



Global Bus Innovation



Annual Report and Accounts 2001



NABI designs, produces and services buses and coaches and develops technology and business processes so as to deliver dependable and efficient transport solutions for our customers.

Every product is designed to minimize operating costs and provide high levels of comfort to make bus and coach travel attractive, which assists our customers to win more passengers.

We recognize the importance of stable and competitive long-term business relationships with all of our business partners and that our future success depends upon the commitment and effectiveness of a motivated and highly trained workforce.

2001 Financial Highlights

Millions of US Dollars except ratios and where otherwise indicated

	2001	2000
Overall performance		
Vehicles sold (units)	1,319	960
Total revenue	345	248
Net income	8	2
Earnings per share	1.73	0.39
Operational performance		
Gross profit	45	33
EBITDA	23	15
Operating income	14	11
Financial status		
Cash and cash equivalents	2	3
Total assets	221	191
Long term debt	32	29
Net debt / Equity	0.93	1.28
Shareholders' equity	71	63
Margins and ratios		
EBITDA margin (%)	6.57	6.09
Operating margin (%)	4.12	4.24
Net margin (%)	2.31	0.70

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Report of the Directors

Introduction

In 2001 the NABI Group, one of the ten largest bus manufacturing groups in North America and the European Union, significantly improved its sales and consolidated its acquisition of Optare in the United Kingdom.

It was a year in which, despite the economic challenges following the terrorists' attacks in the United States in September, we were able to make significant progress in securing the Group's objective of positioning itself as a leading supplier of buses and other passenger-carrying vehicles on a global scale. This means that NABI:

- Is firmly established as the second-largest supplier of transit buses in the US, with a substantial increase in both sales and market share;
- Has entered the private sector market in the US, where it has not previously competed, with an innovative low-floor small bus;
- Has a major presence in the highly competitive UK market for buses and small coaches, and has now supplied all of the country's largest privatized operating groups;
- Has an estimated market share of 18 percent of the US heavy duty transit bus market and 8 percent of the UK city bus market;
- Is developing revolutionary technologies, particularly the introduction of the lighter and more fuel-efficient CompoBus™;
- Is building new, or significantly enhancing, efficient manufacturing bases in the US, the UK and Hungary;
- Is harvesting the talents and capabilities of its people - now numbering nearly 1,900 on two Continents; and
- Is exploiting the product and market synergies it has available throughout its worldwide operations.

Results

Consolidated net sales value rose by 39 percent year-on-year to US\$ 344 million, resulting from a more than 37 percent increase in unit vehicle deliveries, up from 960 in 2000 to 1,319 in 2001, together with a 21.3 percent growth in aftermarket parts and service revenue to US\$ 38.2 million. Over 88 percent of total revenues were derived from bus sales, with the remainder coming from parts and service.

The revenue relating to 75 vehicles out of the 1,319 delivered during the year is being recognized over the periods between five and six years. The amount recognized in 2001 in respect of these vehicles is US\$ 0.8 million and is in addition to the net sales value.

Gross profit grew by 34.9 percent while operating income rose by 35.3 percent compared to the same period of 2000. Net income was US\$ 7.95 million (US\$ 2.78 million in 2000 reduced to US\$ 1.74 million after adjustment for the cumulative effect of a change in accounting policy) and delivered a fourfold increase in earnings per share to US\$ 1.73 in 2001 (from US\$ 0.39).

Significant expenditure continued to be incurred on Research and Development to create new products and manufacturing processes, providing the Group with its own patented technology. During the year new products were introduced into series production; additional costs relating to the pre production phase were charged as they were incurred.

The improved results achieved in 2001 were due to two important factors - rising sales in the US, where the Group is one of the few strong and profitable suppliers in the transit bus market, and the first full year of consolidation of Optare in the UK, which was acquired in February 2000.

US transit bus market

Our strong performance in the North American transit bus market continued - by the year-end we had delivered a total of some 3,000 buses since we entered the market and had a further 3,000 on order or on option. This order backlog amounts to three year's production and is worth some US\$ 1.1 billion.

The Company's unique blend of manufacturing and engineering capabilities in both the US and Hungary gives it tremendous advantages and resilience in challenging market conditions and has enabled it to win sales from 19 of the 50 largest fleet operators.

Buses are designed and the shells built in Hungary, where skills are high and manufacturing costs are comparatively low with final assembly and the installation of high-cost components being undertaken in a state-of-the-art facility in Alabama. Sales and marketing is managed from California, close to many principal customers.

New technology - the CompoBus™

NABI is a world leader in fiber-reinforced composite technology for buses, which is set to play a major role in improving the efficiency and environmental friendliness of our customers' operations. In both appearance and technology, our advanced 45ft bus model embodies this approach, allowing more passengers to be carried without a weight penalty, resulting in improved fuel efficiency per passenger carried.

Our reputation for cost-effective, reliable products was initially won with conventional buses using mostly steel construction. Now, at a time when the imperative is to entice more passengers out of their cars and on to public transport, a new line of transit buses is being produced called CompoBus™.

These vehicles offer such features as easy-access low-floor designs built using SCRIMP® technology, a revolutionary fiber-reinforced composite construction process.

NABI has secured an exclusive worldwide license for the application of this SCRIMP® technology for buses from its originator, TPI Composites Inc. During 2001, litigation between NABI and TPI was settled amicably allowing production of the CompoBus™ line to commence. A prototype vehicle successfully passed mandatory US testing in 2000.

By the end of 2001, a total of 114 CompoBus™ vehicles were on order, including 56 45C-LFW LNG for the city of Phoenix, Arizona, 20 40C-LFW CNG for Los Angeles County Metropolitan Transportation Authority



and a further 8 45C-LFW LNG buses for Tempe, Arizona. Additionally, in January 2002 Los Angeles awarded us a second contract for a further 30 of the CompoBus™ design.

The US private sector

The delivery during 2001 of UK-built buses to a major private sector US customer - American Eagle Airlines (AEA) - takes the company into a new sales arena and demonstrates the real potential for exploiting our products in new markets.

The NABI 30LFN model, developed from the Optare Solo, is now in service at AEA's operations at airports across the USA and in Puerto Rico. Re-engineering the Solo to meet US requirements proved to be a demanding technical and production program but the low-floor design offers the operator significant competitive advantages. In particular, it delivers for passengers - frequently encumbered with luggage - easy access, with one low step to a flat floor.

The AEA order, which has the advantage of displaying NABI's new product at strategic sites across the US, represented our first sales in the private bus market. Selling into this fully commercial market requires different techniques than in the transit bus sector, where public procurement tenders are used, and we have been able to combine the local knowledge of our US sales team with the private market experience of their UK colleagues.

As a result, NABI started to establish a nationwide dealer network during 2001 to sell the 30LFN model. We received strong interest in the product from a variety of potential dealers and we expect to have appointed 10 by the end of 2002, each capable of delivering the levels of customer support and service that NABI expects.

The UK marketplace

In the UK, our subsidiary, the Optare Group - Britain's third largest transit bus maker when it was acquired in 2000 - is also a business that utilizes innovative design and technology. It enjoys a reputation for producing attractive, advanced vehicles and led the transition to low-floor products. Despite strong competition, Optare has increased its market share, with its in-house designed line of integral buses in which body and chassis form a single structure.

The latest model - the Optare Alero - features lightweight and corrosion-proof composite construction technology and is designed to improve traveling conditions for many disadvantaged passengers. Until the Alero was introduced, those with impaired mobility had little alternative to riding on what are effectively converted trucks.

Deliveries of the Alero commenced towards the end of 2001. Work began on a substantial expansion of the Rotherham facility to manufacture up to 500 units of the model each year, enabling our total production of vehicles in the UK to reach

over 1,000 units per year once the expansion comes on stream in mid-2002.

For most of 2001 the UK bus market was affected by lower investment levels by the big operating groups and other economic factors, but by the fourth quarter our order-backlog had strengthened, with deliveries of some products, including double deckers, scheduled through to the end of 2002. During 2001, Stagecoach - the last of the UK's major bus operators not already on our customer list - took delivery of its first 40 Optare vehicles while the large UK operator, First Group, took delivery of its 100th Optare Solo.

In addition to its transit buses, Optare sells several luxury midi coaches in the UK, an important niche business that accounts for some 15 percent of UK turnover. Optare's range of coach-built vehicles is based on Mercedes-Benz chassis and in 2001 deliveries of a new 16-seat vehicle began, a revised version of the larger 39-seat model was introduced and plans for a new entry-level product were unveiled.



Report of the Directors

Exploiting transatlantic synergies

The NABI businesses share a philosophy of product and technological innovation and are working to jointly exploit a number of synergies. The delivery of UK-sourced products into the US private sector market has begun and underframes for the Optare Alero are being shipped from our production plant in Budapest.

Left-hand-drive versions of the Solo and Excel have been developed since these models offer an excellent platform for NABI's entry into the 25,000 unit per year European bus and coach market. Early in 2002 the company's initial order for the Excel was won, from a Hungarian operator.

Customer service

In both the US and UK, NABI is committed to providing its customers with the highest levels of aftersales service and support as the way to secure repeat business and ongoing customer satisfaction.

In both countries the Group's share of aftermarket parts sales for buses and coaches exceeded our new vehicle market share, indicating the growing business in selling parts for other makes of vehicles.

In the UK, we have invested considerable energies in establishing the UniTec brand, which offers customers a 'one stop shop' approach to their parts and service needs, enabling them to control their maintenance costs and ensuring that their requirements are met from inside our organization without the involvement of third party suppliers.

In North America, we have added to our aftersales capability with the consolidation of the parts operations on to a single site in Ohio,

operating in conjunction with the established Service Center in Upland, California. The aftersales operation obtained the ISO9002 certification during 2001.

This emphasis on serving customer needs after the vehicles are delivered is wholly appropriate given that the service life of transit buses can be as much as 15 years, with the supplier being contracted to maintain supplies of parts together with service expertise for at least this period in many US public tenders.

Expanding production

While work is underway to increase output in Rotherham and Anniston, Alabama, and to streamline processes in Leeds, it is on the new Kaposvár facility in Hungary that most production management attention is being focused. CompoBus™ production is scheduled to commence there in mid 2002.

The first phase of construction at this 'green-field' site was completed on schedule. Before the end of 2001 the process of transferring the required technology from TPI to NABI had begun and workers from Hungary were being trained in SCRIMP® construction methods in the USA.

The future

The Group's sales growth in the North American transit bus market and its successful consolidation of the Optare business has established a secure platform for future business development. The Group is encouraged by the high level of repeat business being won from customers on both sides of the Atlantic.

Sales in the important US private sector have begun, the installation of production capacity to grow Alero sales is well underway, start-up of the important new Kaposvár facility is on schedule and work on developing sales on the European Continent is beginning.

Last year the Group delivered significant growth and is now harvesting the benefits of bringing together the management teams of the NABI businesses in Hungary, the UK and the US. Together, our executives have a wealth of experience and talent, enabling us to be leaner and more agile than many of our larger competitors, which tend to be slower to react to technological advances and market developments.

