SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: DECEMBER 31, 1998
OR
[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from___________to

Commission File Number 0-23336

ELECTRIC FUEL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	95-4302784
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
885 THIRD AVENUE, SUITE 2900, NEW YORK, NEW YORK	10022-4834
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 829-5536

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, $.01 PAR VALUE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes[X] No[_].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ((S) 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [__]

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of February 9, 1999 was approximately $20,573,472 (based on the last sale price of such stock as reported by The Nasdaq National Market).

As of February 9, 1999, 14,303,387 shares of registrant's Common Stock, $.01 par value per share (the "Common Stock"), were issued and outstanding.

PART I

ITEM 1. BUSINESS

GENERAL

Electric Fuel Corporation ("EFC", "Electric Fuel", or the "Company") is engaged in the design, development and commercialization of its proprietary zinc-air technology for electric vehicles, portable consumer electronic devices and defense applications.

The Company's technology has grown out of an intensive research and development program conducted for over eight years into the field of zinc-air electrochemistry. Through these efforts, Electric Fuel has sought to position itself as a major world leader in the application of zinc-air technology to innovative, primary and refuelable battery systems.

The Company's high-energy, high-power zinc-air battery is composed of a zinc-anode and an air (oxygen reduction) cathode. During discharge, oxygen from the air is electrochemically reduced to hydroxide ions at the cathode, and zinc at the anode is consumed by conversion to zinc oxide. While zinc-air technology has been in use for over a century, the Company has developed unique technology that provides its batteries with enhanced performance in both power and energy at a low manufacturing cost.

To fully utilize its zinc-air battery technology for a wide selection of applications, the Company operates three segments: Consumer Batteries, Electric Vehicles, and Defense and Safety Products.

The Consumer Batteries division was formed to pursue the increasing market interest in a primary, single use battery as a substitute for the current lower performance, more expensive, rechargeable batteries. The first product is aimed at the cellular phone market and is expected to be available to consumers in May 1999. Other applications are expected to include batteries for camcorders, laptop computers and other portable consumer electronic devices.

The Electric Vehicle division is continuing to focus on fleet applications of the zinc-air battery system with its partners in Europe and the United States. Pursuant to an agreement with the US Department of Transportation, the division is developing an all-electric transit bus in cooperation with General Electric, for the US transit market. The Company is also considering development of an electric scooter battery for the Far East market.

The Defense and Safety Products division was formed to continue to expand the development of other advanced uses of the battery technology, including a high-power zinc-oxygen battery for military applications and an advanced portable zinc-air battery for the US Army. This division also oversees the Company's water-activated survivor locator light products for the airline and marine markets and is pursuing further development of the safety products business.

The Company was incorporated in Delaware in 1990. Unless the context requires otherwise, all references to the "Company" refer collectively to the Company and its wholly-owned subsidiary incorporated under the laws of Israel, Electric Fuel (E.F.L.) Limited ("EFL"), Electric Fuel GmbH, a German wholly-owned subsidiary of EFL and other subsidiaries of EFC and EFL. EFC's executive offices are located at 885 Third Avenue, New York, New York 10022, and its telephone number at its executive offices is (212) 829-5536.

The Company's R&D and production activities are primarily carried out by EFL at its facility in Beit Shemesh, Israel. The Company has also a small battery research and development facility in Auburn, Alabama, near Auburn University. The facility builds and tests prototype cells and batteries.

BUSINESS STRATEGY

Consistent with the formation of its three divisions, the Company is focusing its efforts on commercializing its technology in three main areas: consumer batteries, electric vehicles and defense and safety products.

In its consumer battery division, the Company intends to manufacture zinc-air cells and assemble batteries for use in consumer electronic devices, although it may outsource part of this work. The Company plans to work with distributors and strategic partners on marketing, sales and distribution, in addition to direct sales via the Internet. Strategic partners for cell phone batteries may include cell phone manufacturers, battery producers and assemblers, cellular accessory distributors, cellular phone service providers and consumer goods distributors.

In its electric vehicle division, the Company's strategy is to market its Electric Fuel System for electric vehicles (the "Electric Fuel Electric Vehicle System") initially to large commercial and mass transit fleet operators. The Company believes that environmental concerns, and enacted and proposed legislation create significant incentives for fleet operators to use zero emission electric vehicles, and that the Electric Fuel Electric Vehicle System is particularly suitable to such fleet operations. Governmental action continues in the United States, and the Company believes this will create incentives for fleet operators (primarily bus and mass transit operators) to introduce electric vehicles into their fleets. In the Far East, proposed anti-pollution legislation affecting scooters creates a significant market for electric scooters. The Company intends to strengthen existing and to develop new networks of strategic alliances with fleet operators, companies engaged in energy production and transportation, automobile manufacturers and others in order to establish the infrastructure necessary for further development and commercialization of the Electric Fuel Electric Vehicle System.

For its safety products, the Company intends to continue to work with OEM's and distributors that specialize in this market. The Company is currently introducing a new water activated battery for use in marine life jackets which comply with recently enacted, more stringent International Maritime Organization and European Union regulations.

The Company expects that defense products will be developed for, and sold by, prime contractors or directly to military and defense agencies. The Company will continue to seek new applications for its technology in defense projects.

CONSUMER BATTERY DIVISION

The Consumer Battery division is pursuing the increasing market interest in a primary disposable battery as a substitute for the current lower performance, more expensive, rechargeable batteries. Applications include batteries for cellular telephones, camcorders, laptop computers and other portable consumer electronic devices.

To date, the Company has focused its development efforts on the cellular phone application. The Company believes that this is the most attractive entry for the Company's products, due to the fast growth in subscribers world-wide, and the need for a more convenient power source than a rechargeable battery offers. In January 1999, the Company introduced its products to the market at the Consumer Electronics Show (CES) in Las Vegas, NV. At the show, the Company also announced its first distributor agreement with Wireless Solutions Inc., a wholly-owned subsidiary of Tessco Technologies.

According to Herschel Shosteck and Associates, an independent research firm, at the end of 1997 there were over 200 million subscribers for cellular phones worldwide, with projected growth to almost 800 million users by the year 2003. The Company believes that a significant number of these users will purchase primary batteries for their cell phones as an accessory or as a back-up for their rechargeable batteries. Consumer acceptance of a primary battery for cell phones is expected to increase as more cell phone networks become digital, and cell phones' power requirements decrease. Based on a digital cellular network with a new generation lower power cell phone, Company tests have demonstrated that Electric Fuel batteries could provide up to 30 days of talk and standby time.

PRODUCTS

The Company is currently developing a series of primary, disposable, prismatic, zinc-air cells for use in battery packs for cell phones. The Company's standard cell size has a rated capacity of 2,900 mAh, and the "ultra" capacity cell has a rated capacity of 4,500 mAh. The Company expects to offer five battery models in 1999, which fit most of the popular phone models. This includes a standard battery and an ultra-capacity battery for the Motorola MicroTAC series; an auxiliary battery for the Motorola StarTAC series; standard batteries for the Ericsson 600 & 800 series, and a standard battery for the Nokia 5100 & 6100 series. The Company believes these batteries will offer competitive advantages in performance, convenience, price and safety.

MAJOR BENEFITS

Battery Performance - Up to 30 days talk & standby time

Electric Fuel Zinc-Air batteries deliver a unique combination of high-energy density and high power density which provides superior performance in cell phones. The Company believes it can achieve an improvement factor of 3-4 times versus comparable rechargeable batteries made for these products. In

lab tests, the Company has demonstrated an energy density which would translate into 30 days of standby time.

Convenience -- Freedom from charging

Electric Fuel Zinc-Air batteries are expected to provide the same kind of convenience for cellphones and notebook PCs that "AA" batteries provide to walkman-type cassette/CD players and pagers. A typical user should be able to use a digital cellular telephone for up to four weeks with a single battery. The Company's batteries are expected to be small, lightweight and available through multiple retail channels. With an expected two year shelf life, the Company's batteries can be kept in a briefcase, purse, desk drawer, etc. and always be fully charged and ready to use.

Price

The Company believes that the Electric Fuel Zinc-Air batteries, when produced in commercial quantities, could retail between $6.95 - $9.95 depending on the cell phone model and capacity of the battery.

Safety & Recycling

Zinc-air is a proven, safe battery chemistry. Disposable zinc-air batteries are used in pagers and hearing aids devices worn in direct contact with a person. Being a disposable battery, the Electric Fuel battery avoids the complications and hazards associated with recharging such as overcharge and over discharge. In the case of Li-Ion, overcharge and in some cases over discharge could lead to fire or explosion. Protecting against these hazards requires electronic circuitry and protective devices which take up valuable space within the battery pack. In the case of Nickel-Metal Hydride, overcharge can result in significant performance loss. Nickel-Cadmium suffers from "memory effect" which occurs if a battery is not fully discharged before recharging. All rechargeable chemistries suffer from some capacity loss with repetitive cycling. Disposable zinc-air has no capacity degradation; every battery is fresh and fully charged. The Electric Fuel Zinc Air batteries are designed to be fully recyclable.

DISTRIBUTION

The Company intends to be involved in the distribution of batteries to the consumer through distributors of cellular accessories, direct-mail catalogs and via the Internet. Batteries will be distributed via third party distributors who sell to retailers from mass merchants to regional and local supermarkets and convenience stores, and specialty retailers (such as airport shops). Cell phone batteries will also be bundled with new handsets sold by OEMs, in order to reach both new customers and current customers who are purchasing new equipment. The retail end of this channel has traditionally been resellers and specialty outlets. In addition, cellular equipment and service is increasingly becoming available at mass merchants.

At the end of 1998, the Company entered into a distribution agreement with Wireless Solutions Inc. a wholly-owned subsidiary of Tessco Technologies. The agreement requires Wireless Solutions to make an initial purchase offer for the second quarter of 1999 and to forecast purchases for the balance of 1999 and into the year 2000. The planned product launch with Wireless Solutions is scheduled to begin during May of 1999, targeted at their dealer base. Later in 1999, as the Company's production capacity increases, batteries will be offered to Wireless Solution's carrier customers as well. In January 1999, the Company received its first purchase order for delivery to Tessco beginning in the second quarter of 1999.

Following the CTIA Wireless show in February 1999, the Company received an initial purchase order from InTouch USA to sell batteries through their wireless rental business as well as over the Internet to be delivered during the second quarter of 1999.

Marketing for batteries, both primary and rechargeable, has evolved and expanded during the past year. Large alkaline battery companies are entering the mass channels of distribution with branded name rechargeable batteries for cell phones. As retailers begin selling these rechargeable batteries for cell phones, the Company believes there will be a similar opportunity to market a primary battery with performance characteristics like the Company's battery for cell phones in these outlets.

