

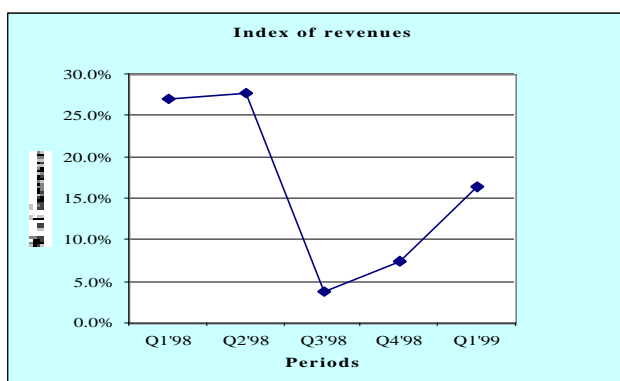


First Quarter results (three months ended March 31, 1999)

Budapest, May 12th, 1999

Dear Shareholders,

We are pleased to report that our 1st quarter results reflected accelerated growth and exceeded consensus expectations. The most remarkable development in our worldwide business was the turnaround in the Asia-Pacific region, which registered its first growth period following four consecutive quarters of relative slowdown. The Company also maintained its tradition of achieving double-digit growth and profitability, beating industry rivals. The operating income and net income were more than 22% and 29% of revenues respectively.



The chart illustrates the increase/decrease in revenue growth, comparing the given quarter to the same period of the prior year.

The condensed financial data are as follows:

	3 Months ended March 31, 1999	% to '98 same period ³⁾
Revenues ¹⁾	5,759	16.5%
Operating income ¹⁾	1,271	-9.4%
EBITDA ¹⁾	1,547	-0.1%
Net Income ¹⁾	1,713	3.6%
Net Income per share ²⁾	0.16	-5.9%

EBITDA stands for **Earnings Before Interest and Taxes, Depreciation Added**

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¹⁾ Figures are in Thousand EUROS.

²⁾ Per share figures are in EUROS.

³⁾ All data previously reported in TDM have been translated to TEUR by using 1.95583 as denominator.

Although operating income decreased compared to the same period of 1998, in comparison to the previous two quarters (Q3 and Q4 1998) a positive trend can be seen for all profitability indicators.

	3rd quarter '98 on 3rd quarter '97	4 th quarter '98 on 4 th quarter '97	1 st quarter '99 on 1 st quarter '98
Revenues	3.8%	7.5%	16.5%
Operating income	-27.3%	-12.2%	-9.4%
EBITDA	-21.5%	-8.0%	-0.1%
Net Income	-7.1%	-12.8%	3.6%
Net Income per share	-17.7%	-23.2%	-5.9%

Sales performance in Europe grew by 19.6% in the three months compared to the same period in 1998. The German-speaking countries — Germany, Austria and Switzerland — were particularly successful, reaching a combined growth rate of 37.9%. North American revenues continued their strong growth with gains of 25.1% on the previous year. The Asia-Pacific region was finally on the rebound with a 19.8% growth rate. These results more than compensated for the decreasing revenues coming from the “Rest of the World,” due to the economic difficulties in Latin-America. This region produced only 1.5% of total revenues in the first quarter, compared to 4.7% in the same period last year.

The Company continued its progressive expansion into the market of strategic large accounts in all segments and regions, closing lucrative deals during the quarter. For example, AVJennings, Australia's largest residential builder decided to base its CAD activity on ArchiCAD. Kirksey And Partners Architects, one of the most successful architecture firms in the southern United States made ArchiCAD its CAD standard. Tokyo's famous Waseda University announced its decision to introduce ArchiCAD into a wide range of its educational courses later in 1999. The global reach of ArchiCAD was further expanded to include a 25th language when the localised Estonian version of ArchiCAD hit the market in January.