However, the inherent lack of liquidity in the Budapest Stock Exchange, where the Company's shares are listed, has played a critical role in the continuing weakness in our share price.

The outlook for 2002 is good, despite overall market conditions that remain less than strong in the face of the global economic slowdown and following the events of September 2001. With our strong order-backlog, delivery rates are improving as extensions to our production capacity come on stream. These achievements, with expansion into the US private and European transit bus markets, should allow our Company to grow at a rate of some 15 percent per annum in the period 2002 to 2005.

In the year ahead, our combined management team will be able to focus strongly on key business issues following the satisfactory resolution of a number of time-consuming and unproductive issues last year.

On behalf of the Board of Directors we would like to pay tribute to the ongoing commitment of our combined workforces across two Continents. We can keep ahead only by their drive and enthusiasm and we take this opportunity to thank them.



Péter Róna
Founding Chairman



Andy Rác
Chief Executive Officer



Board of Directors

Péter Róna,

Founding Chairman

Age 60. Founded the NABI Group in 1992. He is also Deputy Chairman of the First Hungary Fund and Chief Executive of Rona & Co. A former President and Chief Executive Officer of IBJ Schroeder Bank and Trust Co.

Andy Rácz,

Age 55. Has held the position of Director, President and Chief Executive Officer since 1992. With 30 years experience in the bus industry, he was previously chief engineer of Ikarus.

Csaba Zoltán,

Age 39. Director, Chairman of the Audit & Budget Committee. A Senior Investment Manager at Rona & Co, he was formerly a business consultant to the First Hungarian Investment Advisory Ltd.

John F. Horstmann,

Age 52. Director, Chairman of the Remuneration Committee. Has been a member since 1997. With 25 years of legal experience, he is also a Partner in the United States law firm of Duane, Morris & Heckscher, where he is Chairman of the Reorganization and Commercial Finance Section.

Mark Pejacevich,

Age 79. Director and a member since 1997. He is also a member of the Securities Institute in London, and holds a number of non-executive positions. Until 1996, he was the Senior European Advisor at Robert Fleming Securities, London.

Tamás Felsen,

Age 62. A member since 1997, he manages his own consultancy business in Hungary. A former Senior Vice President of Hungaria Hotels Rt. where he was responsible for strategic and business planning.

Russell Richardson,

Age 53. Director and Chief Operations Officer since 2000. The founder of Optare Holdings where he has served as its Managing Director since 1993. He brings to NABI, 30 years of experience in the bus industry.

Scheduled Meetings

The Board of Directors holds four regular meetings in a year as set out in the Corporate Calendar. These meetings deal primarily with strategic issues, business planning and performance, the closing of the business year and preparation for the Annual General Meeting of Shareholders. Written resolutions are passed in between meetings and extraordinary meetings or telephone conferences are held when the need arises.

Board Committees

The Board of Directors has two permanent committees. The Audit & Budget Committee deals with reports, forecasts, plans and other financial matters, while the Remuneration Committee is responsible for compensation, the granting of share options, nomination of Directors and other personnel issues. The committees typically meet prior to plenary sessions of the entire Board of Directors to consider relevant agenda items and develop recommendations.

Left to right: (Back Row) Csaba Zoltán, Russell Richardson, Tamás Felsen, Mark Pejacevich, **(Front Row)** Andy Rácz, Péter Róna, John F. Horstmann,



Locations

United States of America

Woodland Hills, CA

Primary function: sales office
Products: All NABI products for the US market
Office area: 2,700sq ft
Employees: 9
Qualifications: ISO 9001

Upland, CA

Primary function: service workshop
Site area: 1.5 acres of land, 16,500 sq ft covered
Employees: 13

Anniston, AL

Primary function: final assembly of buses
Products: 35/40/40C/45C/60-LFW and 40/60-SFW integral buses
Technologies applied: painting, electrical, mechanical and final assembly
Site area: 256,180 sq ft covered, on 30 acres of land
Employees: 569
Qualifications: ISO 9001

Delaware, OH

Primary function: aftermarket parts sales and distribution
Products: All makes and models of transit buses operated in the US
Site area: 60,000 sq ft covered
Employees: 47
Qualifications: ISO 9002





United Kingdom

Leeds

Primary function: production of transit buses

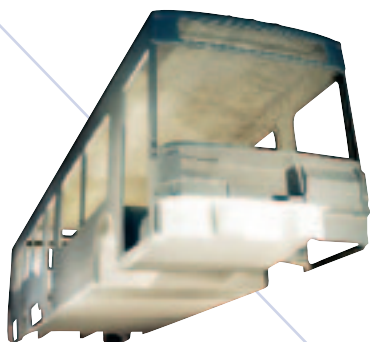
Products: Solo, Excel, Spectra, sales and distribution of spare parts

Technologies applied: welding, painting, electrical, mechanical and final assembly

Site area: 150,000 sq ft covered, on 6.8 acres of land

Employees: 359

Qualifications: ISO 9001



Rotherham

Primary function: production of vehicles, UNITEC Service Center, sales and distribution of coaches

Products: Nouvelle, customized Solo, Alero

Technologies applied: welding, painting, electrical, mechanical and final assembly

Site area: 35,000 sq ft covered, on 4 acres of land

Employees: 145

Qualifications: ISO 9001



Hungary

Budapest

Primary function: painted steel bus body production

Products: 35/40/60-LFW and 40/60-SFW integral bodies, and the Alero underframe

Technologies applied: welding, painting, body assembly

Site area: 245,000 sq ft covered, on 14 acres of land

Employees: 695

Special: Group head office operates on the site

Qualifications: ISO 9001, ISO 14001

Kaposvár

Primary function: CompoBus™ body production

Products: 40C-LFW, 45C-LFW, composite components

Technologies applied: SCRIMP®

Site area: 53,820 sq ft covered, of 56 acres of land

Employees: 39



Products, Markets and Customer Service

NABI has a well-earned reputation for delivering leading technology and advanced product lines in the North American marketplace. Our consolidation of Optare in the UK, achieved during 2001, enables the Group to also offer such products in European markets.

North America

In North America these span two classes of vehicles: public transit buses and buses designed for the private sector, the first of which represents our core market.

NABI achieved its initial sales success in the USA through the design and manufacture of a full line of transit buses built by conventional techniques but utilizing the unique combination of manufacturing resources in Hungary and in the USA.

This combination provides certain inherent advantages in meeting the demanding requirements of North American transit bus operators. Design, engineering and manufacturing are divided between our operations in Anniston, Alabama and - in Hungary - at Budapest and, in the future Kaposvár, allowing us to take advantage of the relatively low-cost, high-skills base in Hungary and the advanced facilities of our purpose-designed assembly plant in Anniston. No other supplier in the North American transit bus market can draw upon such an advantage.

Based upon our current order backlog, we anticipate a market share increase from 18 percent to our target of more than 20 percent in 2003, amounting to the delivery of almost 1,000 buses a year, while continuing to focus on sales to the larger transit bus operators.

The production advantages of Hungary

The attributes of Hungary as a source for both design and manufacturing expertise have not been widely appreciated outside the country, but this is changing rapidly. Already major motor industry players such as Volkswagen/Audi, General Motors/Opel and Suzuki have established plants in Hungary in order to take advantage of a well-educated, highly-skilled and motivated workforce inspired by newly westernized political and economic systems.

Hungary itself is already part of NATO and will shortly join the EU as a full member, underlining the pace at which it has moved forward since the post-War period. However, even during that era, Hungary claimed to be the world's largest bus producer, supplying vehicles throughout Eastern Europe and many countries beyond. Indeed, the Technical University of Budapest is one of a mere handful of elite engineering universities in the world with a specialized bus engineering curriculum. Graduates of this program liberally populate the engineering staff of NABI.

This history gives NABI a long experience in transit bus design and manufacture and a deep understanding of customer requirements. Initially this led to conventional bus designs using proven steel construction methods. However, NABI is now breaking this mould and developing revolutionary models entirely of its own concept and design, using new materials and construction methods destined to transform operating practices and efficiencies.



The future for bus design: CompoBus™

Many of these new principles are incorporated in the CompoBus™ line, which is largely constructed of advanced composite materials using SCRIMP® technology. This is a patented manufacturing process for which NABI holds the worldwide rights for bus applications. Already proven in such demanding roles as racing yacht hulls and automated airport people-movers, this approach gives bus operators dramatically lighter vehicles from which the risk of structural corrosion is eliminated.

In these times of environmental pressures on operators who must run buses in congested urban areas, achieving a lower overall weight delivers real benefits. Less fuel is burned and less pollutants are emitted, assisting operators and regulatory agencies in achieving their ambitions and commitments with regard to serious and politically sensitive environmental issues.

The practical result is that, in the important full-sized bus sector, NABI has added to its standard vehicle line the forty-five foot 45C-LFW model. Five feet longer than other vehicles in this category, and able to carry 20 percent more passengers, this vehicle weighs no more, and thus uses no more fuel, than a typical forty foot steel bus. Combining this new construction material with an advanced low floor design delivers greatly enhanced accessibility for all passengers, particularly those whose mobility is impaired.

NABI's product line is gradually switching to low floor designs and its key new models - the 40C-LFW and the 45C-LFW - are both easy to operate and easy to access. As well as composite body structures, these vehicles have multiplexed electrical systems offering enhanced reliability and easy fault diagnosis. NABI was the first to introduce this to the transit bus market in the US, and Optare also pioneered similar technology in the UK.

New designs and concepts such as the CompoBus™ are vital in what remains a strongly competitive market. NABI currently sells to 19 of the 50 largest fleet operators in the USA, each having hundreds if not thousands of vehicles in service.

Outlook in the US market

Funded up to 80 percent by Federal Government subsidies - secured through the multi-year Transportation Equity Act for the 21st Century - the US transit bus market has increased substantially from around 3,700 units a year in 1997 to approximately 5,000 units in 2001. This increase has been supported by a steady increase in ridership figures demonstrating the changing attitudes towards public transportation in urbanized areas of the United States.

The Group expects the US transit market to remain at its current level of 5,000 units per annum for the foreseeable future resulting in a steady demand for NABI products.

In the North American private sector - where NABI has not competed previously - the challenges are different. This is a sector where small, privately run fleets often purchase through dealers who also provide service support. NABI is now establishing a national network of dealers and the first have already been appointed. As a secondary sales channel, NABI will continue to identify and bid upon direct sales opportunities with major users of shuttle buses such as airlines and automobile parking lot companies.

The private shuttle bus market sector demands an entirely different type of vehicle than the city transit operators and, until its acquisition of Optare, NABI had no suitable product with which to compete. However, in 2001 NABI was able to enter this sector with its new 30LFN model. Derived from the award-winning Optare Solo, this low-floor, mid-size bus proved an instant success with its first customer - American Eagle Airlines.