COMPETITION

The Company's batteries will compete with both rechargeable and primary battery packs. Competing rechargeable batteries include nickel-cadmium, nickel-metal-hydride and lithium-ion. Alkaline

batteries are making an initial appearance in the market for primary batteries for cellular phones. The companies offering these competing technologies have substantially greater resources than the Company, and have recognized brand names and established distribution channels. However, the Company believes its batteries will offer competitive advantages in performance, convenience, price, safety and recycling.

Alkaline batteries are a consumer branded product. Wireless communication devices such as cellular phones have not become a major application for alkaline batteries as the power requirements do not currently allow for a mass-market level alkaline product which is competitive with rechargeable batteries. Nevertheless, several companies are now offering an alkaline battery pack for cellphone users.

THE ELECTRIC VEHICLE DIVISION

The Electric Vehicle division focuses on fleet applications of the zinc-air battery system with its partners in the United States and Europe.

THE ELECTRIC FUEL ELECTRIC VEHICLE SYSTEM

The Electric Fuel zinc-air energy system consists of an in-vehicle, zinc-air battery composed of a series of zinc-anode cassettes; a battery exchange unit for fast vehicle turn-around; an automated battery refueling system for mechanically replacing, rather than electrically recharging, depleted fuel cassettes; and a regeneration system for recycling the depleted fuel cassettes. With its proprietary air cathode and zinc anode, the zinc-air battery delivers a combination of high-energy density and high power density, which together power electric vehicles with speed, acceleration, and range similar to conventional vehicles.

The Electric Fuel zinc-air battery system for powering electric vehicles offers certain advantages over other electric vehicle batteries which makes it ideal for fleet and mass transit operators. Fleet operators require a long operating range, large payload capacity, operating flexibility, all weather performance, fast vehicle turnaround, and competitive life-cycle costs. Electric Fuel powered full-size vehicles, capable of long-range, high-speed travel, fill the needs of the transit operators, in all weather conditions, with cost effective fast refueling. An all-electric, full-size bus, powered by the Electric Fuel system can provide transit authorities a full day's range for both heavy duty city and suburban routes in all weather conditions.

In field trials with major European entities, the Company has demonstrated the commercial viability of the battery system by regularly driving 300 to 400 km in actual drive cycles. In 1996, a Mercedes-Benz MB410 van powered by the Electric Fuel zinc-air battery crossed the Alps and traveled from Chambray, France over the Moncenisio Pass and continued to the Edison zinc-air regeneration plant in Turin, Italy. The 152 mile (244 km) drive included a 93 mile (150 km) continuous climb over mountainous terrain in which the vehicle climbed over 4,950 feet (1,500 meters) to reach the summit at 6,874 feet (2,083 meters), using only 65% of the battery's capacity. In November 1997, an electric Mercedes-Benz MB410 van was driven from central London to Central Paris on a single charge -- a distance of 272 miles (439 km), not including the transport through the English Channel Tunnel.

MAJOR PROGRAMS

The Company has formed several strategic partnerships and is engaged in demonstration programs in various locations with respect to the Electric Fuel Electric Vehicle System.

ITALY - EDISON

In May 1993, the Company entered into an exclusive license agreement with Edison SpA ("Edison"), Italy's leading private operator in the field of electric energy production. Pursuant to this license, which terminates in 2008, Edison is authorized to manufacture, use and sell Electric Fuel Vehicle batteries, Refueling Systems, Regeneration Systems and related services based on the Company's technology in Italy, France, Spain and Portugal.

Edison is conducting marketing activities with electric vehicles powered by the Electric Fuel battery system. Edison has built, and is operating, a demonstration regeneration facility in Trofarrelo, near Turin, Italy.

An Edison Fiat Ducato van powered by the Electric Fuel System has been in service at the Polyclinic hospital in Milan. The van was used to distribute cargo from the hospital's central pharmacy. Based on the success of the test program, Edison plans to add 10 new vehicles that will be used in Turin, Italy to carry both passengers and cargo powered by Electric Fuel electric vehicle batteries. The Company would provide the batteries. In order to meet the demands of the additional vehicles, the existing zinc-air regeneration facility will be tripled in operating capacity. Design plans for the expansion are already underway and the fleet is projected to be in place with all vehicles operating by fall of 1999. The demonstration program is projected to receive financial support by the Italian Research Ministry.

THE DOT-FTA ZINC-AIR ALL ELECTRIC TRANSIT BUS PROGRAM

A consortium of the Company, the Center for Sustainable Technology, L.L.C. (CST), and the Regional Transportation Commission of Clark County Nevada received in November 1998 approval for $2 million in federal funding for a cost-shared $4 million Zinc-Air Electric Transit Bus Program. The Department of Transportation funding is allocated from the Federal Transit Administration R&D 1998 budget.

The Zinc-Air Electric Transit Bus Program, which includes General Electric Company and Nova Bus Corporation as project partners, will seek to demonstrate the ability of the Electric Fuel battery system to power a full size, all electric transit bus, providing a full day's range for heavy duty city and suburban routes, under all weather conditions.

The bus prototype called for under the program is a standard 40-foot transit bus manufactured by Nova with the capacity of 40 seated and 37 standing passengers and a gross vehicle weight of 39,500 lbs. General Electric will provide the power train, including the traction motor, controllers, AC/DC inverters, hardware and software interfaces. The program requires Electric Fuel to provide a 320kWh zinc-air battery to be integrated into the bus with the assistance of GE and Nova. Other project partners include the Community College of Southern Nevada and the Desert Research Institute.

The program provides that the bus will utilize the new all-electric, battery/battery hybrid propulsion system being jointly developed by Electric Fuel and General Electric with funding from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation. The all-electric hybrid system consists of a main power source, an Electric Fuel zinc-air battery, and an auxiliary battery. The vehicle draws cruising energy from the zinc-air battery, and supplementary power for acceleration, merging into traffic and hill climbing from the auxiliary battery.

Transit buses require a large energy storage battery to power the vehicle while attending to passenger needs such as air-conditioning, handicapped access, etc. The test program is designed to prove that an all-electric bus can meet these and all other Los Angeles and New York Municipal Transit Authority mass transit requirements including performance, speed, acceleration, and hill climbing.

Diesel engine transit buses operate in large urban areas where congestion is a fact of life and traffic is largely stop-and-go. As a result, they are the leading contributor to inner city toxic emissions, and are a major factor for those U.S. cities that have been designated as in "non-attainment" with respect to air quality standards.

Mass transit is an especially appropriate application of the zinc-air technology because transit buses must operate for up to 12 hours a day on a single battery charge. Electric buses represent a major market for electric vehicles in the United States.

Under the 18-month project, the Community College of Southern Nevada will operate and maintain the zinc-air bus as part of its automotive technology and alternative fuels curriculum. The program also includes partnering with other appropriate public and private organizations as well as plans to develop a regeneration facility to support additional on-road vehicle demonstrations.

The Center for Sustainable Technology develops and commercializes emerging technologies in renewable energy, energy management, the environment and transportation and was founded by the Electric Power Research Institute and Bechtel National, Inc.

ALL-ELECTRIC HYBRID PROPULSION SYSTEM FOR TRANSIT BUSES AND HEAVY DUTY VEHICLES - THE BIRD PROGRAM

The Company and General Electric Company are jointly developing an all-electric, battery/battery hybrid propulsion system for powering electric buses and heavy duty trucks. The first

application for the system will be an all electric, zero emission, full size transit bus, in a program funded by the Federal Transit Administration of the US Department of Transportation.

In July 1998 the two companies were awarded funding from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation for the joint development of the electric propulsion system.

Weighing approximately 20 tons with a passenger capacity of 90, the all electric transit bus is expected to be capable of running a full 8-10 hour shift without recharging. The program requires the bus to meet all power and performance levels required by U.S. transportation authority standards, including the operation of energy consuming accessories such as air-conditioning and handicap lifts.

The hybrid system consists of a main power source, an Electric Fuel zinc-air battery, and an auxiliary battery. The vehicle draws cruising energy from the zinc-air battery, and supplementary power for acceleration, merging into traffic and hill climbing from the auxiliary battery. When stopping or slowing down, the bus retarding system is designed to act as an energy-generator recharging the auxiliary battery.

The new propulsion system will incorporate a General Electric drive system with GE's energy management systems, adapted specifically for this application.

The unique zero-emission electric hybrid system is expected to offer significant economic advantages over other alternative-fuel solutions, by greatly lowering vehicle maintenance cost with reduced brake wear-and-tear and virtually eliminating engine/transmission maintenance. The bus's driving range is also expected to be expanded by up to 25%, enhancing energy efficiency and further reducing operating costs.

VATTENFALL (SWEDEN)

In April 1997, the Company completed a Rights Agreement with Vattenfall, the largest electric utility in Sweden, under which Vattenfall exercised its right for a license to establish and operate the Electric Fuel infrastructure for the territory of Sweden, Denmark, Norway, Finland and St. Petersburg, Russia. The Rights Agreement covers the main elements of the license agreement and the future development of the Electric Fuel Electric Vehicle System in the Scandinavian market. Execution of the definitive license agreement will be decided upon by Vattenfall by December, 2000.

KEMA (THE NETHERLANDS)

Electric Fuel is working on a program for the Province of Gelderland, the largest province in the Netherlands, to utilize the Electric Fuel Electric Vehicle System in passenger "train-taxis". The program is managed by KEMA, an international consulting and management organization, and the electric utility NUON. A Mercedes-Benz Vito passenger van has been equipped with Electric Fuel batteries and was demonstrated in Holland in 1998. Kema, Nuon and the Company are in discussions regarding various cooperation programs.

DEUTSCHE POST

In a field test managed by the German postal service, the Electric Fuel Electric Vehicle System was tested by Deutsche Post in vehicles powered by the Electric Fuel battery (the "Field Test"). The Field Test, which was successfully completed in May 1998, was managed by Deutsche Post to conduct a representative operating test of the Electric Fuel Electric Vehicle System. Initiated in Bremen, Germany, in 1996, the Field Test involved the use of postal vans powered by the Electric Fuel zinc-air battery system and the establishment of the infrastructure for regenerating the batteries. Deutsche Post has stated that it is interested in adopting emission-free vehicles once such technology is available in large-scale production.