Consolidated Balance Sheet
(All amounts in TEUR)

	Period	
	ended March 31, 1999 (unaudited)	ended Dec. 31, 1998 (audited)
• ASSETS		
Current Assets:		
Cash and bank deposits	3,282	5,634
Short-term investments	20,877	20,083
Accounts receivable, net	5,576	5,628
Inventories	1,432	1,313
Other receivables	1,190	969
<i>Total current assets =</i>	<i>32,357</i>	<i>33,627</i>
Long term assets:		
Property, plant and equipment, net	8,840	8,864
Intangible assets, net	1,337	68
Other	0	0
<i>Total fixed assets =</i>	<i>10,177</i>	<i>8,932</i>
<i>Assets total =</i>	<i>42,534</i>	<i>42,559</i>
• LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Bank loans and overdrafts	0	0
Accounts payable and accrued expenses	2,291	2,500
Deferred income	526	306
<i>Total current liabilities =</i>	<i>2,817</i>	<i>2,806</i>
Minority interest	4	3
Shareholders' equity:		
Share capital	243	242
Additional paid in capital	20,265	20,111
Treasury stocks (one hundred thousand shares)	(1,650)	
Retained earnings	26,938	25,226
Cumulative translation difference	(6,083)	(5,829)
<i>Total shareholders' equity =</i>	<i>39,713</i>	<i>39,750</i>
<i>Liabilities total =</i>	<i>42,534</i>	<i>42,559</i>

Consolidated Statement of Operations

(All amounts in TEUR. Per share figures are in EUR; unaudited)

	3 Months ended March 31, 1999	3 Months ended March 31, 1998
● REVENUES	5,759	4,944
● COST OF REVENUES	995	755
● GROSS PROFIT	4,764	4,189
● OPERATING EXPENSES		
Sales and marketing	1,849	1,467
Research and development	680	426
General and administrative	964	894
<i>Total Operating Expenses =</i>	3,493	2,787
● OPERATING INCOME	1,271	1,402
Interest and other income (expense), net	266	184
Foreign currency transaction gain (loss), net	358	323
● INCOME BEFORE INCOME TAXES	1,895	1,909
Provision for income taxes	182	255
● NET INCOME	1,713	1,654
Number of shares for calculating EPS, thousands	10,865	9,718
● EARNINGS PER SHARE (EUR/Share)	0.16	0.17

Consolidated Statement of Cash Flow

(All amounts in TEUR, unaudited)

	3 Months ended March 31, 1999	3 Months ended March. 31, 1998
● CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	1,713	1,654
Depreciation	276	147
Write down of assets	0	26
Revaluation of trade securities	(386)	0
Non-cash compensation	6	11
Operating incomes before reinvesting in working capital	1,609	1,838
(Increase), decrease in trade receivables	52	653
(Increase), decrease in trading securities	(408)	0
(Increase), decrease in other receivables	(221)	(226)
(Increase), decrease in inventories	(119)	(121)
Increase, (decrease) in trade payables	(333)	(1,426)
Increase, (decrease) in other payables	118	1,410
Increase, (decrease) in deferred income	220	169
Current year translation adjustment	(159)	(256)
Cash provided by operating activities	759	2,041
● CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	(1,325)	(7)
Purchase of property, plant and equipment	(302)	(1,242)
Disposal of property, plant and equipment	10	2
(Increase) decrease in short term investments	0	381
Purchase of treasury stocks, 100,000 pieces	(1,650)	0
Increase (decrease) in minority interest	1	2
Cash used in investing activities	(3,266)	(864)
● CASH FLOWS FROM FINANCIAL ACTIVITIES		
Proceeds of share offerings	155	0
Net cash used in financing activities	155	0
Dividends paid	0	0
Net cash increase, (decrease)	(2,352)	1,177
● CASH AT THE BEGINNING OF THE PERIOD	5,634	4,192
● CASH AT THE END OF THE PERIOD	3,282	5,369

Results of operations three months ended March 31, 1999 and 1998

Revenues

Net revenues increased by 16.5% to 5,759 TEUR from 4,944 TEUR in the three months ended March 1999, compared to the same period of the prior fiscal year. The growth index of Q1 1999 is approximately two times larger than that of Q4 1998, and approximately four times larger than the same index of Q3 1998.