Together, NABI and Optare engineers created a product specifically configured for the North American market. Equipped with left hand drive, a new power unit and a powerful air-conditioning system, the 30LFN operates in a variety of climatic conditions across the USA providing airside services for American Eagle passengers. The sale of 75 of this new NABI model to American Eagle constitutes an important inroad in establishing a presence in this specialized market.

This market segment is more sensitive to the overall state of the economy than is the case in public transit. Nevertheless, a strong possibility exists for NABI to gain market share utilizing its public transit reputation and superior products.



Products, Markets and Customer Service continued

UK market

Selling to the private sector is the norm for Optare since the British bus market is largely deregulated and privatized. By 2001 Optare had delivered buses to all seven of the country's largest operating companies, underlining the strength of its wholly low-floor bus models. Its three core and class-leading vehicle lines- the Excel full-size single decker, Solo small bus and revolutionary new Alero product - all feature easy access designs and each led the market even before legislation enforced low floor models in all sectors.

In 2001 a significant update of the Excel design took place to further enhance the appeal of this model. The Solo continues to be a successful product with more than 1,000 in service or on order from operators throughout the UK and now in the USA as the NABI 30LFN. Its design - honored by both a Queen's Award for Innovation and a Design Council "Millennium Product" Award - has proved a winner in every sense and one which still has few direct competitors.

The Alero effect

Optimum packaging of critical components to allow for a wide doorway and low steps immediately behind the front axle is the secret of the Solo's success, and the same approach has played a vital role in the design of the new Alero. This is a small vehicle - with space for 16 seated or wheelchair bound passengers - but it has a low floor, full climate control, air suspension and integrated safety standards - all features normally associated with big buses. Incorporating these features in a package which is attractively priced when compared with the truck conversions normally sold in this sector of the market provides the Alero's unique selling proposition.

The Alero is now creating a new market sector for itself, with principal purchasers being companies and local authority-funded organizations that run rural, community, dial-a-ride and other services aimed at those passengers unable to access other modes of transport. Alero's one-piece composite body technology - a first in the UK for any class of passenger vehicle - provides the same weight and corrosion advantages as NABI's CompoBus™ concept in the US.

Although both the Alero and the CompoBus™ projects were well advanced before Optare was acquired by NABI, the two vehicles demonstrate a common thought process on behalf of the two engineering teams. Now those teams - amounting to over 80 engineers in three countries - are linked and share information and expertise.

Coach models

Aside from its transit bus products, Optare has several successful midicoach models. Until now these products - principally, the Nouvelle, Solera and Soroco - have had coach bodies mounted on chassis sourced from Mercedes-Benz. However, the most recent addition to the product line, the 16-seat Bonito, which is a new entry level model, is based upon the Ford Transit chassis. These vehicles, several of which are built to Optare's demanding specifications by a Spanish coachbuilder, have earned themselves a useful sales niche in the coach market, with their strengths being particularly appreciated in the hotel and airport transfer markets.





Aftermarket sales

Providing first rate access to aftermarket spare parts is critical to success in the bus business for two reasons. First, in an industry where typical service life may be 15 years or more, bus operators demand good service to ensure their buses stay where they belong - on the road in passenger-carrying operation, and secondly, spare parts sales represent an important revenue and margin stream for the manufacturer.

Established four years ago, NABI's Aftermarket Division has achieved an estimated 8 percent share of the US transit bus parts market which, since this is larger than its vehicle market share, confirms the company's considerable success in selling spare parts. In the UK, Optare achieved 14 percent of its total sales in 2001 from parts sales, again underlining the importance of selling aftermarket parts across the industry.

E-commerce purchasing technology will eventually spread throughout the aftermarket arena and will be readily adopted by the larger transit operators. In the UK the Group is already testing its own e-commerce marketplace.

A trend towards the outsourcing of bus fleet maintenance is clear in the privatized UK market, as operators focus more strongly upon their core businesses of marketing and operating bus services, and this may be expected to spread to the US transit bus market. Contract maintenance services offer NABI the chance of participating in a stable, high value-added business that is not capital intensive, secures parts sales orders and provides operational and maintenance information for bus manufacturing and new product development.

New markets

The Group's first step into the European marketplace was the acquisition and consolidation of Optare. We plan to further diversify our geographic coverage and to establish a market presence in the 25,000-unit per annum (including intercity coaches) EU bus market. The innovative product line, unique composite technology, low-cost manufacturing capability in Hungary and high quality standards create an opportunity for the NABI Group to become a recognized player in selected segments of major European markets.

In the US, an important emerging market is Bus Rapid Transit, or BRT. This is the utilization of specialized, high-capacity low-floor buses, sometimes in dedicated lanes or roadways, to provide higher speed and higher capacity services as a cost-effective alternative to light rail. NABI finds itself ideally positioned to take advantage of this new market not only with its high capacity, low-floor full-sized buses, but especially with its super-capacity 45C-LFW Compobus™ as well as its mega-capacity 60LFW articulated bus.

NABI has already delivered hundreds of such BRT vehicles to the second largest US transit operator, the Los Angeles MTA. NABI 40LFW buses are used exclusively by the MTA for its highly popular "Rapid Bus" BRT service. These vehicles are operated in specially designated corridors using clean burning natural gas fuel, unique kiosks for boarding and alighting passengers, and traffic-signal priority systems to eliminate unnecessary stops at boulevard traffic lights. The MTA has also ordered 30 new 45C-LFW Compobus™ vehicles to expand this popular service. Marketing efforts are now underway to make other US operators and consultants aware of the possibilities of NABI's 45C-LFW and 60LFW models.



Product Development

Philosophy

Introducing new technologies and devising innovative solutions have always constituted fundamental elements of NABI's and Optare's strategies. Our substantial market shares have been won through carefully planned product development programs that in 2001 bore several fruits, further enriching the Group's product portfolio.

New technologies

The introduction of SCRIMP®, the fiber-reinforced composite technology used to manufacture CompoBus™ bodies, together with completion of the SCRIMP® factory at the Kaposvár Manufacturing Facility, has led to the increased application of composite components on traditional steel structured vehicles. The SCRIMP® license and its related design know-how is being patented, transforming the company into the only bus maker in the world to possess substantial proprietary bus construction technology.

2001 achievements

NABI is a pioneer in utilizing three-dimensional CAD systems in design and continues to strengthen its capabilities through co-operation with technology-orientated educational institutions in the countries in which the Group operates. Virtual testing capabilities of both a static and dynamic nature were considerably enhanced during 2001.

Our steel-bodied traditional product line in the USA was further developed with the completion of two new models: the 30LFN and the 60LFW, a low floor 60-foot articulated bus that extends the product line into a new area.

This new model, together with the 30LFN, a 30-foot medium size low floor vehicle derived from the multiple award winning Optare Solo model from the UK, means that we are capable of delivering to the US market an integrated product line-up including both low and standard floor height vehicles ranging from 30 to 60 foot in length and powered by either diesel or natural gas.

Completion of the design work on the 45C-LFW model has produced the second vehicle in the revolutionary CompoBus™ product line. This 45-foot long, low-floor vehicle offers seating for 20 percent more passengers than traditional 40-foot buses yet still meets axle weight statutes using a single pair of axles. This unique design effectively fulfills the low overall life-cycle-cost principle endorsed by the US Department of Transportation.

Design engineering of Optare's 16-seat small bus, the Alero, was also completed during 2001. The class-leading Alero attests to Optare's engineering capabilities, with its superior technical features such as a stainless steel frame structure combined with a single-piece, molded, composite outer skin. The Alero provides a safe and comfortable ride for passengers coupled with the long lifetime and low maintenance requirements demanded by operators.

Future goals

NABI will continue to introduce new products with advanced features in the coming years, such as hybrid drives, lightweight construction, lower fuel consumption and enhanced styling and comfort. These are drivers for success both for our customers and for our products.

To deliver these advances we are continually enhancing our engineering capabilities with new software introductions and with an ongoing intensive training regime being undertaken by engineering staff. New products for the UK and the Continental European market will be introduced during 2002 that will provide the impetus to reinforce our existing market positions as well as providing opportunities in new markets for the Group.



Care for the Environment

Approach

NABI designs, manufactures and markets products and services in a safe, environmentally sound and socially responsible manner. This includes giving full consideration at all levels of the decision-making process on the impacts of our actions on the environment and on the health and safety of our employees, customers and the public. We believe that responsible environmental, health and safety policies enhance economic success and customer satisfaction as well as ensuring that public expectations are met.

The product line

NABI's products are a visible testament to the company's environmental commitment. Natural gas fueled vehicles made up 77 percent of US production, while stainless bodied buses - that require substantially less chemical surface treatment in the manufacturing process - made up more than half of the vehicles delivered. Environmental concerns are also addressed by NABI's new CompoBus™ product line which is both lightweight and contains no steel in its body structure.

Operating the more fuel efficient CompoBus™ models will not only improve the air quality of inner cities but will constitute a major improvement in steel production related emissions as manufacture takes place using a patented closed cycle technology.



Daily operations

NABI takes a comprehensive approach to addressing the environment in which it operates. Codified Environmental Management Systems (EMS) are being developed that affect not only the production but workplace health and safety issues as well. The Budapest Plant obtained the ISO 14001 certification to its EMS in 2000 and has since then prepared an annual audited environmental report. It is also the one closest to becoming accredited according to the BS8800 standard for workplace health and safety. It is intended that our other plants will follow suit during the coming years.

While NABI routinely monitors its own emissions, it was also subject to numerous checks performed by regulatory authorities during 2001. None of these found levels of emissions to be in breach of statutory limits. As a result of the multi-year investment program into advanced technologies and environmental protection measures, the use of resources such as electricity, natural gas and water were all carefully controlled and in some cases reduced during 2001, while harmful emissions continued to diminish.

Training

Associates and employees are routinely trained in safe operating practices and in the safety and environmental requirements applicable to their areas of responsibility. NABI also provides training to its customers regarding the environmentally sound operation and maintenance of its buses as part of the training package provided under the terms of its sales contract.



Human Resources

The Group recognizes and appreciates the roles of its employees in its successes. With this in mind it devotes considerable attention to maintaining the motivation and skills of the workforce as well as providing a safe, comfortable and efficient workplace. Good communications and regular consultations between management and employees are encouraged so that everyone is regularly made aware of all the factors which affect them as employees, the impact of market conditions on our overall business and the performance of NABI's individual operating units.

Headcount

During 2000 employee headcount increased by 30.3 percent compared to 1999 in order to meet the requirements of the increased order backlog and a further 39.2 percent due to the acquisition of Optare. In 2001 there was a further 7.1 percent increase attributed to the UK and Hungarian operations to support increased levels output and the expansion in Kaposvár.

Compensation

During 2001 we continued to implement a compensation system, based upon individual personal development and performance both in respect of work quality and quantity of output. This system has delivered substantial efficiency increases, especially in the US.

Management is incentivized by a system utilizing key performance indicators which are benchmarked to business plan targets as well as industry best practice.