COMPETITION

The Company believes that its products must be available at a price that is competitive with alternative technologies, particularly those intended for use in zero or low-emission vehicles. Besides other battery technologies, these include "hybrid systems", which combine internal combustion engine, diesel engine, battery technologies, use of hydrogen, and regular or low pollution fuels such as gasoline, diesel, compressed natural gas, liquefied natural gas, ethanol and methanol. Other alternative technologies presently use costly components, including use of fuel cells, supercapacitors, flywheels and catalytic removal of pollutants. These various technologies are at differing stages of development and any one of

them, or a new technology, may prove to be more cost effective, or otherwise more readily acceptable by consumers, than the Electric Fuel Electric Vehicle System. In addition, the California Air Resource Board has expressed concerns to the Company about the infrastructure requirements of the Electric Fuel Electric Vehicle System as compared to battery technologies which use electrical recharging.

The competition to develop electric vehicle battery systems and to obtain funding for the development of electric vehicle battery systems is, and is expected to remain, intense. The Company's technology competes with other battery technologies as well as with different zinc-air batteries and with advanced vehicle propulsion systems. The competition consists of development stage companies as well as major international companies, and consortia including such companies, including automobile manufacturers, battery manufacturers, and energy production and transportation companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company.

There are many entities, including governmental, quasi-governmental, non-profit and private organizations, involved in advancing research and development of electric vehicle and low emission vehicle technologies.

The Company believes that competing zinc-air battery technologies are at a much earlier stage of development, not just in terms of size and number of cells, modules and demonstrations in electric vehicles, but also in terms of the scale of development effort.

The Company believes that the Electric Fuel Electric Vehicle System exhibits a combination of performance characteristics superior to those of other electric vehicle battery technologies that are currently commercially available or, to the Company's knowledge, currently under development.

An area of increased development has been that of fuel cell powered vehicles, spearheaded by the Ballard Corp.'s solid polymer electrolyte hydrogen-air fuel cell program. Significant investments in this technology have been made by major automobile companies.

Progress achieved by rival electric vehicle systems may have an adverse effect on acceptance of the Company's electric vehicle battery technology.

MARKETING

The Company plans to seek to expand its existing strategic alliances in Europe, the United States and in the Far East, benefiting from experience gained in connection with the DOT/FTA and its alliances with the GE, Nova, Edison, Vattenfall and KEMA. The Company also intends to seek support of government agencies, electric utilities and zinc manufacturers.

DEFENSE AND SAFETY DIVISION

The Defense and Safety Products Division is continuing to expand the development of other advanced uses of the battery technology, including an advanced portable zinc-air battery for the US Army. This division also oversees the Company's water-activated lifejacket lights for commercial aviation and marine applications, and will pursue further development of the safety products business.

DEFENSE

In recent years, the Company has undertaken a number of funded, defense-related research and development projects related to its zinc-air battery technology. These projects, in the Company's opinion, can expand its future product line and revenue base, while allowing it to exploit the technology synergies between these development projects and the Company's other zinc-air battery development programs.

MAJOR PROJECT - CECOM

In December 1997, the Company was awarded a contract from the US Army's Communications-Electronics Command (CECOM) to develop an advanced primary zinc-air battery. The original $398,000 contract was to run from January 1, 1998 through June 30, 1999. The contract has since been extended through September 30, 1999, and total funding has been increased to approximately $487,000.

Under the terms of the modified contract, the Company is to deliver a total of 30 prototype battery packs of at least 400 watt-hours each. CECOM has set 400 watt-hours per kilogram as the desired specific

energy content of the prototype batteries to be delivered under the contract. Electric Fuel was one of three companies selected to perform the development work, along with Rayovac Corp. and Eagle Picher Industries, Inc.

The battery is to be developed for portable forward field chargers, and is later to be adapted for other field applications such as backpack (wearable) and man-portable power sources and chargers.

The primary zinc-air battery cell under development for the Army is similar to the cell being developed by the Company for consumer battery applications, and therefore the Company intends to pursue additional military contracts for primary zinc-air battery development.

MARKETING

With shrinking defense budgets in most Western countries, less funds are being made available for research and development. The defense establishment in many countries, including the US, is looking to adopt so-called dual-use technologies, i.e., technologies that are produced for commercial markets and that can be adapted to military specifications with a minimum of expenditure. The Electric Fuel zinc-air technology fits this latter requirement, as the batteries being developed for military applications are based on the batteries that Electric Fuel has developed and continues to develop for the electric vehicle and consumer battery markets.

Because the Electric Fuel technology appears capable of achieving energy and power densities in combinations heretofore unachieved by other battery technologies, it appears that there may be a sustainable market in military applications for the Company's products following the development stages. The Company's chances of success in the military markets would be adversely affected should alternative battery technologies prove capable of achieving similar performance levels.

COMPETITION

The Company's primary zinc-air battery competes with both primary and secondary batteries for portable military applications.

Other primary batteries available to the military market include zinc-manganese dioxide (i.e., the same as commercial alkaline batteries), lithium-sulfur dioxide, lithium-thionyl (or sulfuryl) chloride, and lithium-manganese dioxide, as well as zinc-air. The lithium batteries are inherently more hazardous than the zinc batteries. Greater disposal problems are presented by the lithium batteries than for zinc batteries. Lithium batteries are also more costly.

All of the lithium technologies have higher energy densities than the zinc-manganese dioxide (which can reach about 125 Wh/kg). However, both lithium-sulfur dioxide and lithium-manganese dioxide have energy densities in the range of 240 - 270 Wh/kg, while the Company's zinc-air is projected to attain 400 Wh/kg in the project funded by US Army CECOM. Lithium sulfuryl chloride can reach as high as 450 Wh/kg, but is suitable only for low rate discharge and cannot provide the continuous power densities demanded by the military for applications such as the CECOM forward field charger.

Primary zinc-air development contracts have also been awarded by US Army CECOM to two other battery manufacturers. Successful development of primary zinc-air cells by either of the other companies could adversely affect the Company's ability to market its product in military markets.

Zinc anodes for zinc-silver oxide batteries are produced by numerous manufacturers using conventional zinc electrowinning techniques. The Company's anodes are produced using its patented electrowinning process. The Company's anodes have been shown in zinc-silver oxide cell stack discharge tests to provide superior power and energy densities than competitors' anodes.

SAFETY PRODUCTS

In 1996, the Company began to produce and market products for the aviation and marine safety and emergency markets.

PRODUCTS

At present the Company has a product line consisting of four lifejacket light models, each one approved by one or more regulatory agencies under various safety regulations.

For the aviation market, the model WAB-H12 Survivor Locator Light (SLL) is a battery-powered light used to locate survivors of airplane accidents in the water. The battery itself is activated by immersion in water, and therefore is called a water-activated battery. The SLL is typically attached to life vests, life rafts, and similar flotation devices by the manufacturers of the flotation devices, who are the Company's primary customers for the product.

The WAB-H12 SLL consists of a magnesium-cuprous chloride battery attached to a light assembly that includes a mini-bulb inside a plastic focusing lens. The battery is activated by either sea water or fresh water, and lasts for more than 8 hours.

The Company manufactures, assembles and packages the SLL in its factory in Beit Shemesh, Israel. The Company also manufactures a marine version of the WAB-H12 light with US Coast Guard (USCG) approval.

Having received regulatory certification of a new aviation light, the Model WAB-H18, in early 1999, the Company intends to initiate production of this new model during 1999. The WAB-H18 light is similar in form and function to the WAB-H12, but is lighter in weight.

At the end of 1998 the Company received certification of a new product for the marine market, where new certification requirements took effect (See Certification). This new product, designated the model WAB-MX8 lifejacket light, utilizes two batteries of a type similar to that used in the WAB-H12 light, and uses a high efficiency bulb enclosed in a non-focusing dome-type lens intended to maximize light intensity throughout the upper hemisphere of the light sub-assembly, as dictated by the new marine certification requirements. The Company has begun manufacturing the WAB-MX8 lifejacket light in the first quarter of 1999.

The Company expects to continue to develop additional products for the marine safety market, including products based on the Company's water-activated battery technology, as well as products based on conventional, commercially available batteries.

CERTIFICATION

The Company's Model WAB-H12 Survivor Locator Light received certification by the US Federal Aviation Administration (FAA) under Technical Specification Order (TSO) C-85a and Aeronautical Product Approval (APA) C-85 certification from the CAAI in 1996, following TSO Design Approval by the FAA, and this approval is given without time limit. The Company's Model WAB-H18 Survivor Locator Light received TSO C-85a approval in early 1999. The Company is obligated to manufacture both lights with a quality assurance system approved by

CAAI, and approval of the Company's Quality Assurance system for lifejacket lights was also granted in 1996. Each shipment of TSO-certified lights must be accompanied by a CAAI-issued Certificate of Airworthiness, and this means that every shipment from the Company is preceded by an inspection visit from the CAAI Airworthiness Division.

For use in the marine market, approval by bodies such as the US Coast Guard are required. The Company received approval from the USCG in 1997 for the WAB-H12 light. However, in 1996 new SOLAS (Safety at Life at Sea) Convention regulations were approved, calling for a change in the functional requirements. As a result, the Company's SOLAS approval for the WAB-H12 light expired on June 30, 1998, while the USCG approval for lakes and inland waterways extends to 2002.

The Company received SOLAS approval for a new lifejacket product, the model WAB-MX8 lifejacket light, in 1998. The Company manufactures the WAB-MX8 light in its Beit Shemesh factory, under the auspices of its CAAI-approved Quality Assurance system.

Starting January 1, 1999, marine safety equipment sold in European Union (EU) states is required under Council Directive 96/98/EC, known as the Marine Equipment Directive (MED), to bear the Ship's Wheel Mark as an indication of certification by a notified body as adhering to the requirements of the MED. The Ship's Wheel Mark, which is the equivalent of the "CE" mark for marine equipment, allows companies to sell products throughout European Union member states without having to gain individual approval from each state. The Company's Model WAB-MX8 light was approved to carry the Ship's Wheel Mark by Lloyd's Register, a notified body, early in 1999.

MARKETING

The annual market for lifejacket lights is estimated at as many as 3 million units worldwide, of which about 50% is in Europe and another 33% in the United States. Less than 20% of the sales are in the aviation market, and the other 80% in the marine market. Recent economic developments in the Asian markets have led to a flattening or slight reduction in the aviation market over the last year, and this is anticipated to continue for at least another year. The marine market has seen tremendous growth over the last year, in part because of new IMO SOLAS regulations expanding the categories of ships and ferries that are required to carry lifejacket lights, and in part because of the EU's adoption of IMO SOLAS regulations as EU directives. In addition, the average wholesale selling price of a marine lifejacket light has grown by more than 50% following the adoption of the 1998 SOLAS specification, which generally requires larger and more powerful batteries and more efficient lamps than the previous requirements.

The marine safety market is characterized by several differentiable channels: lifejacket manufacturers, shipping companies, chandlers/distributors, and distributors to the retail market. There are over 200 manufacturers of lifejackets for the marine market, and many companies active in the other distribution channels. The Company markets its lights to the commercial aviation industry in the United States exclusively through The Burkett Company (TBC) of Houston, Texas, which receives a commission on sales.