Europe

First quarter revenues deriving from Europe increased from 3,122 TEUR in 1998 to 3,734 TEUR in 1999. This represents 19.6% improvement compared to the same period of 1998. German speaking countries — Germany, Austria and, in part, Switzerland, the so-called DACH region — were particularly successful, with a combined percentage of growth close to 38%. The newly acquired Bauplan division (see “Acquisition” on page 9) contributed to German revenues by 132 TEUR. We experienced a slowdown in the first quarter of 1999 in Scandinavia, the UK, Italy and Spain compared to the same cycle of 1998, however, we consider these trends to be temporary.

North America

North American revenues grew by 25.1% from 738 TEUR to 923 TEUR in the first three months of 1999 compared to the same period of 1998. Results were positively influenced by the ongoing impacts of the successful 1998 year-end ArchiCAD campaign. The better than average increase of revenues is attributable to the improving performance of the dealer channel.

Asia-Pacific

After the serious revenue decline in this region in fiscal year 1998, especially in the second half of the year (56.5% decrease compared to the same period of 1997), the trend turned upwards. Our revenues generated in the Asia-Pacific region increased from 852 TEUR from January through March in 1998 to 1,021 TEUR from January through March in 1999, giving 19.8% as index of growth. The economic and financial recession is not over yet in the region, but signs of recovery can be seen in Japan. In Australia we are experiencing good sales momentum again.

Rest of the World

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Revenues coming from the rest of the world represent only 1.4% in the first three months of 1999 compared 4.7% in the same period of 1998. In absolute terms, we achieved 81 TEUR in 1999, and 232 TEUR in 1998. The 64.9% decline is mostly attributable to the crisis in Latin America. We plan to take the necessary steps to stabilize our position in this region, and prepare for a long-term growth.

Cost of revenues

Cost of revenues increased to 995 TEUR in the first three months of 1999, from 755 TEUR in the same period of the prior fiscal year. The relative increase of manufacturing, other production and shipping expenses exceeded the growth of revenues, therefore our gross margin slightly declined, from 84.7% to 82.7% in the first quarters of 1998 and 1999, respectively. The number of new ArchiCAD licenses reached almost 2,500 and nearly 4,000 upgrade licenses were shipped by Graphisoft from January through March 1999. The intensive upgrade activity, because of its relatively higher cost content, is the key reason for the slight decrease in the gross margin.

Operating expenses

Operating expenses grew by 25.4% from 2,787 TEUR in the first three months of 1998 to 3,493 TEUR in the same cycle of 1999. While Graphisoft adopts strict cost controlling mechanisms to maintain its outstanding profitability, the Company continued to invest in R&D and marketing. Graphisoft increased its workforce by 16 people worldwide in the first quarter of 1999.

Sales and marketing

Sales and marketing expenses grew from 1,467 TEUR or 29.7% of revenues to 1,849 TEUR or 32.1% of revenues in 1998 and 1999, respectively. Sales staff increased by 7 new employees. Our marketing expenses grew fastest in Germany, Spain and North America. Graphisoft continued to support the market communication of its successful local distributors.

Research and development

The 59.9% increase of R&D expenses is due to the staff expansion in Hungary, and to the merge of Bauplan developers into the team in Germany. In the first three months of 1999, research and development expenses were 680 TEUR or 11.8% of revenues, which is to be compared to 425 TEUR or 8.6% of revenues in the same period of 1998. We employed 73 software engineers as of March 31, 1999, resulting in a 14% staff expansion in a single quarter.

General and administrative

General and administrative expenses increased slower than revenues, by 7.9% only, from 894 TEUR in the first quarter of 1998 to 964 TEUR in the same period of 1999. The administrative staff grew by 3, and

numbered 64 as of balance sheet date. The ongoing costs of being listed — costs that did not exist in the same period of 1998 — contributed to the increase in absolute numbers.