A qualified workforce

NABI's workforce received substantial training to enhance the qualifications of its skilled workers, engineers and other professionals. For Hungarian employees, an extensive English language program aimed at improving Group integration continued, with extracurricular learning on an individual basis being supported. Over 250 employees of the Group hold at least one university or college degree.

Synergies

For the first time in 2001, the full benefits of the Optare acquisition in terms of widening the abilities of the management team could be seen. Considerable exchange of ideas and operating practices have taken place and a new senior management group has been formed consisting of Andy Rác, Chief Executive Officer, Russell Richardson, Chief Operating Officer, Roger Fossey, Chief Financial Officer and Peter Horvath, Deputy Chief Financial Officer. This group implements the strategy as agreed by the Board, monitors the performance of each operating unit and ensures that the full benefits of the integrated businesses are delivered.

The harmony with which the entire management group works is a good indicator of the potential for the future expansion of the Group's business in new markets.

Recognition

NABI's Chief Operating Officer, and the Managing Director of Optare, Mr Russell Richardson, was awarded the prestigious Wedlake Saint 2001 Award for his Services to the UK Bus Industry. Mr. Richardson, founder of Optare, has 30-year experience of the UK bus industry.



Statement of Directors' Responsibilities

The management of NABI Rt. has prepared the accompanying financial statements for the years ended December 31, 2001 and 2000, and is responsible for their integrity and objectivity. We maintain a system of internal accounting controls, which are designed to provide reasonable assurance that, amongst other things, transactions are properly executed and financial reports are dependable. Our financial and accounting policies, practices and reports are regularly reviewed by the Audit & Budget Committee of the Board of Directors.

Roger Fossey



Chief Financial Officer

March 7, 2002

Independent Auditors' Report



The Board of Directors and Shareholders

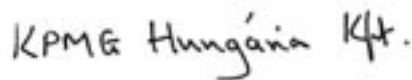
North American Bus Industries Rt.

We have audited the accompanying consolidated balance sheets of North American Bus Industries Rt. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, consolidated statements of shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Bus Industries Rt. and its subsidiaries, as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for recognition of revenue effective January 1, 2000.



KPMG Hungária Kft.

March 11, 2002

North American Bus Industries Rt. and its Subsidiaries

Consolidated Balance Sheets December 31, 2001 and 2000

(all amounts in thousands of US\$)

Assets	2001	2000
Current Assets:		
Cash and cash equivalents	1,988	2,648
Accounts receivable, net of 97 allowance for losses as of December 31, 2001 and 2 as of December 31, 2000	75,955	47,275
Inventories, net	64,727	76,767
Prepaid expenses and other current assets	5,813	2,529
Deferred income taxes	2,914	1,660
Total Current Assets	151,397	130,879
Property and Equipment , net of accumulated depreciation	50,263	38,683
Intangible Assets , net of accumulated amortization of 486 as at December 31, 2000	-	487
Goodwill , net of accumulated amortization of 1,807 as of December 31, 2001 and 855 as of December 31, 2000	18,728	19,239
Deferred Income Taxes	308	1,097
Deferred Debt Issuance Costs , net of accumulated amortization of 199 as of December 31, 2001 and 94 as of December 31, 2000	365	470
Other Non-Current Assets	119	120
Total Assets	221,180	190,975
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	60,010	36,102
Notes payable	32,018	48,059
Bank overdraft	658	1,525
Current portion of long term debt	3,047	3,714
Accrued liabilities and other current liabilities	4,598	4,979
Warranty provisions	6,282	4,250
Total Current Liabilities	106,613	98,629
Long-Term Liabilities		
Long-term notes payable and capital lease obligations, net of discount of 3,742 as of December 31, 2001 and 4,506 as of December 31, 2000	31,678	29,417
Deferred income taxes	1,458	-
Obligations under residual value guarantees	3,046	-
Deferred revenue	7,647	-
Total Long-Term Liabilities	43,829	29,417
Negative Goodwill , net of accumulated accretion of 724 as of December 31, 2001 and 646 as of December 31, 2000	72	150
Commitments and Contingencies (Note 15)	-	-
Shareholders' Equity:		
Share capital (4,624,600 and 4,616,600 shares at par value of HUF 1,000 per shares issued and outstanding as at December 31, 2001 and December 31, 2000, respectively)	25,474	25,433
Additional paid in capital	25,612	25,530
Retained earnings	20,351	12,398
Accumulated other comprehensive loss	(771)	(582)
Total Shareholders' Equity	70,666	62,779
Total Liabilities and Shareholders' Equity	221,180	190,975

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2001 and 2000

(all amounts in thousands of US\$, except earnings per share which is in US\$)

	2001	2000
Net Sales	344,034	247,602
Deferred Revenue Recognized	849	-
Total Revenue	344,883	247,602
Cost of Sales	(300,051)	(214,369)
Gross Profit	44,832	33,233
Selling, General and Administrative Expenses	(29,737)	(21,948)
Amortization of Goodwill	(874)	(777)
Operating Income	14,221	10,508
Interest Expense	(4,983)	(5,443)
Amortization of Debt Discount	(764)	(793)
Amortization of Deferred Debt Issue Costs	(104)	(94)
Interest Income	45	331
Other Income/(Expense)	947	(949)
Income before Income Taxes and Cumulative Effect of Change in Accounting Policy	9,362	3,560
Income Tax Expense	(1,410)	(781)
Net Income Before Cumulative Effect of Change in Accounting Policy	7,952	2,779
Cumulative Effect of Change in Accounting Policy	-	(1,035)
Net Income	7,952	1,744
Comprehensive Loss Adjustment		
Foreign currency translation loss	(189)	(582)
Total Comprehensive Income	7,763	1,162
Basic Earnings Per Share Before Cumulative Effect of Change in Accounting Policy	1.73	0.62
Cumulative Effect of Change in Accounting Policy	-	(0.23)
Basic Earnings Per Share	1.73	0.39
Diluted Earnings Per Share Before Cumulative Effect of Change in Accounting Policy	1.67	0.61
Cumulative Effect of Change in Accounting Policy	-	(0.23)
Diluted Earnings Per Share	1.67	0.38

See notes to consolidated financial statements.

North American Bus Industries Rt. and its Subsidiaries

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2001 and 2000

(all amounts in thousands of US\$, except earnings per share which is in US\$)

	Number of Shares	Share Capital	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
December 31, 1999	4,470,000	24,951	18,859	10,655	-	54,465
Issuance of warrants	-	-	5,300	-	-	5,300
Stock options exercised	146,600	482	1,371	-	-	1,853
Net income	-	-	-	1,744	-	1,744
Foreign currency translation adjustment	-	-	-	-	(582)	(582)
December 31, 2000	4,616,600	25,433	25,530	12,398	(582)	62,779
Stock options exercised	8,000	28	41	-	-	69
Purchase of treasury shares	65,162	(220)	(659)	-	-	(879)
Sale of treasury shares	(65,162)	233	700	-	-	933
Net income	-	-	-	7,952	-	7,952
Foreign currency translation adjustment	-	-	-	-	(189)	(189)
December 31, 2001	4,624,600	25,474	25,612	20,351	(771)	70,666

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001 and 2000

(all amounts in thousands of US\$, except earnings per share which is in US\$)

	2001	2000
Cash Flows from Operating Activities		
Net income	7,952	1,744
Adjustments to Reconcile Net Income to Net Cash Provided by (used in) Operating Activities:		
Depreciation and amortization	5,782	4,425
Impairment loss	848	308
Amortization of deferred revenue	(849)	-
Warranties	2,032	1,395
Amortization of goodwill	952	855
Accretion of negative goodwill	(78)	(78)
Amortization of deferred debt issuance costs	104	94
Amortization of debt discount	764	793
Deferred income taxes	997	(1,352)
Unrealized forward exchange loss	174	299
Foreign currency translation loss	-	188
Adjustment to goodwill	(441)	-
Changes in Assets and Liabilities: Net of Effects of Purchased Business		
Accounts receivable, net	(28,680)	(15,976)
Inventories	12,040	(33,689)
Prepaid expenses and other	(3,284)	(1,097)
Accounts payable	23,908	8,569
Accrued liabilities and other	(381)	1,169
Increase in obligations under residual value guarantees	3,046	-
Increase in deferred revenue	8,496	-
Other (liabilities) assets	-	161
Net cash provided by (used in) operating activities	33,382	(32,192)
Cash Flows from Investing Activities		
Purchase of business, net of cash	-	(19,044)
Purchase of property and equipment	(18,277)	(6,093)
Net cash used in investing activities	(18,277)	(25,137)
Cash Flows from Financing Activities		
Proceeds from issuance of share capital	69	1,853
Purchase and sale of treasury shares, net	54	-
(Decrease) increase in bank overdraft	(867)	1,525
Proceeds from issuance of notes payable	39,375	88,720
Principal payments on notes payable	(55,805)	(60,410)
Borrowings under long-term debt agreements	6,552	29,510
Repayments of long-term debt	(3,767)	(6,415)
Principal payments on capital leases	(1,565)	(1,028)
Payment of debt issuance costs	-	(563)
Net cash (used in) provided by financing activities	(15,954)	53,192
Effect of Foreign Exchange Rate Changes on Cash	189	582
Net Decrease in Cash and Cash Equivalents	(660)	(3,555)
Cash and Cash Equivalents, Beginning of Year	2,648	6,203
Cash and Cash Equivalents, End of Year	1,988	2,648

North American Bus Industries Rt. and its Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2001 and 2000

(all amounts in thousands of US\$, except earnings per share which is in US\$)

Supplemental Disclosure of Cash Flow Information:	2001	2000
Cash paid during the year for: interest, net of interest capitalized	4,911	3,896
Income taxes	4,131	4,050
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Notes to former optare shareholders	-	7,944
Issuance of warrants	-	5,300
Purchase of Optare:		
Consideration paid	-	28,373
Liabilities assumed	-	24,793
Total	-	53,166

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 2001 and 2000

(all amounts in thousands of US\$, except earnings per share which is in US\$)

I. Organization and Business

The accompanying consolidated financial statements of North American Bus Industries Rt. ("NABI Rt." on a stand-alone basis) and its subsidiaries (together the "Group" or "NABI") as of and for the years ended December 31, 2001 and 2000 consist of the accounts of NABI Rt. consolidated with the following subsidiaries:

Subsidiary	% held as of December 31	
	2001	2000
North American Bus Industries, Inc.	100%	100%
Optare Holdings Ltd.	100%	100%

The Group – headquartered in Budapest, Hungary – designs, manufactures and sells buses and provides aftersales services and sells spare parts to its customers in the USA and the United Kingdom.

The predecessor of NABI Rt. (NABI Kft.) was established in 1992 by the First Hungary Fund, a closed equity fund registered in the Channel Islands. NABI Kft. was transformed into an Rt. (company limited by shares) and its shares listed on the Budapest Stock Exchange on August 1, 1997. In February 2000, North American Bus Industries, Inc. ("NABI Inc.") acquired Optare Holdings Ltd. of Leeds, United Kingdom ("Optare").