The Company intends to establish its own network of distributors in Europe, South America and elsewhere in Asia and Africa, using a marketing and sales organization based in the Company's Beit Shemesh facility in Israel. The Company intends to use TBC as a non-exclusive distributor in the marine market in North America, the Commonwealth of Independent States (CIS, i.e., the former USSR) and Japan.

COMPETITION

The two largest manufacturers of aviation and marine safety products, including TSO and SOLAS-approved lifejacket lights, are ACR Electronics Inc. of Hollywood Florida, and McMurdo Ltd. of England.

ACR offers a wide range of water-activated and manually activated safety products, mostly for the marine market, including lights, strobes, transponders and beacons. ACR uses a water-activated magnesium-cuprous iodide battery for its TSO and USCG-approved lifejacket lights, and a primary $LiSO_2$ battery product to meet the new SOLAS regulations.

McMurdo also makes a range of water-activated and manually activated lifejacket and liferaft lights and related products for the marine market, and its parent company (and exclusive distributor) Pains Wessex Ltd. of England manufactures other marine safety products such as emergency pyrotechnic devices. McMurdo uses water-activated magnesium-silver chloride batteries in its TSO lights, and offers both water-activated and $LiSO_2$ based lights for the marine market. McMurdo has several primary $LiSO_2$ battery based products meeting the new SOLAS regulations.

Other significant competitors in the marine market include Daniamant Aps of Denmark, and EJE Translite of Canada, both of whom use primary lithium batteries in their SOLAS-approved products.

REGULATORY AND ENVIRONMENTAL MATTERS

The Company believes that its zinc-air batteries as currently produced are in compliance with applicable Israeli, European, and United States federal, state and local standards that govern the manufacture, storage, use and transport of the various chemicals used, and waste materials produced, in the manufacture and use of the Company's zinc-air battery, including zinc and potassium hydroxide. The Company has obtained the necessary permits under the Israeli Dangerous Substances Law, 1993, required for the use of zinc metal, potassium hydroxide and certain other substances in its facilities in Israel.

The presence of potassium hydroxide as an electrolyte in the Company's electric vehicle batteries may subject its disposal to regulation under some circumstances. This electrolyte is the same as the electrolyte used in primary alkaline batteries and rechargeable nickel-cadmium and nickel-metal hydride batteries. The Company's electric vehicle battery technology uses relatively small amounts of spillable potassium hydroxide. The United States Department of Transportation regulates the transport of potassium hydroxide, and it is likely that any over-the-road transport of Electric Fuel in the United States will require manifesting and placarding.

The EPA, the Occupational Safety and Health Administration and other federal, state and local governmental agencies would have jurisdiction over operations of Company production facilities were they to be located in the United States. Based upon risks associated with potassium hydroxide, government agencies may impose additional restrictions on the manufacture, transport, handling, use, and sale of the Company's products.

The Company's zinc-air disposable battery for cellular phones is similar to commercial zinc-air button cells. Accordingly, the Company's cellular phone battery, like those products, is not expected to be regulated as to transport and is expected to be exempt from dangerous goods regulations. Furthermore, consistent with state-of-the-art zinc alkaline cells which must be mercury and cadmium free (required for disposal purposes), the Company's product is also completely free of toxic mercury and cadmium additives.

PATENTS AND TRADE SECRETS

The Company relies on certain proprietary technology and seeks to protect its interests through a combination of patents, know-how, trade secrets and security measures, including confidentiality agreements. The Company's policy generally is to secure protection for significant innovations to the fullest extent practicable. Further, the Company continuously seeks to expand and improve the technological base and individual features of its batteries through ongoing research and development programs.

The Company has been filing patents on its zinc-air battery system for electric vehicles since 1990. These applications have resulted in 32 unexpired US patents, and 9 corresponding European patents. These patents cover various aspects of the Electric Fuel System technology, including the overall system, the zinc anode, including its physical and mechanical attributes, the construction of the air cathode, cell structure and arrangements, connectors, the automatic refueling system, zinc regeneration, and safety features.

The Company also holds two unexpired US patents covering its high-power zinc-oxygen battery for torpedoes, two more covering the use of Electric Fuel's zinc in other alkaline batteries, and one covering the Company's water-activated magnesium-cuprous chloride batteries.

In early 1998, building on the development work that began at EFL in late 1996 on smaller zinc-air cells for consumer batteries, EFL began filing new patent applications specifically covering its consumer batteries. To date, 13 such applications have been filed, and the Company expects to file an additional 12-15 applications in 1999. The consumer battery patent applications cover all aspects of the cell and battery pack, including cell components and design, pack components and design, and air access management.

In addition to patent protection, the Company relies on the laws of unfair competition and trade secrets to protect its proprietary rights. The Company attempts to protect its trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and other security measures. Although the Company intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

RESEARCH AND DEVELOPMENT

During the years ended December 31, 1996, 1997, and 1998, the Company's gross research and product development expenditures, including costs of revenues, of prototype batteries and components of the Electric Fuel System, were $13.1 million, $12.2 million and $10.0 million respectively. During these periods, the Office of the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist") participated in research and development efforts of the Company thereby reducing the Company's gross research and product development expenditures in the amounts of $1.5 million, $2.4 million and $447,000, respectively. During 1998 the Israel-US Binational Industrial Research and Development Foundation ("BIRD") also began participating in the research and development efforts of the Company by sponsoring a joint project to develop a hybrid propulsion system for transit buses with General Electric Corporate Research and Development. The project began towards the end of 1998 and consequently only $43,000 of grants were recognized in 1998.

Under the terms of the grants from the Chief Scientist and current Chief Scientist regulations, the Company is obligated to pay royalties at the rate of 3% of the sales of products developed from projects funded by the Chief Scientist for the first three years of sales, increasing thereafter, up to 5%.

The Company currently pays royalties at the rate of 3% of Electric Vehicle revenues. The obligation to make

such royalty payments ends when 100% of the amount granted (in NIS linked to the dollar) is repaid. The Government of Israel does not own proprietary rights in the technology developed using its funding, but certain restrictions with respect to the technology apply, including the obligation to obtain the Israeli Government's consent to manufacture the product based on such technology outside of Israel or for the transfer of the technology to a third party, which consent may be conditioned upon an increase in royalty rates or in the amount to be repaid. Current regulations require, that in the case of the approved transfer of manufacturing rights out of Israel, the maximum amount to be repaid through royalty payments will be increased to 120% to 300% of the amount granted, depending on the extent of the manufacturing to be conducted outside of Israel, and that an increased royalty rate will be applied.

Under the terms of the grants from BIRD the Company is obligated to pay royalties at the rate of 2 1/2% of the first year's gross sales, and, in succeeding years, at the rate of 5% of Gross Sales until 100% of the Grant has been repaid, whereupon the repayment rate shall decrease to 2 1/2 % of the Gross Sales. The total amount to be repaid reaches a maximum of 150% of the grant if it takes five years or longer for the grant to be repaid. Should any portion of the technology developed be sold outright to a third party, one-half of all proceeds of the sale shall be applied as received on account of royalties. The repayment obligation is in U.S. dollars linked in value to the U.S. Consumer Price Index.

EMPLOYEES

As of February 9, 1999, the Company had in its Israeli subsidiary 107 full-time employees, of whom 10 hold doctoral degrees and 42 hold other advanced degrees. Of the total, 40 employees were engaged in product research and development, 46 were engaged in production and operations, and the remainder in general and administrative functions. The Company also had 3 employees at its Auburn, Alabama research facility. The Company's success will depend in large part on its ability to attract and retain skilled and experienced employees.

The employees and the Company are not parties to any collective bargaining agreements. However, as substantially all of the Company's employees are located in Israel and employed by EFL, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Manufacturers' Association of Israel) are applicable to EFL's employees by order (the "Extension Order") of the Israeli Ministry of Labor and Welfare. These provisions principally concern the length of the work day and the work week, minimum wages for workers, contributions to a pension fund, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment, including certain automatic salary adjustments based on changes in the Israeli CPI.

Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. EFL currently funds its ongoing severance obligations by making monthly payments to approved severance funds or insurance policies. In addition, Israeli employees and employers are required to pay specified sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute are approximately 14.6% of wages (up to a specified amount), of which the employee contributes approximately 66% and the employer contributes approximately 34.0%. The majority of the permanent employees of EFL are covered by "managers insurance," which provides life and pension insurance coverage with customary benefits to employees, including retirement and severance benefits. The Company contributes 14.33% to 15.83% (depending on the employee) of base wages to such plans and the permanent employees contribute 5% of base wages.

In 1993, an Israeli court held that companies that are subject to the Extension Order are required to make pension contributions exclusively through contributions to Mivtachim Social Institute of Employees Ltd. ("Mivtachim"), a pension fund managed by the Histadrut. The Company subsequently reached an agreement with Mivtachim with respect to providing coverage to certain production employees and bringing it into conformity with the court decision. The agreement does not materially increase the Company's pension costs or otherwise materially adversely affect its operations. Mivtachim has agreed not to assert any claim against EFL with respect to any past practices of EFL relating to this matter. Although the arrangement does not bind employees with respect to instituting claims relating to any nonconformity by EFL, the Company believes that the likelihood of the assertion of claims by employees is low and that any potential claims by employees against EFL, if successful, would not result in any material liability to the Company.

ITEM 2. PROPERTIES

EFC's corporate headquarters are located in New York, New York and leased on a month-to-month basis. The Auburn, Alabama research facility, constituting approximately 2,000 square feet, is leased on an annual basis. The Company's administrative facilities, constituting approximately 7,500 square feet, are located in Jerusalem, Israel and held under a lease agreement expiring in March 2000. The Company's research ,development and production facilities for the manufacture and assembly of Electric Fuel batteries, related Electric Fuel System components, and Survivor Locator Lights, constituting approximately 34,000 square feet, are located in Beit Shemesh, near Jerusalem, Israel. The original lease expired on December 31, 1997. The Company extended the lease for a period of ten years with the ability to terminate the lease every two years beginning December 31, 1999 upon three months written notice. Moreover, the Company may terminate the lease at any time upon 12 months written notice. In addition, during 1996, the Company leased in Beit Shemesh, additional space of approximately 16,000 square feet. The lease agreement expires on March 19, 1999, and the Company is presently negotiating an extension of the terms of the lease. The Company intends to transfer the production facilities currently located in Beit Shemesh to a new facility in Jerusalem, once it is constructed as more fully described below.