Operating income

Our operating margin remained high at 22.1% of revenues; however, the operating income declined from 1,402 TEUR in the first three months of 1998 to 1,271 TEUR in the same period of 1999. The most important factors of the decrease are:

- New elements in depreciation expense
 - Write-off of goodwill on Bauplan acquisition (1,278 TEUR, depreciated through seven years, 46 TEUR cost in this quarter)
 - New facilities in Budapest (6,870 TEUR, depreciated through seven to fifty years, 71 TEUR cost in this quarter).
- Close to 10% staff increase

We are confident, that the future increase of revenues will compensate the increased operating expenses. Graphisoft's EBITDA practically remained on the same level in the reported cycle of 1999 as it was in the same period of 1998.

Earnings Before Income Taxes (EBIT)

Our earnings before income taxes at 32.9% of revenues or 1,895 TEUR were higher than the operating income due to the high interest earned on the Company's temporary cash reserves, and the foreign exchange gains we realized from the appreciation of the USD against EUR, and the depreciation of the HUF against both. Our interest income at 266 TEUR in Q1 1999 was 44.5% higher than in the same period of 1998.

Net income

Graphisoft maintained its outstanding profitability. Net income achieved 1,713 TEUR in the first quarter of 1999, meaning 3.6% increase compared to the same 1998 cycle. Our net margin at 29.7% is exceptionally high in the industry. Due to the tax holiday we enjoy in Hungary, our effective tax rate at approximately 10% is still favorable, and the net effects of the non-operating adjustments are positive.

Liquidity and capital resources

Graphisoft spent approximately 1,278 TEUR to acquire the Bauplan division in January 1999, and 1,650 TEUR to repurchase one hundred thousand Graphisoft N.V. shares (see “Shareholder structure, repurchase of shares” on page 9). Proceeds of the initial public offering – until they will be used for further strategic acquisitions – are held in first class bonds issued by institutes located in the European Community.

Cash and cash equivalents	24,159	TEUR
Property, plant and equipment	8,840	TEUR
Intangible assets	1,337	TEUR

Acquisition

Due to successful negotiations by the end of last year, Graphisoft acquired the Bauplan division of the German AEC company Wiechers & Partner GmbH including its staff, Bauplan software and its related business activities. With its acquisition, Graphisoft expands its German client base by more than 700 architectural offices and plans to integrate Bauplan technology into future versions of ArchiCAD to strengthen its adherence to German CAD standards, broaden its market and extend its market-leading position in Germany.

Litigation

On March 3, 1999, a U.S. Federal Court judge in California granted Graphisoft’s motion for summary judgement, dismissing the claim of co-authorship of ArchiCAD brought by Elizabeth Vespremi. Remaining open are claims for co-authorship of a handful of immaterial marketing pieces and library items. The trial date for the remaining claims is set to September 1999.

Shareholder structure, repurchase of shares

Graphisoft’s Japanese pre-IPO investors sold 626,667 out of their 850,000 Graphisoft shares in the first quarter of 1999. Graphisoft repurchased out of these securities 100,000 own shares, in the framework of a block trading transaction on March 30, 1999. Treasury stock acquired is carried at cost and is reflected as a separate deduction from shareholders’ equity. The aim of the repurchase was to have a pool of shares for our stock option plan. The following table sets forth the shareholder structure as of March 31, 1999, accordingly to the best knowledge of management.

	% held by
Executive board	57.5%
Supervisory board	0.1%
Other managers	11.8%
Pre-IPO investor	2.1%
Treasury stock	0.9%
Free float	27.6%

Strategy and outlook

The impressive results in the first quarter of 1999 demonstrate the success of the Company's business strategy. We strive to extend the value and relevance of digital data as represented in our Virtual Building concept. We are doing this by concentrating our efforts in three major areas.

First, the detailed geometry of the digital building model can be effectively used in certain pre-manufacturing construction technologies, such as log home buildings. Second, through our SalesCAD program and partnerships with industry leaders, we are integrating building component manufacturers into the design process by enabling them to publish their product catalogs for online commerce. Finally, we are also extending the use of digital data into the maintenance cycle using our Building Management program. This consistent approach to the market is paired with aggressive sales, inventive marketing and a financial rigor. We intend to implement our strategic goals as well as to maintain our double-digit growth and profitability in 1999 and onwards.

Sincerely,

Gabor Bojar, CEO and President

Sandor Bihari, CFO