As of December 31, 2001, 54% (December 31, 2000: 54%) of NABI Rt.'s share capital was owned by the First Hungary Fund Ltd.; the remainder of the shares are publicly traded.

Property and equipment at December 31 was located:

	2001	2000
Hungary	21,335	17,317
United States of America	17,752	10,151
United Kingdom	11,176	11,215
	50,263	38,683

Total revenue for the years ended December 31 consisted of the following:

	2001	2000
Bus sales in the USA	264,859	171,004
Bus replacement part sales in the UK	28,705	23,654
Bus sales in the UK	40,943	45,136
Bus replacement part sales in the uk	8,583	7,328
Other sales	944	480
Deferred revenue recognized	849	-
	344,883	247,602

The Group competes in public tenders for the opportunity to win contracts for the construction and sale of transit buses to mass transit authorities in the USA. A significant portion of the Group's revenue during any specific accounting period is received from those customers whose contracts are being fulfilled during that period. The amount of bus sales revenue attributable to the Group's major customers for the years ended December 31 is as follows:

United States	2001	2000
LA CMTA (Los Angeles, CA)	30%	31%
OCTA (Orange County, CA)	17%	4%
City of San Antonio (San Antonio, TX)	11%	-
Metropolitan Dade County (Miami, FL)	6%	1%
City of Phoenix (Phoenix, AZ)	5%	5%
Riverside Transit Agency (Riverside, CA)	5%	-
RTD (Denver, CO)	4%	17%
Mass Transit Authority (Baltimore, MD)	4%	7%
Other	5%	14%
United States, Total	87%	79%
United Kingdom	13%	21%
	100%	100%

Also as a result of the nature of operations, typically a significant portion of the Group's accounts receivable is due from those customers who took delivery of buses within the preceding months in the USA. As of December 31, 2001 and 2000, 43% and 25%, respectively, of total accounts receivable were due from one customer. Most of these accounts receivable were collected subsequent to the year-end.

North American Bus Industries Rt. and its Subsidiaries

Notes to the Consolidated Financial Statements December 31, 2001 and 2000

(all amounts in thousands of US\$, unless otherwise stated)

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements present the Group's consolidated financial information in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Principles of Consolidation - The consolidated financial statements include the accounts of NABI Rt., its wholly owned subsidiary NABI Inc. and the wholly owned subsidiary of NABI Inc., Optare Holdings Ltd. All significant intercompany accounts and transactions have been eliminated.

Currency Translation – NABI Rt. maintains its books in Hungarian Forint and uses the United States Dollar ("US\$") as its functional currency to reflect the primary currency in which the Group conducts its business. Non-monetary assets and liabilities, principally inventories, prepaid expenses, property and equipment and share capital, and any revenue and expenses related to these items, have been remeasured into US\$ using historical exchange rates. Non US\$ denominated monetary assets and liabilities have been remeasured using the year-end exchange rates. The related exchange gains and losses have been recognized in the consolidated statements of income.

Optare maintains its books in British Pounds, its functional currency. The assets and liabilities of Optare are translated into US\$ at year-end exchange rates and the results of Optare's operations are translated at the weighted average exchange rates for the year. Foreign currency translation gains or losses are recorded as a component of other comprehensive loss in the accompanying consolidated statement of income and comprehensive income. Cumulative foreign currency translation gains or losses are recorded as a separate component of shareholder's equity in the accompanying consolidated balance sheet.

Cash Equivalents - All highly liquid investments with maturities of three months or less at the time of purchase are treated as cash equivalents.

Inventories - Inventories are valued at the lower of cost (first-in, first-out method) or market value.

Property and Equipment - Property and equipment, except demonstration vehicles, are carried at cost less accumulated depreciation. Demonstration vehicles are stated at the lower of cost or market value. Depreciation is determined using the straight-line method based on the estimated useful lives of the assets, which are generally as follows:

Buildings	20 to 50 years
Building and leasehold improvements	10 years
Plant and equipment	4 to 11 years
Office furniture and equipment	5 to 11 years
Vehicles	4 to 7 years
Computer equipment	5 years
Demonstration and rental vehicles	4 to 6 years
Buses leased to customers	10 years

The Group leases certain equipment under finance leases, which are classified under property and equipment and depreciated using the straight-line method over the lease term. The related obligations are recorded as liabilities. The depreciation is included in depreciation expense.

Buses sold to customers on terms which include an option for the customer to sell, under certain conditions, the buses back to the Group at a future date are accounted for as assets leased to customers and are included in property and equipment and depreciated on a straight line basis over their expected useful lives of ten years (Note 6). The depreciation is included in the depreciation expense.

The Group capitalizes expenditures for major renewals and betterments and charges the cost of current maintenance and repairs to operating expenses. Interest costs associated with major property additions are capitalized while the projects are in the process of acquisition and construction. During 2001 and 2000, the Group capitalized 1 and 0 of interest expense, respectively.

Estimated Warranties - Provisions are made for the estimated warranty costs on buses sold. The warranty period for buses sold is specifically stated in the contract with the individual customer. Warranty terms and periods for major components typically correlate to the warranty terms and provisions provided to the Group by the component's manufacturer. During 2001 and 2000, the Group incurred warranty costs of 3,709 and 3,378 respectively.

Goodwill and Negative Goodwill – Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 20 years, which represents the expected periods to be benefited. The Group assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Group's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Negative goodwill represents the excess of the fair value of NABI Inc.'s net identifiable assets over the cost of the 1992 NABI Inc acquisition and is being accreted using the straight-line method over 10 years.

Impairment - The Group reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable based on its expectation of undiscounted future cash flows associated with the operation of the assets. If impairment is indicated, any impairment losses are reported in the period in which the recognition criteria are first applied based on the difference between the carrying value and the fair value of the assets. Long-lived assets held for sale are carried at the lower of carrying amount or fair value, less costs to sell such assets. During 2001, the Group recorded 848 of impairment losses (2000: 308).

Debt Issuance Costs - Debt issuance costs are deferred and amortized to interest expense on a straight-line basis over the lives of the related debt agreements, principally 2 to 6 years.

Debt Discount - Debt discount is amortized using the effective interest method over 6-years, the life of the related senior notes payable.

Revenue Recognition - The Group recognizes revenue from the sale of buses and replacement parts upon delivery to the customer except in instances where the contract with the customer provides that the customer may on certain conditions sell the bus back to the Group at a specified price on a future date. Revenue on such sales is deferred and the difference between the initial sales price and the future repurchase obligation is recognized as income in equal installments over the period until the first date on which the option can be exercised by the customer. The deferred revenue and the Group's obligation under the buy-back option are reported as long-term liabilities (Note 9).

Prior to 2000, NABI Inc. had recorded revenue at the time the bus was completed and accepted for shipment by the customer. With effect from January 1, 2000, NABI Inc. changed its accounting policy for revenue recognition to comply with changes in accounting principles generally accepted in the United States of America. The Group recorded an adjustment in 2000 of 1,035, net of tax, as the cumulative effect for the period prior to January 1, 2000 of the change in accounting policy.

Forward Exchange Contracts - Forward exchange contracts are accounted for as speculative forward exchange contracts and are marked to market in the accompanying consolidated statements of income and comprehensive income (Note 4).

Research and Development Expenses - The Group expenses research and development costs as they occur. R&D expenses amounted to 2,297 for the year ended December 31, 2001. (2000: 966).

Income Taxes - Deferred income taxes are recorded for differences in book and tax bases of assets and liabilities based on the tax rates and laws enacted as of each balance sheet date. The effects of future changes in tax laws or rates are not anticipated. Deferred income taxes are classified according to the classification of the related asset or liability for financial reporting.

Accounting Estimates - The preparation of financial statements in conformity with US GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Earnings per Share - Basic earnings per share is based on the weighted average number of shares outstanding. The weighted average number of

shares used in computing basic earnings per share was 4,585,150 for the year ended December 31, 2001 (2000: 4,512,758). Diluted earnings per share considers the impact of potential common shares, unless the inclusion of the potential common shares would have an anti-dilutive effect. The weighted average number of shares used in calculating diluted earnings per share were 4,755,950 for the year ended December 31, 2001 (2000: 4,519,577).

Stock Based Compensation - Fixed stock option plans are accounted for in accordance with Accounting Principles Board Opinion No. ("APB") 25, "Accounting for Stock Issued to Employees", and related interpretations. The Group adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. ("SFAS") 123, "Accounting for Stock-Based Compensation" (Note 14).

The Group accounts for variable stock option plans in terms of SFAS 123.

Recent Accounting Pronouncements - In June 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets". SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but are instead tested for impairment at least annually. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. As of January 1, 2002, the Group will cease to amortize goodwill and will write off negative goodwill. The amount of goodwill amortized in 2001 was 874 (2000: 777).

Reportable Segments - The Group operates in a single business segment, the supply of buses and bus replacement parts. Analyses of sales by country, major customers and the location of the Group's property and equipment are set out in Note 1.

Reclassifications - Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

3. Purchase of Optare

On February 9, 2000, NABI Inc. acquired 100% of the outstanding stock of Optare, a United Kingdom based manufacturer of buses. Consideration consisted of cash financed primarily through the issuance of long-term debt and notes payable denominated in British Pounds Sterling ("GBP") issued to the former Optare shareholders (the "Optare Notes") (Note 8).

Goodwill arising from this acquisition of 20,527 is being amortized using the straight-line method over 20 years. Effective January 1, 2002 NABI stopped amortization of goodwill based on SFAS 142. The consolidated statement of income and comprehensive income includes the operations of Optare from the date of acquisition.

During 2001, the Group subsequently revised its allocation of the purchase price related to adjustments for certain acquisition contingencies and to its deferred tax position. The following summarizes the effects of the adjustments:

Original Goodwill	20,093
Adjustment to:	
Acquisition expenses	(250)
Deferred tax assets and liabilities	684
Adjusted Goodwill	20,527

North American Bus Industries Rt. and its Subsidiaries

Notes to the Consolidated Financial Statements December 31, 2001 and 2000

(all amounts in thousands of US\$, unless otherwise stated)

4. Foreign Exchange Contract

The Group utilizes forward exchange contracts to limit the impact of exchange rate fluctuations on its consolidated results of operations. During 2001 and 2000 the Group entered into forward sale exchange contracts with notional amounts as of December 31, 2001 of 439 (2000: 8,156) denominated in U.S. dollars and British Pounds and various European currencies. During 2001 and 2000 the Group entered into forward purchase exchange contracts with notional amounts as of December 31, 2001 2,925 (2000: 5,935) denominated in US Dollars and British Pounds and various European currencies. Such contracts expire on various dates through February 2002. During 2001, the Group recorded a net unrealized forward exchange rate loss of 174 (2000: 299) as a component of other income (expense) in the accompanying consolidated statement of income and comprehensive income, on marking these forward exchange contracts to market.

5. Inventories

Inventories consist of the following at December 31:

	2001	2000
Raw materials	29,290	36,005
Work-in-process	23,564	13,711
Finished goods	11,873	27,051
	64,727	76,767

As at December 31, 2001, inventory is stated net of allowance for slow moving and obsolete inventory of 1,421 (2000: 871).