The Company's wholly owned subsidiary, Electric Fuel GmbH ("EFGmbH"), has leased a facility located in Bremen, Germany from Stadtwerke Bremen AG within which it established a regeneration plant to operate vehicles for the Deutsche Post Field Test. With the completion of the Field Test, EFGmbH is in the process of closing the facility and terminating the lease, which it expects to do by April, 1999. EFGmbH is presently leasing office space on a quarterly basis.

The aggregate rental payments under the only long term lease (Jerusalem facility), at rates in effect at December 31, 1998, are approximately $124,000 and $31,000 in the years ended December 31, 1999 and 2000 respectively. The rental payments in Israel are payable in Israeli currency linked to the Israeli Consumer Price Index.

The Company has been looking for additional land to construct larger premises near its Jerusalem facilities. In January 1999, the Company received a letter from the Israel Ministry of Industry and Trade authorizing the allocation to the Company of approximately 5.9 dunam (approximately 1.5 acres) with rights to construct facilities of up to approximately 95,000 square feet in Jerusalem, near its existing facilities. The Company has paid the Jerusalem Land Development Authority approximately $171,000 in development fees related to this site to complete its obligations in this regard. The Company has yet to enter into a formal lease agreement for the site with the Israel Land Authority at which time a capitalized lease fee will be due in the approximate amount of $1.2 million. If an agreement is not reached, the development fees will be returned to the Company.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Since February, 1994, the Company's Common Stock has been traded under the symbol EFCX in The Nasdaq National Market. The following table sets forth, for the periods indicated, the range of high and low closing prices of the Company's Common Stock in the Nasdaq National Market System.

<TABLE>
<CAPTION>

	HIGH	LOW
1997		
<S>	<C>	
First Quarter	$ 7.63	$4.75
Second Quarter	7.75	5.31
Third Quarter	10.25	6.13
Fourth Quarter	9.06	3.25
1998		
First Quarter	$ 4.38	$2.38
Second Quarter	5.94	2.44
Third Quarter	5.41	2.88
Fourth Quarter	3.59	2.50

</TABLE>

As of February 9, 1999 the Company had approximately 216 holders of record of its Common Stock.

The Company has never paid any cash dividends on its Common Stock. The Board of Directors presently intends to retain all earnings for use in the Company's business. Any future determination as to payment of dividends will depend upon the financial condition and results of operations of the Company and such other factors as are deemed relevant by the Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below with respect to the statements of income (loss) for each of the five fiscal years in the period ended December 31, 1998, and with respect to the balance sheets at the end of each such fiscal year has been derived from the financial statements of the Company, which have been audited by Kesselman & Kesselman, independent certified public accountants in Israel, and a member firm of PriceWaterhouseCoopers International Limited. The financial information set forth below is qualified by and should be read in conjunction with the Financial Statements contained in Item 8 of this Report and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 of this Report."

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997	1998
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 4,873	$ 4,372	$ 5,405	$ 4,526	$ 4,013
Research and development expenses and costs of revenues	4,770	14,379	13,068	12,228	10,056
Less: royalty-bearing grants	(699)	(1,561)	(1,506)	(2,382)	(490)
----	4,071	12,818	11,562	9,846	9,566
Provision for anticipated program losses	1,500	2,600	--	--	--
Selling, general and administrative expenses	3,365	2,752	4,693	4,440	3,675
Operating (loss)	$(4,063)	$(13,798)	$(10,850)	$(9,760)	(9,228)
Financial income	583	664	794	775	652
(Loss) before taxes on income	$(3,480)	$(13,134)	$(10,056)	$(8,985)	$(8,576)
Taxes on income	20	35	(38)	144	(43)
(Loss) from the operations of the Company and its subsidiaries	$(3,500)	$(13,169)	$(10,018)	$(9,129)	$(8,533)
Share in loss of investee Company	61	52	--	--	--
Net (loss)	(3,561)	(13,221)	(10,018)	(9,129)	(8,533)
(Loss) per share	$ (0.43)	$ (1.86)	$ (0.91)	$ (0.73)	$ (0.61)
Weighted average number of common shares outstanding (in thousands)	8,319	7,104	10,962	12,502	14,013

<CAPTION>

	AS AT DECEMBER 31				
	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Cash, cash equivalents and investments in marketable debt securities	$18,222	$ 9,580	$23,959	$16,717	$ 8,943
Receivables and other assets	2,528	4,135	3,259	3,101	2,287
Fixed assets, net of depreciation	1,989	5,986	7,304	4,754	3,435
Total Assets	$22,739	$19,701	$34,522	$24,572	$14,665
Liabilities	$3,736	$13,880	$ 6,652	$ 5,813	$ 4,084
Long term debt	0	0	0	0	0
Stockholders' equity	19,003	5,821	27,870	18,759	10,581
Total liabilities and stockholders equity	$22,739	$19,701	$34,522	$24,572	$14,665

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Financial Statements contained in Item 8 of this report, and the notes thereto. Amounts reported here have been rounded to the nearest thousand, unless such amounts are more than 1.0 million, in which event such amounts have been rounded to the nearest hundred thousand.

GENERAL

From its inception, the Company has been engaged principally in the research, design, development and commercialization of an innovative, advanced zinc-air battery. Until the end of 1997, the main application for the Company's technology has been a system for powering zero emission electric vehicles. The Electric Fuel Electric Vehicle System consists of a refuelable zinc-air battery comprised of a series of cells with removable zinc-anode cassettes, a battery exchange system, a battery refueling system for refueling the depleted fuel cassettes, and a regeneration system for recycling the depleted cassettes.

In part, because the market for electric vehicles had not demonstrated previously anticipated levels of growth, in the latter part of 1997 the Company began a strategic shift to expand its research and development activities into additional applications for its zinc-air battery technology. In January 1998, the Company announced the creation of three market-related divisions to expand its zinc-air battery technology for wider applications. The three divisions are Electric Vehicle, Consumer Batteries, and Defense and Safety Products.

In addition to its electric vehicle application, the Company is focusing efforts in developing and commercializing its battery technology for consumer electronics, defense and safety applications. The Company is developing an advanced portable zinc-air battery for the US Army's Communications-Electronics Command (CECOM), has developed and is selling a signal light powered by water activated batteries for use in life jackets and other rescue apparatus (the "Survivor Locator Light"), and is developing and commercializing a primary battery for cellular telephones. Currently the Company is only selling several models of the Survivor Locator Light but expects to generate sales of primary batteries for cellular telephones during 1999.

The Company has experienced significant fluctuations in the sources and amounts of its revenues and expenses, and the Company believes that the following comparisons of results of operations for the periods presented do not provide a meaningful indication of the development of the Company. During these periods, the Company has received periodic lump-sum payments relating to licensing and other revenues from its strategic partners, which have been based on the achievement of certain milestones, rather than ratably over time. The Company's expenses have been based upon meeting the contractual requirements under its agreements with various strategic partners and, therefore, have also varied according to the timing of activities, such as the need to provide prototype products and to establish and engineer refueling and regeneration facilities. The Company's research and development expenses have been offset, to a limited extent, by the periodic receipt of research grants from the Chief Scientist. The Company expects that, because of these and other factors, including general economic conditions and delays due to legislation and regulatory and other processes and the development of competing technologies, future results of operations may not be meaningfully compared with those of current and prior periods. Thus, the Company believes that period-to-period comparisons of its past results of operations should not be relied upon as indications of future performance.

The Company incurred significant operating losses for the years ended December 31, 1998, 1997 and 1996, and expects to continue to incur significant operating losses during 1999 at approximately the same levels. These losses may increase and be incurred over a longer period of time as the Company expands its research and development activities and establishes production and facilities, and such losses may fluctuate from quarter to quarter. However, when its products are successfully commercialized, the Company expects to derive revenues from the sale of batteries for portable electronic devices, components of the Electric Fuel Electric Vehicle System, including refueling and Electric Fuel services, defense and safety products manufactured by the Company, as well as from licensing rights to the Electric Fuel technology to third parties. There can be however, no assurance that the Company will ever derive such revenues or achieve profitability.

Functional Currency

The Company's management considers the United States dollar to be the currency of the primary economic environment in which EFL operates and, therefore, EFL has adopted and is using the United

States dollar as its functional currency. Further, the Company believes that the operations of EFL's subsidiaries are an integral part of the Israeli operations. While a significant proportion of EFL's revenues have been denominated in Deutsche Marks as a result of its involvement in the Deutsche Post Field Test, based on the Company's historical experience and the Company's strategic objectives, management continues to consider the United States dollar to be the currency of the primary economic environment in which EFL operates. Furthermore, revenues not related to the Field Test are primarily in U.S. dollars. Transactions and balances originally denominated in United States dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

Forward Looking Statements

When used in this discussion, the words "believes," "anticipated," and "expects," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. See "Important Factors Regarding Forward-Looking Statements" filed as Exhibit 99 to this Report and incorporated herein by reference. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Years Ended December 31, 1998 and 1997

Revenues for the year ended December 31, 1998, totaled $4.0 million compared with $4.5 million for 1997. During 1998, the Deutsche Post and the Company agreed to extend the operations of the Field Test through May, 1998. Following the completion of the Field Test, the Deutsche Post and the Company agreed to mutually release each other from any financial claims regarding the Field Test, including additional funding due the Company or repaying advances made by the Deutsche Post to the Company with respect to Opel batteries, which as previously disclosed, were subject to a dispute. Consequently, revenues for 1998 were principally derived from recognizing the previously deferred advances, as well as from activities relating to the Field Test extension (reflecting payment of expenses incurred by the Company by the Deutsche Post). Additionally, the Company recognized revenues from the sale of additional batteries to the Deutsche Post as well as sales of Electric Fuel Vehicle batteries to Edison Termoelettrica, SpA ("Edison"). The Company also recognized revenues from the sale of Survivor Locator Lights. The Company recently signed an agreement with the United States Department of Transportation ("DOT") as part of a consortium that will seek to demonstrate the ability of the Electric fuel battery system to power a full size, all electric transit bus. The DOT approved $2.0 million in federal funding for the cost-shared $4.0 million program. The Company's share of the $4.0 million cost is approximately $3.5 million, 50% of which will be reimbursed to the Company out of the DOT funds. The Company began recognizing revenues from the activities related to the DOT program in the second half of 1998. Since this is a cost-shared program, expenses associated with the Company's participation in the program will exceed the revenues to be earned from the program. The DOT program is expected to continue until the end of 1999. Additionally, the Company began recognizing revenues in connection with various defense R&D contracts.

Revenues for 1997 were principally derived from fees collected in relation to a Rights Agreement with Vattenfall AB. Additionally, the Company continued to recognize revenues relating to its activities in the Deutsche Post Field Test program. The Company completed recognition of revenues from Phase 2 of its agreement with STN Atlas Elektronic GmbH (STN) to develop a high power zinc oxygen battery for torpedoes. In addition, the Company recognized revenues from the supply of batteries and equipment to Edison as well as from the sale of survivor lights to various customers in the United States, principally in the fourth quarter.

