income for 2005 grew 110 percent to \$3.2 million, due mainly to the improved operating results, treasury investment income, and impairment loss and a one-time disposal gain recorded in the second quarter of 2005 in connection with the sale of the Company's former web-site gigigaga.com.tw.

In the fourth quarter, revenues in the corporate broadband ISP business were \$1.5 million, representing 31 percent of total revenues in the Company's broadband ISP business. Competitive pressures in this business are increasing. Revenues during the period declined 16 percent quarter-over-quarter, due to an increase in competition in certain bandwidth reselling products and depreciation of the NT dollar.

On the consumer side of the business, we continue to see overall market growth slowing and strong competition, particularly in the ADSL segment. As a result of our strategic decision to shift resources away from the matured and highly competitive consumer ISP market, our subscribers in the consumer broadband ISP business declined 6% quarter-over-quarter. Our blended ARPU decreased approximately 4% compared to the third quarter. Both the subscriber and ARPU declines were largely related to decreases in the metrics of our ADSL business, which is the most competitive, lowest margin segment of our broadband operations. Overall, revenues from our consumer ISP business were down 9% quarter-over-quarter.

In short, the broadband ISP business is facing challenging operating conditions, but delivering healthy cash flow. Nevertheless, given the increasingly competitive nature of the industry, the long-term value of this business unit, especially the retail side of the business, is something we are looking at very closely.

To conclude, we continued to successfully execute a strategic restructuring of our business in 2005 and delivered growth through new business development. We have now put in place solid improvements in our organizational structure that are necessary to achieve high growth.

As Arthur mentioned, we expect our consolidated revenues in the first quarter of 2006 to increase over 40 percent compared to those in the fourth quarter of 2005, while maintaining similar operating margins.

Finally, we ended the year with a solid balance sheet with approximately \$62 million in cash, cash equivalents and current marketable securities. Even after adjusting for the FunTown acquisition cash payments of \$30 million in the first quarter of 2006, we still have considerable financial flexibility. We intend to use this flexibility to pursue acquisitions that are strategic, synergistic and will provide both top-line and bottom-line growth.

In sum, we are executing well and growing stronger. We are excited and bullish about our prospects for growth in 2006, which will be driven by our poker software and our casual games businesses. With a strong balance sheet and excellent positions in high-margin, high-growth markets, we look forward to continuing to grow in the quarters ahead and increasing 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. For further information about GigaMedia or if you have questions and would like to contact the Company, please visit our Web site at <http://ir.giga.net.tw>.