6. Property and Equipment

Property and equipment consist of the following at December 31:

	2001	2000
Real estate	18,877	19,639
Factory furniture, equipment and vehicles	21,608	16,891
Office furniture and equipment	10,219	9,028
Equipment under capital leases	651	651
Buses under lease (note 9.)	8,308	-
Demonstration vehicles	1,241	1,125
Rental vehicles	289	966
Construction in progress	5,207	1,320
	66,400	49,620
Less: Accumulated depreciation	(16,137)	(10,937)
	50,263	38,683

In 2001, the Group delivered buses to a US customer, which are a subject to a conditional buy-back arrangement and have been treated as operating leases (Note 9). At December 31, 2001 the gross amount of equipment and related accumulated amortization recorded in property, plant, and equipment under this transaction was as follows:

Buses under lease	8,308
Less: Accumulated depreciation	(480)
	7,828

Depreciation and amortization expense was 5,200 and 4,425 for the years ended December 31, 2001 and 2000, respectively.

7. Intangible Assets

The Group had an agreement with a producer of composite structures based in the United States of America under which it had made payments for manufacturing rights to utilize the composite technology for bus shell manufacturing. In August 2001, following a revision of the agreement, amounts paid, net of accumulated amortization, have been reclassified to prepaid expenses as the revised agreement provides that they will be treated as advance payments in respect of royalty payments due on future sales of buses manufactured using the composite technology.

8. Credit Agreements

Lines of Credit

During 2001, the Group had line of credit agreements (the Lines), denominated in various currencies, with various banks. Information pertaining to these by entity is as follows:

	December 31, 2001		December 31, 2000	
	Amount of Line	Borrowings Outstanding	Amount of Line	Borrowings Outstanding
NABI Inc.	44,000	28,500	47,600	39,100
NABI Rt.	7,000	501	14,400	6,580
Optare	18,636	3,017	14,636	2,379
	69,636	32,018	76,636	48,059

All of the Lines mature on or before December 31, 2002. Subsequent to December 2001, a facility of 15,000, which matured in January 2002, has been renewed for a further year.

NABI Rt.

The Lines require payment of interest periodically, ranging from one to three months. Interest on borrowings is based on London Inter-Bank Offer Rate (LIBOR) plus margin. As of December 31, 2001 and 2000 NABI Rt. had 501 and 9,579 in outstanding borrowings under the lines leaving 6,499 and 4,820 available for future borrowings.

NABI Inc.

The Lines require the payment of interest periodically, ranging from one to three months. Interest on borrowings under the Lines are, at NABI Inc.'s option, based on either LIBOR, Base Rate plus margin. As of December 31, 2001 and 2000, NABI Inc. had 28,500 and 39,100 in outstanding borrowings under the Lines leaving 15,500 and 13,500 available for future borrowings.

Optare

As of December 31, 2001 and 2000, the Line consisted of a 4,779 and 4,182, respectively, revolving facility to cover Optare's overdrafts and a 10,455 revolving facility for spot and forward foreign exchange transactions and for currency options (Exchange Facility). Outstanding borrowings under the Line as of December 31, 2001 and 2000, related entirely to overdrafts. As of December 31, 2001 and 2000, Optare had 2,001 and 2,379, respectively, outstanding under the overdraft facility leaving 2,779 and 1,803, respectively, available for future borrowings. Interest is payable quarterly on the Line, based on the base rate or LIBOR plus margin. Optare also has short term facilities from Hungarian banks on LIBOR plus margin basis and one of these facilities was partly utilized as of December 31, 2001.

The majority of the Lines (i) require the Group to provide to the banks, within periods ranging from ninety to one hundred fifty days subsequent to December 31 of each year, audited financial statements prepared in accordance with US GAAP (ii) place restrictions on the Group's ability to change its business, create liens, guarantee or incur additional indebtedness, pay dividends, repurchase its outstanding common stock, consolidate, merge and dispose of its business and (iii) require the Group to maintain certain financial ratios based on the Group's US GAAP financial statements. In addition, certain of the Lines include a cross default provision ("Cross Default") whereby a default would occur if the Group was in default of any covenants of any of their other Lines or long-term credit agreements.

As of December 31, 2001 the Group was in compliance with all the requirement of its Credit Lines.

Long-term Debt

Long-term debt ("Debt") consists of the following at December 31, 2001 and 2000:

	2001	2000
Senior Notes payable, net of debt discount of 3,742 as of December 31, 2001 and 4,506 as of December 31, 2000 - annual principal payments of 6,667 commencing January 31, 2004 through January 31, 2006 and interest at 9.3% (an effective rate of 14.6%) per annum payable semi-annually	16,258	15,494
Note payable to a Hungarian bank - quarterly principal payments of 500 commencing April 15, 2003 through January 15, 2006 with interest at LIBOR plus margin (an effective rate of 3.2% as of December 31, 2001), payable monthly	6,000	6,000
Optare Notes denominated in GBP due December 7, 2002, interest at the Barclays Rate, as defined, plus margin (an effective rate of 4.5% at December 31, 2001), payable semi annually	1,858	4,524
Notes payable to a UK Bank denominated in GBP - quarterly principal payments of GBP121 thousand through November 5, 2007 with interest at Base Rate, as defined, plus margin (an effective rate of 8.25% at December 31, 2001)	2,826	3,485
Development loan - repayable in July 31, 2003, interest free	118	-
Eximbank term loan - repayable on December 15, 2003 with interest at LIBOR and LIBOR plus margin, payable in December 2003	6,434	3,000
Capital lease obligations	1,231	628
Long term debt	34,725	33,131
Less: Current portion	(3,047)	(3,714)
Long-term portion	31,678	29,417

Senior Notes

On February 9, 2000 NABI Rt. and NABI Inc. entered into the Note and Warrant Purchase Agreement with Metropolitan Life Insurance Company and Metropolitan Property and Casualty Insurance Company (collectively "Metropolitan") (the "Metropolitan Agreement") through which NABI Inc. issued to Metropolitan 20,000 in senior notes, of which 13,045 were used to fund the Optare acquisition (Note 3), with the remainder used to fund NABI Inc.'s general working capital needs. The Metropolitan Agreement also required NABI Rt. to issue to Metropolitan a warrant to purchase 330,258 shares of its common stock for an exercise price of HUF 5,446 (US\$ 20.91) per share. The value of the warrant of 5,300 at February 9,

2000, determined through the use of the Black Scholes Option Pricing Model, was accounted for as a credit to additional paid in capital offset against the par value of the senior notes (debt discount). The warrant is currently exercisable, in whole or in part, and expires on January 31, 2006. The Group is required, within 90 days from the exercise date, to issue the Shares to Metropolitan and register the Shares with the Budapest stock exchange. The Group has the option to purchase the Shares prior to such issuance and registration for a price per share equal to the weighted average share price as defined in the warrant agreement (Share Price). If the Group does not issue, purchase, or register the Shares within 90 days from exercise, the Group is required to pay Metropolitan an amount equal to the Shares multiplied by the lower of the Share Price on the exercise date or

North American Bus Industries Rt. and its Subsidiaries

Notes to the Consolidated Financial Statements December 31, 2001 and 2000

(all amounts in thousands of US\$, unless otherwise stated)

90 days after the exercise date. Additionally, NABI Rt. has the option to redeem the warrants, in whole or in part, for HUF 2,723 (\$10.45) if the Share Price equals or exceeds 150% of the exercise price for 20 consecutive days commencing February 1, 2003. During 2001 and 2000, no warrants were exercised.

Optare Notes

NABI Inc. issued 7,944 of Optare Notes to the former Optare shareholders as partial consideration for the Optare acquisition (Note 3). The Optare Notes are guaranteed through the issuance by a bank of a guarantee facility in favor of the former Optare shareholders. The guarantee facility is guaranteed by NABI Rt. and places restrictions on NABI Rt.'s and NABI Inc.'s ability to incur additional indebtedness, make loans, or provide guarantees or indemnities. The facility also requires the Group to maintain certain financial ratios based on its consolidated US GAAP audited financial statements and includes a Cross Default provision.

NABI Inc. is required to redeem the Optare Notes at the option of the Optare Note holders, on specified dates. During 2001, NABI Inc. redeemed 2,505 of the Optare Notes (2,934 in 2000). NABI Inc. recorded a foreign currency gain of 162 on the Optare Notes in 2001 (486 in 2000).

Notes Payable to a Hungarian and a UK Bank

The Notes are guaranteed by NABI Rt.

Development Loan

NABI Rt. entered into an agreement with the Education Ministry in Hungary for the finance of research and development related to its articulated low floor bus (60-LFW) under the Central Technological Development Program. This agreement provides a total facility of 243 of which 25 percent is a non-refundable grant and the remaining 75 percent is an interest free loan repayable in one lump sum on July 31, 2003. NABI Rt. received 156 during 2001 from which 118 is repayable and outstanding as of December 31, 2001. The grant element of 38 is included in other income.

Capital Lease Obligations

The Group is a lessee under certain capital leases for property, plant and equipment. These agreements have varying maturity dates through December 2002. Interest expense related to capital leases obligations totaled 51 and 69 for the years ended December 31, 2001 and 2000, respectively.

Aggregate scheduled maturities of the Group's long-term debt agreements as of December 31, 2001, adding back debt discount of 3,742, are as follows:

	2001
2002	3,047
2003	9,477
2004	9,142
2005	8,989
2006	7,489
Thereafter	323
	38,467

9. Obligations under Residual Value Guarantees and Deferred Revenue

During 2001, the Group sold certain buses under agreements, which provide the customer with an option to sell the buses back to the Group at specified prices after a period of five years. In accordance with EITF Issue 95-1, Revenue Recognition on Sales with a Guaranteed Minimum Resale Value, the transaction has been accounted for as an operating lease. Amounts received in the transaction in excess of the Group's residual value guarantee obligation are recorded as deferred revenue and amortized on a straight-line basis over the period to the first exercise date of the guarantee. In 2001 849 of the deferred revenue was recognized in total revenue (Note 11).

10. Fair Value of Financial Instruments

The carrying value of cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to the short duration of these instruments. The carrying value of long-term debt, excluding the Metropolitan Agreement, approximates fair value due to their variable nature. The estimated fair value of the Metropolitan Agreement totaled 22,738 and 17,741 as of December 31, 2001 and 2000, respectively, based on interest rates available for borrowings with similar provisions as noted in the respective agreements. Considerable judgment is required in developing the estimates for fair value of long-term debt and, therefore, such values are not necessarily indicative of the amounts that could be realized in a current market exchange.