Research and development expenses and cost of revenues totaled $10.1 million during 1998 compared with $12.2 million during 1997. The Company believes that, given the Company's stage of development, it is not yet meaningful to distinguish between research and development expenses and cost of revenues. In addition to the reduction in the overall expenses, the internal division of expenses also changed between the periods. This was principally attributable to a reduction of expenses related to Electric Vehicle battery development, and most particularly expenses related to the Deutsche Post Field Test, which came to its conclusion during the second quarter of 1998. This overall reduction was partially offset by significant increases in the costs associated with Consumer Battery development, and production of increased quantities of Survivor Locator Lights in the Defense and Safety Division. Expenses also

included a write off of certain production equipment related to the earlier generation Field Test version of the Electric Vehicle Battery, for a net amount of approximately $422,000. During the fourth quarter of 1998 the Company began dismantling the regeneration facility in Bremen. Consequently, the remaining salvage value for the facility was reduced by $830,000 to a net book value of zero. During the year ended December 31, 1998, the Company recorded $447,000 of royalty-bearing grants in connection with the Company's 1998 research and development program. During the year ended December 31, 1997, the Company recorded $2.4 million of royalty-bearing grants in connection with the Company's 1997 research and development program, including an increase of $582,000 in Chief Scientist grants in connection with the Company's 1996 research and development program. As previously announced, the Company has entered into an agreement to complete development of a battery for powering transit buses, in connection with a program to develop a new hybrid propulsion system in conjunction with General Electric Corporate Research and Development ("General Electric"). The program is being partially funded by the Israel - US Binational Industrial Research and Development (BIRD) Foundation, and the Company recorded $43,000 of royalty-bearing grants in 1998, in connection with this program. The DOT program noted above complements the BIRD program. Accordingly, the Company expects that, for 1999, expenditures in connection with the Electric Vehicle battery, will increase as compared to 1998. R&D expenses and cost of operations related to Consumer Battery and Defense and Safety applications are also expected to continue to increase for 1999, as the Company intensifies its efforts in these new areas.

Selling, general and administrative expenses for the year ended December 31, 1998 were $3.7 million compared with $4.4 million in 1997. This decrease was primarily attributable to reduced salaries, professional fees and Electric Vehicle marketing expenses during 1998. The Company expects increases in selling, general and administrative expenses during 1999, particularly with respect to marketing expenses in consumer battery applications, as the Company continues to expand the applications for its technology.

Financial income, net of interest expense, exchange differentials, bank charges, and other fees, totaled approximately $652,000 in 1998 compared to $775,000 in 1997.

The Company, and its Israeli subsidiary, EFL, have incurred net operating losses or had earnings arising from tax-exempt income during the years ended December 31, 1998 and 1997 and, accordingly no provision for income taxes was required. Taxes in these entities incurred in 1998 and 1997 are primarily composed of United States federal alternative minimum taxes. During 1998, the Company's German subsidiary had net losses, which under the German tax code were used to reduce previously accrued income taxes in the amount of $74,000, and $8,000 was recorded as a provision for taxes in another European subsidiary. For 1997, the Company's European subsidiaries had net income, which arose as a result of intercompany transactions, and they recorded a provision for income taxes, in the amount of $106,000.

The Company reported a net loss of $8.5 million in 1998 compared with a net loss of $9.1 million in 1997 due to the factors cited above.

In 1998, revenues were $1,181,000 for the Defense and Safety segment and $2,792,000 for the Electric Vehicle segment. The Consumer Battery segment did not produce any revenues in 1998. Direct expenses (including Depreciation Expense) were $1,225,000, $5,292,000 and $3,018,000 in the Defense and Safety, Electric Vehicle and Consumer Battery segments respectively.

Net cost of fixed assets (net of accumulated depreciation) at December 31, 1998 in the Defense and Safety, Electric Vehicle and Consumer Battery segments was $369,000, $1,153,000 and $730,000 respectively.

In 1997, revenues were $1,129,000 for the Defense and Safety segment and $3,397,000 for the Electric Vehicle segment. The Consumer Battery segment did not produce any revenues in 1997. Direct expenses (including Depreciation Expense) were $730,000, $9,106,000 in the Defense and Safety, Electric Vehicle and Consumer Battery segments respectively.

Net cost of fixed assets (not of accumulated depreciation) at December 31, 1997 in the Defense and Safety, Electric Vehicle and Consumer Battery segments was $339,000, $3,013,000 and $43,000 respectively.

Years Ended December 31, 1997 and 1996

Revenues for the year ended December 31, 1997, totaled $4.5 million compared with $5.4 million for the comparable period in 1996. Revenues for 1997 included fees collected in relation to a rights agreement completed with Vattenfall under which Vattenfall exercised its right for a license to establish and operate the Electric Fuel infrastructure for the territory of Sweden, Denmark, Norway, Finland and St. Petersburg, Russia. Additional revenues related to Vattenfall will be recognized only after a definitive license agreement has been signed. Execution of the definitive license agreement will be decided upon by Vattenfall only after completion of the Field Test in May 1998. Additionally, the Company completed recognition of revenues relating to its activities in connection with the Deutsche Post Field Test program. For 1998, the Company and the Deutsche Post have agreed that, subject to the satisfaction of certain conditions, the Deutsche Post will cover direct operating costs of the Bremen plant and the test vehicles until May 1998, up to a maximum amount of DM 2.5 million ($1.4 million). The Company also completed recognition of revenues from Phase 2 of its agreement with STN Atlas Elektronic GmbH (STN) to develop

a high power zinc oxygen battery for torpedoes. In addition, the Company recognized revenues from the supply of batteries and equipment to Edison, as well as from the sale of survivor lights to various customers in the United States, principally in the fourth quarter. Survivor light revenues are expected to increase during 1998. Revenues for the year ended December 31, 1996, were principally derived from activities relating to the Field Test, and the granting of a license to Israel Electric Company for regeneration and refueling in Israel and other neighboring countries. Additionally, the Company completed recognition of revenues related to phase 1 of its development program with STN, and began recognition of Phase 2 of its STN program. The Company also recognized revenues from Edison in connection with the license granted to it.

Research and development expenses and cost of revenues totaled $12.2 million during 1997 compared with $13.1 million during 1996. The 1996 research and development expenses and cost of revenues are net of $1.9 million, representing utilization of a portion of the previously accrued provision for project losses. The Company believes that, given the Company's stage of development, it is not, at this time, meaningful to distinguish between research and development expenses and cost of revenues. The decrease in expenses from 1996 was principally attributable to a reduction of expenses in connection with the Deutsche Post Field Test, particularly the costs of the construction of the regeneration plant in Bremen, and production costs related to the supply of batteries for the Field Test. This overall decrease was partially offset by increased R&D expenses, both for electric vehicles as well as for batteries for portable electronic devices, and production costs related to Survivor Locator Lights. During the year ended December 31, 1997, the Company recorded $2.4 million of royalty-bearing grants in connection with the Company's 1997 research and development program, including an increase of $582,000 in Chief Scientist grants in connection with the Company's 1996 research and development program. For the year ended December 31, 1996, the Company recorded $1.5 million of Chief Scientist grants. Since the Deutsche Post and the Company have agreed to extend the operations of the Field Test through May, 1998, expenses related to the Field Test are expected to continue to be incurred through the second quarter of 1998. However, direct Field Test expenses during 1998, in contrast to previous years, will be fully funded by the Deutsche Post. During 1997, the salvage value for the regeneration facility in Bremen was reduced by $2.2 million to a value of $1.0 million to reflect the Company's current expectations of the value of the plant at the end of the Field Test. The reduction in salvage value was offset by the elimination of the provision for anticipated program losses in the amount of $2.2 million. R&D expenses and cost of operations related to consumer battery and defense and safety applications are expected to increase significantly during 1998, as the Company intensifies its efforts in these new areas, while expenses related to electric vehicle development are expected to decrease in 1998.

The provision for anticipated program losses previously recorded by the Company was eliminated during 1997 as the Company does not expect to incur losses during 1998 on the Field Test. Overall, the costs of the Field Test incurred by the Company have exceeded the related program budgeted amounts by more than 20% and during 1997, the Company, pursuant to the terms of the Field Test Partners Agreement, entered into discussions to obtain additional funding from the Deutsche Post. To date, the Company has not obtained any such funding, and accordingly, the Company operated only a limited number of vehicles during 1997. In the fourth quarter of 1996, the Deutsche Post requested that the Company refund the sum of approximately DM 1.8 million (approximately $1.0 million) representing milestone payments on account of Opel batteries, which are the subject of a dispute between the Deutsche Post and the Company. The advances were made in accordance with mutually agreed contractual milestones, previously acknowledged by the Deutsche Post as having been achieved, and therefore the Company does not believe that it is required to refund any of the payments. However, until the resolution of this issue, the Company has deferred recognizing this amount in revenues.

Selling, general and administrative expenses for the year ended December 31, 1997 were $4.4 million compared with $4.7 million in 1996. While there was a decrease in the overall amount, there were certain nonrecurring expenses included in 1996, particularly a settlement arrangement with respect to a terminated consultant included in marketing expenses (see Note 5(a)4 to the Consolidated Financial Statements). Excluding the above, there was an increase in selling general and administrative expenses of approximately $200,000. This was primarily attributable to increased salaries, fees and allocated overhead expenses with respect to the expanded geographic scope of the Company's activities including the United States, Scandinavia, and the Far East, as well as from the Company's diversification into new applications for its zinc-air battery technology. The Company does not expect further increases in selling, general and administrative expenses for 1998.

Financial income, net of interest expense, exchange differentials, bank charges, and other fees, totaled approximately $775,000 in 1997 compared to $794,000 in 1996.

The Company, and its Israeli subsidiary, EFL, have incurred net operating losses or had earnings arising from tax-exempt income during the years ended December 31, 1997 and 1996 and, accordingly no provision for income taxes was required. Taxes in these entities incurred in 1997 and 1996 are primarily composed of United States federal alternative minimum taxes. However, for 1997, the Company's European subsidiaries had net income, which arose as a result of intercompany transactions, and they have therefore recorded a provision for income taxes, in the amount of $106,000.

The Company reported a net loss of $9.1 million in 1997 compared with a net loss of $10.0 million in 1996 due to the factors cited above.

In 1997, revenues were $1,129,000 for the Defense and Safety segment and $3,397,000 for the Electric Vehicle segment. The Consumer Battery segment did not produce any revenues in 1997. Direct expenses (including Depreciation Expense) were $730,000, $9,106,000 and $281,000 in the Defense and Safety, Electric Vehicle and Consumer Battery segments respectively.

Net cost of fixed assets (net of accumulated depreciation) at December 31, 1997 in the Defense and Safety, Electric Vehicle and Consumer Battery segments was $339,000, $3,013,000 and $43,000 respectively.

No segment information has been presented for 1996 because the company's activities in that year were primarily related to Electric Vehicle activities.

IMPACT OF YEAR 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. The Company considers a product to be in "Year 2000" compliance if the product's performance and functionality are unaffected by processing of dates prior to, during and after the year 2000.

The Company has retained an outside consultant to assess the Year 2000 compliance of the Company's computer hardware and software, and other equipment of the Company with embedded chips that may be date-sensitive. The consultant completed its initial assessment of the Company's systems in March 1999. Based on the initial review of the consultant, the Company believes that its core computer systems and equipment are Year 2000 compliant, and that the Year 2000 issue will not materially affect the Company's operations or business. Management expects that the expenses incurred and to be incurred in connection with the Year 2000 issue will not materially exceed amounts budgeted for such matters.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, the Company had cash, cash equivalents and financial investments of approximately $8.9 million compared with $16.7 million as of December 31, 1997.

The Company used available funds in 1998 primarily for continued research and development expenditures, and other working capital needs. The Company increased its investment in fixed assets by $986,000 during the year ended December 31, 1998. Following the reduction in the salvage value of the Bremen facility and a write off of certain production equipment related to the earlier generation Field Test version of the Electric Vehicle Battery, fixed assets amounted to $6.3 million as at year end.

EFL presently has a line of credit with the First International Bank of Israel Ltd. ("FIBI") ("the Credit Facility"). Borrowings under the Credit Facility bear interest at FIBI's prime rate + 2% per annum, are unconditionally guaranteed by the Company and are secured by a pledge of foreign currency deposits in the amount of NIS 750,000 (approximately $180,000), Additionally the Credit Facility imposes financial and other covenants on EFC and EFL and presently expires on March 31, 1999, at which time the Credit Facility will be reviewed for renewal by FIBI. The Credit Facility provides EFL with a line of credit in the maximum principal amount of NIS 3.8 million (approximately $913,000), which can be used as credit support for various obligations of EFL. As of December 31, 1998, the bank had issued letters of credit and bank guarantees totaling approximately $409,000.

The Company has no long term debt outstanding, and is using its cash reserves and revenues from operations primarily to continue development of batteries for consumer electronic devices, as well as to participate in the BIRD & DOT Electric Vehicle programs. Furthermore, in 1999, the Company is planning to establish a commercial production line and prepare for market penetration of its new zinc-air battery for cellular telephones. Accordingly, the Company is seeking additional funding, including through the issuance of equity or debt securities, and is pursuing other options, such as joint ventures or other

strategic relationships. However, there can be no assurance that the Company will obtain any such additional funding. If additional funding is not secured, the Company will have to modify, reduce, defer or eliminate certain of its anticipated future commitments and/or programs, in order to continue reduced operations.

Approximately 48.6% of the stock of the Company's Israeli-based subsidiary, EFL, is now owned (directly, indirectly or by application of certain attribution rules) by three United States citizens. If at any time in the future, 50% or more of the shares of EFL are held or deemed to be held by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 48% of the Company) who are United States citizens or residents, EFL would satisfy the foreign personal holding company ("FPHC") stock ownership test under the Internal Revenue Code and the Company could be subject to additional U.S. taxes on any undistributed FPHC income of EFL. For 1998, EFL had no income which would qualify as undistributed FPHC income. However, no assurance can be given that in the future EFL will not have income which qualifies as undistributed FPHC income.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

Historically, the majority of the Company's revenues have been in U.S. dollars, although a significant proportion of the Company's revenues in 1998 were in Deutsche Marks, primarily related to the Field Test. The Company does not expect a significant amount of Deutsche Mark revenues in 1999. The United States dollar cost of the Company's operations in Israel, with regard to expenses incurred in NIS, is influenced by the extent to which an increase in the rate of inflation in Israel is not offset by the devaluation of the NIS in relation to the dollar. In the past two years, inflation in Israel has been more than fully compensated by the devaluation of the NIS, and, accordingly, the dollar cost of the Company's NIS expenses has decreased. Even if the recent trend is reversed (as was the case in previous years) the Company does not believe that continuing inflation in Israel or delays in the devaluation of the NIS are likely to have a material adverse effect on the Company, except to the extent that such circumstances have an impact on Israel's economy as a whole. In the years ended December 31, 1996, 1997 and in 1998, the annual rates of inflation in Israel were 10.6%, 7.0%, and 8.6% respectively, compared to the devaluation of the NIS against the dollar during such periods of 3.7%, 8.8%, and 17.6% respectively.

EFFECTIVE CORPORATE TAX RATE

The Company's production facilities in Israel have been granted "Approved Enterprise" status under the (Israeli) Law for Encouragement of Capital Investments, 1959 (the "Investment Law"), and consequently are eligible for certain tax benefits for seven to ten years after they first generate taxable income (provided the maximum period as prescribed by the Investment Law has not elapsed). The Company has elected to receive a grant of funds together with a reduced tax rate for the aforementioned period.

EFL's effective corporate tax rate may be affected by the classification of certain items of income as being "approved income" for purposes of the Approved Enterprise Law, and hence subject to a lower tax rate (25% to 10%, depending on the extent of foreign ownership of EFL - presently 15%) than is imposed on other forms of income under Israeli law - presently 36%. The effective tax upon income distributed by the Company to its stockholders would be increased as a result of the withholding tax imposed upon dividends distributed by EFL to EFC, resulting in an overall effective corporate tax rate of approximately 28% for income arising from EFL's Approved Enterprises and 44% regarding other income.

EFC and EFL have incurred net operating losses or had earnings arising from tax-exempt income during the years ended December 31, 1998 and 1997 and, accordingly no provision for income taxes was required. Taxes in these entities paid in 1998 and 1997 are primarily composed of United States federal alternative minimum taxes. During 1998, the Company's German subsidiary had net losses, which under the German tax code were carried back, causing a reduction in previously accrued income taxes. For 1997, the Company's European subsidiaries had net income, which arose as a result of intercompany transactions, and they recorded a provision for income taxes.

As of December 31, 1998 the Company has U.S. net operating loss carry forwards of approximately $231,000 which are available to offset future taxable income, expiring primarily in 2009 and foreign net operating loss carry forwards of approximately $43 million which are available to offset future taxable income, indefinitely.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

<TABLE>

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT MANAGEMENT

EXECUTIVE OFFICERS, DIRECTORS AND SIGNIFICANT EMPLOYEES

Executive Officers and Directors

The Company's executive officers and directors and their ages as of December 31, 1998, are as follows:

NAME	Age	Position with the Company
Robert S. Ehrlich	60	Chairman of the Board of Directors and Chief Financial Officer
Yehuda Harats	47	President, Chief Executive Officer and Director
Joshua Degani	51	Executive Vice President - Technical Operations, Chief Operating Officer
Stewart Edelman/(1)/	38	Treasurer and Principal Accounting Officer
Dr. Jay M. Eastman	50	Director
Jack E. Rosenfeld	60	Director
Harvey M. Krueger	69	Director
Lawrence M. Miller	52	Director
Leon S. Gross	92	Director

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/(1)/ Mr. Edelman's employment with the Company terminated on February 28, 1999. Mr. Benjamin Koretz was elected Treasurer and Mr. Evan Fishman was elected Controller and Principal Accounting Officer.

The Company's By-Laws provide for a Board of Directors of one or more directors, and the number of directors is currently fixed at seven. Under the terms of the Company's certificate of incorporation, the Board of Directors is composed of three classes of similar size, each elected in a different year, so that only one-third of the Board of Directors is elected in any single year. Mr. Harats, Dr. Eastman and Mr. Gross are designated Class I directors and have been elected for a term expiring in 2001 and until their successors are elected and qualified; Messrs. Rosenfeld and Miller are designated Class II directors elected for a term expiring in 1999 and until their successors are elected and qualified; and Mr. Ehrlich and Mr. Krueger are designated Class III directors elected for a term which expires in 2000.

ROBERT EHRLICH has been Chairman of the Board of the Company since January 1993 and Chief Financial Officer of the Company since May 1991. From May 1991 until January 1993, Mr. Ehrlich was Vice Chairman of the Board. From December 1987 until July 1992 and again since April 1997, Mr. Ehrlich was Chairman of the Board of PSC Inc (PSCX). He has served as a director of PSCX since 1987. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

YEHUDA HARATS has been President, Chief Executive Officer and a director of the Company since May 1991. Previously, from 1980 to May 1991, he was the Executive Vice President, Director of the Process Division and head of the Heat Collection Element Division, at Luz Industries Israel Limited ("LII"). In 1989, he was part of the team awarded the Rothschild Award for Industry, granted by the President of the State of Israel, for his work at LII. Mr. Harats received a B.SC. in Mechanical Engineering from the Israel Institute of Technology (Technion) in Haifa, Israel.

DR. JOSHUA DEGANI has been Chief Operating Officer of the Company since January 1998, and has been Executive Vice President for Technical Operations since June 1997 when he joined the Company. From December 1991 through May 1997 Dr. Degani was Vice President for Research Development and

Engineering in Laser Industries Ltd. (Sharplan), a world leader in the development and productions of systems and applications of surgical lasers. From November 1989 until August 1991, he was Program Manager of Large Scale Battery Storage, and Vice President of Engineering at LII. From February 1983 through October 1989, Dr. Degani was Director of Research and Development and later Plant Manager for Semiconductor Devices, a company which develops and manufactures advanced Infrared Detectors for thermal vision for military applications. From January 1980 through January 1983, he was employed by Bell Telephone Laboratories in New Jersey, USA, as a Post Doctorate, and later as a Member of the Technical Staff. Dr. Degani received a B.Sc., M.Sc., and Ph.D., in Physics from Hebrew University in Jerusalem Israel.

STEWART EDELMAN'S employment with the Company was terminated on February 28, 1999. Prior to that Mr. Edelman was Treasurer since March 1995. Mr. Edelman was Controller of Electric Fuel since July 1994 when he joined the Company. From 1992 through June 1994, Mr. Edelman was in private practice specializing in high technology companies. From 1989 through 1991, he was Vice President of Capital Finance and Investment Company, a real estate investment corporation. Prior to that, Mr. Edelman was employed as a certified public accountant in various accounting firms, as well as a controller in a large employee leasing company. He has been qualified as a Certified Public Accountant in both Israel and the USA, and is currently licensed to practice in Israel. Mr. Edelman received a B.A. in Accounting and Economics from the Hebrew University in Jerusalem.