11. Other Income/(Expense)

Other income/(expense) consists of the following for the years ended December 31:

	2001	2000
Net currency exchange and remeasurement effects	487	(674)
Other	460	(275)
	947	(949)

12. Income Taxes

Income tax expense consists of the following for the years ended December 31:

	2001	2000
Current taxes	1,817	4,865
Deferred taxes	(407)	(4,084)
	1,410	781

The Group is liable for corporate income taxes based on the tax laws of the jurisdiction in which it operates. The corporate tax rate in Hungary is 18% and NABI Rt. enjoyed a 60% tax holiday in 2001 and 2000, bringing its effective tax rate down to 7.2%. NABI Rt.'s tax holiday expires in 2003. In the US, NABI Inc. pays state taxes at various rates and federal tax at the 34%. In the UK, the corporate tax rate is 30%.

Income taxes for the year ended December 31, 2001 and 2000 differ from the amounts computed by the tax rate of 18% to income before income taxes. The reasons for the differences are the follows:

	2001	2000
Computed "expected" tax expense at 18%	1,685	641
Increase/(decrease) in income taxes resulting from:		
– Tax holiday	(827)	(1,091)
– Research and development	(381)	(37)
– Effect of foreign income tax differences	307	(21)
– Goodwill amortization	353	291
– Other taxes	62	(26)
– Others	211	1,024
Total tax expense	1,410	781
Deferred tax balances at December 31 were as follows:	2001	2000
Assets (Liabilities)		
Deferred income	735	-
Revenue recognition	352	540
Inventory	(215)	(210)
Accrued warranty	1,568	928
Accrued vacation	174	161
Other accrued liabilities	300	241
Short-term deferred tax asset	2,914	1,660
Property, plant equipment	-	(1,624)
Foreign interest expense	-	1,873
Research and development costs	-	962
Negative goodwill	27	62
Other	281	(176)
Long-term deferred tax asset	308	1,097
Property, plant equipment	(1,458)	-
Long-term deferred tax (liabilities)	(1,458)	-

13. Employee Benefit Plans

NABI Rt. makes contributions to the state and private pension plans as required by law. NABI Rt. had no unfunded employee benefits at December 31, 2001 and 2000.

NABI Inc. sponsors a 401(k) Plan (the "NABI Inc. Plan"), effective July 1, 2000 NABI Inc. matches 20% of employee contributions. During 2001, the Group contributed 175 and (2000: 109), to the NABI Inc. Plan.

Optare sponsors a defined contribution pension plan for its employees (the "Optare Plan"). Optare matches 2 per cent of employee contributions and contributes 1.15 percent of employee compensation regardless of the level of employee contribution. During 2001 Optare contributed 246 (2000:218) to the Optare plan.

14. Employee Share Option Plan

In June 1997, Shareholders approved an employee share option plan. Under the terms of the plan, the Board of Directors may grant employees options in NABI Rt.'s common shares at a price equal to 100% of the weighted average market price calculated over the 60 trading days preceding the date on which the option is granted. The aggregate number of shares in respect

of which options are granted under the share option plan, whether exercised or not, may not exceed 10% of the outstanding shares of NABI Rt. At December 31, 2001, a total of 447,000 shares were reserved for grants under the share option plan; including the options outstanding. The option agreements with the employees provide that the employee is responsible for any taxes payable upon exercise of the options. All stock options have a 5-year term and vest and become fully exercisable immediately after the date of grant.

The weighted average fair value in USD of the share options granted during 2001 and 2000 were \$2.05 and \$9.06, respectively. The fair values were estimated using the Black-Scholes Option Pricing Model based on the weighted average assumptions of: risk-free interest rate of 7.95% for 2001, and 8.0% for 2000; volatility of 35.10% for 2001 and 27.14 % for 2000; expected life of 4 years; and a dividend yield of 0%.

The Group applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Group determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Group's net income would have been reduced to the pro forma amounts indicated indicated opposite:

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Notes to the Consolidated Financial Statements December 31, 2001 and 2000

(all amounts in thousands of US\$, unless otherwise stated)

		2001	2000
Net income	As reported	7,952	1,744
	Pro-forma	7,716	1,401
Basic earnings per share	As reported	1.73	0.39
	Pro-forma	1.68	0.31

Pro forma net income reflects only options granted in the current year. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options'

immediate vesting period and compensation cost for options granted prior to this year are not considered.

The following table summarizes information about share options granted at December 31, 2001 and 2000:

	Options Outstanding	Weighted Average Price in US (*)
As at December 31, 1999	342,400	12.52
Granted	54,000	21.87
Exercised	(146,600)	13.30
Cancelled	(6,000)	9.50
As at December 31, 2000	243,800	13.24
Granted	115,162	15.30
Exercised	(8,000)	8.97
Cancelled	(65,000)	19.58
As at December 31, 2001	285,962	13.81

(*) The original HUF based option exercise prices have been converted into US using the applicable year-end US / HUF exchange rate.

The following table summarizes the share options outstanding at December 31, 2001:

Exercise Price in US (*)	Options	Average Remaining Life
14.34	65,162	0.19
13.45	115,800	0.56
10.57	43,000	2.05
14.66	12,000	2.58
16.55	50,000	4.24
10.57-16.55	285,962	1.92

(*) The original HUF based option exercise prices have been converted into US using the applicable year-end US/HUF exchange rate.

15. Commitments and Contingencies

The Group is involved in routine litigation and other proceedings in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Group's financial position or results of operations.

6-year Financial Summary

All figures in millions of US Dollars except where otherwise indicated

	1996	1997	1998	1999	2000	2001
Summary of Operations						
Vehicles sold (units)	302	330	450	501	960	1,319
Vehicles sales	75	90	121	133	216	307
Aftermarket parts & services sales	3	8	14	17	31	38
Net sales	78	99	134	151	248	345
Cost of sales	68	85	115	130	214	300
Gross Profit	10	14	19	21	33	45
EBITDA	5	5	9	8	15	23
Operating Income	3	3	6	6	11	14
Income before Income Taxes	4	4	6	5	3	9
Net income	3	3	4	4	2	8
CAPEX	2	4	7	10	6	18*
Financial Status						
Cash and cash equivalents	5	3	6	6	3	2
Current assets	28	46	62	62	131	151
Current liabilities	18	13	29	33	99	107
Working capital	11	33	33	28	32	44
Total assets	41	60	81	88	191	221
Long-term debt	6	0	0	0	29	32
Net debt	7	2	9	8	80	65
Shareholders equity	16	46	51	54	63	71
Margins and ratios						
Gross margin (%)	12.93	13.98	14.33	14.14	13.42	13.00
EBITDA margin (%)	5.96	5.23	6.79	5.53	6.09	6.57
Operating margin (%)	4.12	3.19	4.72	3.96	4.24	4.12
Current ratio	1.6	3.6	2.1	1.9	1.3	1.4
Net debt / equity ratio	0.46	0.05	0.17	0.15	1.28	0.93
SG&A / Sales (%)	8.81	10.79	9.62	10.18	8.86	8.62
Return on shareholders equity (%)	19.63	7.07	8.62	6.68	2.78	11.25
Share data						
Outstanding shares (pcs)	2,765,300	4,470,000	4,470,000	4,470,000	4,616,600	4,624,600
Book value per share (US\$)	5.80	10.39	11.37	12.18	13.60	15.28
Earnings per share (US\$)	1.15	0.94	0.98	0.81	0.39	1.73
Share price (US\$)	High	29.01	25.2	21.48	25.57	16.07
	Low	20.46	4.77	11.7	14.95	10.29
	Close	24.52	12.33	20.99	16.29	13.19
P/E ratio	High	30.9	25.7	26.5	65.6	9.3
	Low	21.8	4.9	14.4	38.3	5.9
	Close	26.1	12.6	25.9	41.8	7.6
P/BV ratio	High	2.8	2.2	1.8	1.9	1.1
	Low	2.0	0.4	1.0	1.1	0.7
	Close	2.4	1.1	1.7	1.2	0.9

*Contains US\$ 8 million in leased buses

Financial Commentary

1. Changes in Investments, Presentation of Entities

From February 2000 the number of the consolidated subsidiaries increased as a result of the acquisition of Optare in the UK.

2. Sales Revenue

Net sales increased by 39.0 percent to US\$ 344.0 million from US\$ 247.6 million in 2000 and this was attributable to two main factors – (i) an increase in unit vehicle sales of 29.6 percent from 960 in 2000 to 1244 in 2001 and (ii) an increase of 21.3 percent in aftermarket parts and service revenues to US\$ 38.2 million in 2001 from US\$ 31.5 million in 2000. Total sales revenue in 2001 also included an amount of US\$ 0.8 million relating to deferred revenues recognized in respect of 75 vehicles delivered during the year where, because of a buy-back provision contained within the sale agreement, the transaction has been accounted for as an operating lease. The balance of the deferred revenue will be recognized in the years 2002 to 2007.

3. Gross profit

Gross profit increased by 34.9 percent to US\$ 44.8 million from US\$ 33.2 million in 2000 with a slight reduction in the gross margin from 13.42 percent in 2000 to 13.00 percent in the current year.

4. Operating income and EBITDA

A 35.3 percent increase in operating income to US\$ 14.2 million was realized during 2001 compared with US\$ 10.5 million in 2000. The operating margin declined slightly from 4.24 percent to 4.12 percent as although there was a reduction in SG&A expenses of 0.24 percent of sales revenue, there was also a reduction in the gross margin percentage of 0.42 percent. SG&A expenses included non recurring costs of US\$ 3.05 million relating to (i) a legal fee of US\$ 2.2 million and (ii) a write-off of US\$ 0.85 million in respect of one item of tooling. Without these exceptional write-offs, SG&A expenses would have been 7.74 percent of sales revenue compared with 8.86 percent in 2000.

Earnings before interest, tax, amortization and depreciation increased to US\$ 22.67 million in 2001 from US\$ 15.07 million in 2000, a 50.4 percent improvement. EBITDA margin was 6.57 percent for 2001 and 6.09 percent for 2000.

5. Interest expense (less income)

Due to a reduction in LIBOR in 2001, the Company replaced part of its short-term loan facilities with a new long-term loan at a fixed rate. This, together with a reduction in short term borrowings over the course of the year, resulted in a net decrease in borrowing costs of 3.4 percent.

6. Profit before and after tax

Profit before tax increased by 163 percent to US\$ 9.36 million in 2001 from US\$ 3.56 million in 2000. The effective tax rate in 2001 was 15.1 percent compared with 21.9 percent in 2000 due primarily to a change in the UK tax treatment of research and development costs for which the relief for both 2000 and 2001 expenditure was given in 2001, no relief having been given in 2000. Consequently, net income at US\$ 7.95 million was 186 percent higher than the figure for 2000 of US\$ 2.78 million with net margin at 2.31 percent (2000: 1.12 percent).

7. Receivables

Receivables increased to US\$ 75.9 million from US\$ 47.3 million in 2000 due to substantial additional deliveries in December 2001 compared with the corresponding month of 2000.

8. Inventories

Inventory levels fell between 2000 and 2001 from US\$ 76.8 million to US\$ 64.7 million as the Company accelerated finished vehicle deliveries.

9. Intangibles

The Group's intangible assets include manufacturing rights to utilize the SCRIMP® composite technology for bus manufacturing. In 2001, following revision of the Agreement relating to these rights, amounts paid net of accumulated amortization have been reclassified to pre-paid expenses as the revision provides that they are to be treated as advanced payments in respect of royalty payments due on future sales of CompoBus™.

10. Property, Plant and Equipment

Property, plant and equipment increased from US\$ 38.7 million to US\$ 50.3 million at December 2001, primarily due to the capitalization of buses under lease but also to the continuation of investment in new equipment and facilities. The Group commenced development of the first phase of the new manufacturing site at Kaposvár, Hungary, initially for the production of CompoBus™ products and other fiber-reinforced composite components.

At the end of 2001 this project and that of the capacity expansion at Rotherham, England, were both in progress.

11. Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired in Optare as at its acquisition in 2000. Amortization of goodwill is on a straight-line basis over 20 years, the period of its expected benefit.

Effective January 1, 2002 NABI will assess the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining period of expected benefit can be recovered through undiscounted future operating cash flows of the acquired operation.

12. Short Term Loans

Short term borrowing decreased from US\$ 48.1 million at the end of 2000 to US\$ 32.0 million at the end of 2001, primarily due to the receipt of progress payments under the terms of a major supply contract in the US.

13. Accounts Payable

Accounts payable increased from US\$ 36.1 million in 2000 to US\$ 60.0 million in 2001 mainly due to the receipt of progress payments on a major contract as referred to above.

14. Warranties

Warranty provisions increased primarily due to the increased number of buses sold during 2001 compared with 2000.

15. Long Term Loans

Long term loans include senior notes net of debt discount of a gross amount of US\$ 5.3 million on warrants relating to the notes issued by the Group which are amortized on a straight-line basis over the life of the notes. Other changes related to the repayment of US\$ 2.5 million of the Optare Notes, whilst there was an increase in a term loan from a Hungarian bank of US\$ 3.4 million in respect of the first stage of investment at Kaposvár. In total long-term debt increased from US\$ 29.4 million in 2000 to US\$ 31.7 million in 2001.

16. Obligations under Residual Value Guarantees

Buses sold to customers on terms, which include an option for the customer to sell, under certain conditions, the buses back to the Group at a future date, are accounted for as operating leases. The Group's conditional obligations in respect of residual value guarantees arising under such agreements are included under this item and amounted to US\$ 3.0 million in 2001 (2000: nil).

17. Deferred Revenue

Amounts received under transactions accounted for as operating leases are recorded as deferred revenue in excess of the Group's residual value obligations. These amounts will be credited on a straight-line basis over the period of the leases and stood at US\$ 7.6 million in 2001 (2000: nil).

18. Changes in Shareholders' Equity

In accordance with the Group's dividend policy the entire net income earned during each year was transferred to retained earnings to finance the Group's expansion.

In 2000 the number of shares increased by 146,600 related to the exercise of management share options. For financing the Optare acquisition, the Group issued US\$ 20 million of senior notes together with warrants for 330,258 for NABI Rt shares. The warrants can be exercised, in whole or in part, at any time until expiry on January 31, 2006. As Optare maintains accounts in GBP, a foreign currency translation adjustment appears in shareholders' equity in both 2000 and 2001.

During the year 2001, the following changes occurred in shareholders' equity (i) the authorized and issued number of shares increased by 8000 relating to the exercise of management share options and (ii) 65,162 treasury shares were purchased and sold.

19. Employee Headcount

The following table shows the year-end headcount by year and country:

	2000	2001
HU	647	734
US	696	638
UK	405	504
Total	1748	1876

20. Compensation

During 2001 the average annual salary of employees by country was as follows:

HU	HUF 2.8 million
US	US\$ 33.6 thousand
UK	GBP 18.5 thousand

Investor, Supervisory Board Auditor Information

The Hungarian Stock Market and the NABI share in 2001

2001 was characterized by declining share prices on the Budapest Stock Exchange (BSE), as the BUX index of the BSE, descended 8% in US\$ terms. NABI shares lost 19% during the year and the company's market value amounted to US\$ 61 million on December 31.

The share also suffered from the general trend on the BSE in 2001 in terms of trading volume. Trading activity became highly concentrated on the five largest issues that accounted for approximately 90% of total turnover. The daily average turnover of the share shrunk by 61% from approximately 14,545 in 2000, to 5,600 shares a day in 2001.

NABI share: Facts and figures

	2001	2000
Highest price (US\$)	16.07	25.57
Lowest price (US\$)	10.29	14.95
Price as of December 31, 2001	13.19	16.29
Market capitalization (US\$ million)	61	75
Yield (%)	(19.0)	(22.4)
BUX yield (%)	(8.0)	(20.4)
Number of shares traded	1,374,323	3,650,821
Number of shares outstanding	4,624,600	4,616,600
Free float	2,124,600	2,116,600

Treasury share transactions and share structure

The Company executed two treasury share transactions in 2001, in which it bought and sold 65,162 shares. In the latter transaction seven additional treasury shares were sold, obtained during the transformation of the shares into dematerialized form during the previous year.

On March 27, the Company privately issued 8,000 shares within the framework of its management share option plan. NABI's share capital is currently divided into 4,624,600 registered ordinary shares with a nominal value of HUF 1,000 each in dematerialized form. The shares were listed on the BSE in August 1997. Shareholders' rights are detailed in NABI's Articles of Association.

ADR Information

ADR Depository	NABI ADR
The Bank of New York 101 Barclay Street, 22 West New York, NY 10286 USA	Ratio: 1 ADR = 1 Ordinary Share Exchange: OTC Symbol: NABHY CUSIP: 656761 10 3
Tel.: 1-888-269-2377 (within US) + 1-610-312-5315	

Dividend policy

The declaration and payment of dividends by the Company are subject to the discretion of the General Meeting of Shareholders following a recommendation from the Board of Directors. While all shares are eligible for any dividends declared, the Company has not paid a dividend to this date, as earnings are retained to support the Group's operations and to finance expansion.

Shareholder structure

The shareholder structure of NABI Rt. has not changed significantly in 2001. Alongside the majority owner, the First Hungary Fund (54.06%), the domestic depositary Citibank (13.37%) is the only shareholder to own shares in excess of 5% of the total number of outstanding shares. NABI's shareholders include a total of 48 depositories, 8 foreign institutions, and 105 domestic institutions. Employees of NABI owned 11,000 shares on December 31, 2001.

Shareholder	December 31, 2000		December 31, 2001	
	%	Shares('000)	%	Shares('000)
Institutional investors	73.52	3,394	71.05	3,286
Domestic	13.51	624	13.65	631
Foreign	60.01	2,770	57.40	2,655
Depositaries	26.19	1,209	28.70	1,326
Employees	0.29	13	0.25	12
Total	100.00	4,616	100.00	4,624

Investor relations

The Corporate Office in Budapest provides information and assistance to NABI investors. The Company publishes its news releases in the Hungarian national daily newspaper Magyar Tőkepiac and through the Internet Communications System of the BSE (www.bse.hu). Direct mailing of news releases may be requested directly from the Corporate Affairs Director (Email: corporate.office@nabi.hu)

Supervisory Board

NABI's Supervisory Board meets regularly to oversee the Company's operations. The members of the Supervisory Board as follows:

Name	Position	Beginning of mandate	Re-election due by
Charles A. Huebner	Chairman	1997.03.31	2003.05.31
Blága László	Member	1997.03.31	2003.05.31
Mátyás László	Member	2000.04.27	2003.05.31
Szóke Zoltán	Member (Employee representative)	2000.04.27	2003.05.31
Kenyeres Lajos	Member (Employee representative)	2000.04.27	2003.05.31

Auditors

During 2001, the Company's financial and environmental statements and reports were audited by:

KPMG Hungária Kft.

99. Váci út

Budapest

1139

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Company Facts

Date of the effective Articles of Association	September 17, 2001
Place of the latest court registration	Budapest
Date of the latest court registration	February 19, 2002
Number of the latest court registration	01-10-043464/44
Share-capital of the Company at the closing of the year	4 624 600 000 Ft
Length of the Company's existence	Since 1992
Business year of the Company	From January 1 to December 31
Carriers of Company publications	Magyar Tőkepiac
Activities of the Company (based on TEÁOR)	34.10 Manufacture of road vehicles 34.20 Manufacture of vehicle bodies 34.30 Manufacture of vehicle parts 50.10 Trade of vehicles 50.30 Trade of vehicle parts 71.21 Rental of land vehicles

Glossary of Terms

3D CAD system	Computer Aided Design technique which models three-dimensional forms on the screen for easier simulation of how finished vehicles will look and behave.
30LFN	30ft small bus (developed from the Optare Solo and sold in the US).
35LFW	35ft low floor transit bus.
40LFW	40ft low floor transit bus.
40C-LFW	40ft low floor transit bus of composite construction.
45C-LFW	45ft low floor transit bus of composite construction.
60LFW	60ft low floor articulated transit bus.
Alero	24 foot long ultra low floor integral bus.
Alero market	The market for small size easy access buses, especially suitable for transportation of the disabled.
Alternative Fuel Vehicle	Any vehicle that operates with fuel other than diesel or gasoline.
Articulated Bus	Extra-long (typically 55 to 65 feet) bus with the rear body section connected to the main body by a joint mechanism called a bellow. This allows the vehicle to bend when in operation for sharp turns and curves and yet have a continuous interior.
CNG	Compressed natural gas; popular alternative fuel used in transit buses.
CompoBus™	NABI's fiber-reinforced composite material based integral of transit buses that are significantly lighter than comparable steel bodied vehicles.
Double Decker	A high-capacity bus having two levels of seating, one over the other, connected by a stairway. Total bus height is usually 13.5 to 14.5 feet, and typical passenger seating capacity is usually for 80 people.
Excel	Optare low floor 39ft single deck bus
LNG	Liquid natural gas; popular alternative fuel used in transit buses.
Hybrid	Vehicle which uses combination of diesel and electric power to minimise emissions
Low-floor Vehicle	A vehicle which has a level floor without steps in the boarding area and at least in the front part of the vehicle, allowing step-on boarding from the ground.
Midi coach	A bus with separate luggage compartments, usually with high-backed seats and sometimes restroom facilities for use on high-speed long-distance services. A midi coach is generally 23-35ft in length and has a seating capacity of 10-40 passengers.
Multiplex	A system of electrical wiring, pioneered by NABI in the USA and Optare in the UK, using one 'ring main' which reduces complexity of wiring looms.
Nouvelle, Soroco, Solera and Bonito	Optare coach models supplied to the UK market.
SCRIMP®	Seemans Composite Resin Infusion Molding Process, used for the manufacturing of composite bus shells. NABI holds the exclusive right to the bus industry application of this patented technology.
Solo	Small UK single-deck bus also known as NABI 30LFN in the US and holder of Queen's Award for Innovation and Millenium Products Award.
Transit Bus	A bus normally with a rear-mounted engine, low-back seating and without luggage compartments or restroom facilities for use on frequent-stop scheduled service.

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