DR. JAY EASTMAN has been a director of the Company since October 1993. Since November 1991, Dr. Eastman has served as President and Chief Executive Officer of Lucid Technologies, Inc., which is developing laser technology applications for medical diagnosis and treatment. Dr. Eastman has served as a director of PSCX, a New York Corporation, a manufacturer and marketer of hand-held laser diode bar code scanners, since April 1996 and served as Senior Vice President of Strategic Planning from December 1995 through October 1997. Dr. Eastman is also a director of Chapman Instruments, Inc., which develops manufacturers and selling surface profiling instruments, Dimension Technologies, Inc., a developer and manufacturer of 3D displays for computer and video displays, and Centennial Technologies Inc., a manufacturer of PCMCIA cards. From 1981 until January 1983, Dr. Eastman was Director of the University of Rochester's Laboratory for Laser Energetics, where he was a member of the staff from September 1975 to 1981.

JACK E. ROSENFELD has been a director of the Company since October 1993. Mr. Rosenfeld is also a director of Maurice Corporation and a director of PSCX. Since April 1998 Mr. Rosenfeld is President and Chief Executive Officer of Potpourri Collection Inc., a specialty catalog direct marketer. Mr. Rosenfeld was President and Chief Executive Officer of Hanover Direct, Inc. ("Hanover"), formerly Horn & Hardart Co., which operates a direct mail marketing business from September 1990 until December 1995 and had been President and Chief Executive Officer of its direct marketing subsidiary, since May 1988.

HARVEY M. KRUEGER was elected to the Board of Directors in February 1996. Mr. Krueger is Vice Chairman of Lehman Brothers Inc., an investment banking firm, and the lead manager of the Company's recent equity offering. Mr. Krueger has been with Lehman Brothers since May 1984. From December 1977 to May 1984, he was Managing Director of Lehman Brothers Kuhn Loeb, Inc. From 1965 to 1977, he was a Partner of Kuhn Loeb & Co. and in 1977, he served as President and Chief Executive Officer of Kuhn Loeb & Co. Mr. Krueger serves as a director on the boards of directors of a number of companies, including Automatic Data Processing, Inc., R.G. Barry Corporation, a manufacturer of footwear, Chaus, Inc., a manufacturer of women's apparel, and Internation Telecommunications Data Systems, Inc. In addition, he serves on the International Advisory Board of Club

Mediterranee, S.A. and as chairman of the board of directors of Stockton Partners, Inc., the general partner of the manager of the Renaissance Fund LDC, a private closed-end investment fund.

LAWRENCE M. MILLER was elected to the Board of Directors in November 1996. Mr Miller has been a senior partner in the Washington D.C. law firm of Schwartz, Woods and Miller since 1990. He served from August 1993 through May 1996 as a member of the board of directors of The Phoenix Resource Companies, Inc., a publicly traded energy exploration and production company, and as a member of the Audit and Compensation Committee of that board. That company was merged into Apache Corporation in May 1996.

LEON S. GROSS was elected to the Board in March 1997. Mr. Gross' principal occupation for the past five years has been as a private investor in various publicly-held corporations, including the Company. He is also majority owner and an officer of Micro TV, Inc., a business which owns communications towers.

Board of Directors

The Board of Directors of the Company has an Audit Committee consisting of Messrs. Rosenfeld, Krueger, Miller and Dr. Eastman, and a Compensation Committee consisting of Dr. Eastman, and Messrs. Rosenfeld and Miller. Created in December 1993, the purpose of the Audit Committee is to review the results of operations of the Company with officers of the Company who are responsible for accounting matters and, from time to time, with the Company's independent auditors, Kesselman & Kesselman, a member of PriceWaterhouseCoopers International Limited. The Compensation Committee recommends annual compensation arrangements for the Chief Executive Officer and Chief Financial Officer and reviews annual compensation arrangements for all officers and significant employees.

VOTING AGREEMENTS

Messrs. Ehrlich and Harats are parties to a Stockholders Voting Agreement pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich and Harats (or their designees) as directors of the Company. Messrs. Gross, Ehrlich and Harats are parties to a Voting Rights Agreement dated September 30, 1996 pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich, Harats and Miller for five years following October 1996.

DIRECTOR COMPENSATION

Non-employee members of the Board of Directors of the Company are paid $1,000 (plus expenses) for each Board of Directors meeting attended and $500 (plus expenses) for each meeting of a committee of the Board of Directors attended. In addition, the Board of Directors has adopted a Non-Employee Director Stock Option Plan pursuant to which non-employee directors receive an initial grant of options to purchase 15,000 shares of the Company's Common Stock upon the effective date of such plan or upon the date of his or her election as a director. Thereafter, non-employee directors will receive options to purchase 5,000 shares of Common Stock per year of service on the Board. All such options will be granted at fair market value and vest ratably, over three years from the date of the grant.

On June 8, 1998, the Company issued 2,000 shares to each of Lawrence M. Miller and Jack E. Rosenfeld, directors of the Company, at a price of $2.6875 per share, for services performed on behalf of the Company. The shares were not registered under the Securities Act of 1933, as amended (the "Act"), and were issued in reliance on the exemption from registration under Section 4(2) of the Act as a transaction not involving a public offering. The recipients, by virtue of their relationship with the Company, had access to information about the Company and are each "accredited investors" as defined under the Act.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the securities laws of the United States, the Company's directors, certain of its officers, and any persons holding more than ten percent of the Company's Common Stock are required to report their ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to report any failure to file by these dates during 1998. To the Company's knowledge, there were only two instances during 1998 where such "reporting persons" failed to file the required reports on or before the specified dates: Mr. Leon Gross filed one late report, and Red Lion Enterprises, Inc. an affiliate of Mr. Robert Ehrlich, filed one late report.

Significant Employees

The Company's significant employees and their ages as of December 31, 1998 are as follows:

NAME	Age	Position with the Company
Dr. Inna Gektin	55	Senior Research Associate
Menachem Givon	51	Project Manager Regeneration

Dr. Jonathan Goldstein	52	Chief Scientist
Binyamin Koretz	41	Vice President - Strategic Planning
Dr. Neal Naimer	40	Vice President - Battery Technology
Jonathan Whartman	44	Vice President - Marketing
Evan Fishman	36	Controller and Principal Accounting Officer
Yair Ein Ely	32	Head of Electrochemistry/Chemistry & Material
Zvi Rozenberg	47	Project Manager
Robert Dopp	52	Director of Research, New Products
Ron Putt	51	Director of Technology, New Products
Yoel Gilon	45	Director, Electric Vehicle Technologies

DR. INNA GEKTIN is a Senior Research Associate of the Company. Prior to emigrating to Israel in 1990 from the former Soviet Union, Dr. Gektin studied at the University of Kharkov, and received her Ph.D. from the Physical Technical Institute of Low Temperature where she worked as Senior Research Associate for over 20 years.

MENACHEM GIVON is Project Manager - Regeneration. Mr. Givon earned his bachelors and masters degree in Physics at Ben-Gurion University, and in parallel has taken considerable coursework in Electrical Engineering. From 1978 to 1990, he specialized in the development of production and quality control systems at Shoval Metal Industries in the Negev.

DR. JONATHAN GOLDSTEIN is Chief Scientist, responsible for scientific support of battery technologies, patents, literature, innovative concepts and advanced systems. From 1977 to 1989, Dr. Goldstein was Senior Electrochemist at Tadiran Batteries in Rehovot, Israel, providing scientific leadership and support at various Tadiran battery plants. He was educated at Imperial College, London, where he obtained a B.Sc., and at City University of London, where he earned a Ph.D. in Chemistry. Dr. Goldstein is the author of 25 papers, 20 U.S. patents, and several current patent applications pending in Europe, U.S. and Japan.

BINYAMIN KORETZ is Vice President of Strategic Planning, responsible for new business development, economic modeling, intellectual property protection, and other planning activities. In addition, since January 1998, Mr. Koretz is responsible for the Company's defense and safety applications. Mr. Koretz was the Company's Treasurer from 1993 until December 1994, and with the termination of Mr. Edelman's employment in February 1999, was re-elected Treasurer. Mr. Koretz previously spent six years at American Telephone and Telegraph, where he was responsible for planning and management of capital investment in that company's long-distance network. He holds a B.Sc. in Civil Engineering/Transportation Systems from the Massachusetts Institute of Technology and an MBA from the University of California at Berkeley.

DR. NEAL NAIMER is Vice President - Battery Technology. Prior to that Dr. Naimer was Director of Electrode Engineering of the Company's Air Electrode development program. From 1987 to 1989, he was the Manager of the Chemical Vapor Deposition (Thin Films) Group at Intel Electronics Jerusalem, and was Project Manager of the photo voltaic IR detector development program at Tadiran Semiconductor Devices in Jerusalem from 1984 to 1987. Dr. Naimer was educated at University College of London, England, where he received his B.Sc. in Chemical Engineering and a Ph.D. in Chemical Engineering.

JONATHAN WHARTMAN was Director of Special Projects of the Company from 1991 until his election to Vice President of Marketing in 1994. Mr. Whartman was also Director of Marketing of Amtec from its inception in 1989 through the merger of Amtec into EFC. Before joining Amtec, Mr. Whartman was Manager of Program Management at LII, Program Manager for desk-top publishing at ITT Qume, San Jose, California and Marketing Director at Kidron Digital Systems, an Israeli computer developer. Mr. Whartman holds a BA in Economics and a MBA from the Hebrew University, Jerusalem, Israel.

EVAN FISHMAN was Assistant Controller of the Company from August 1998, until his appointment as Controller in February 1999 upon the termination of Mr. Edelman's employment. Prior to joining Electric Fuel, Mr. Fishman spent eight years at the Jerusalem Report magazine, and was its CFO for the last three years. Mr. Fishman worked in international audit firms in Tel Aviv and Johannesburg for five years before leaving the auditing profession for commerce. Mr. Fishman is a Certified Public accountant in Israel and a Chartered Accountant in South Africa. He holds a B.Comm and a B.Acc degree from the University of the Witwatersrand in Johannesburg.

YAIR EIN ELY is the Head of Electrochemistry, Chemistry and Material Groups at the Company. Dr. Ein-Eli joined the Company in September 1998. Previously, he spent more than three years at Covalent Associates Inc. where he was responsible for the Li and Li-ion battery groups. Dr. Ein Eli also held a post-doctoral position at Covalent for a period of 18 months. Dr. Ein Eli holds a Ph.D. degree in chemistry and electrochemistry from Bar-Ilan University in Tel Aviv.

ZVI ROSENBERG is a Project Manager responsible for cell development and the integration between the battery and the phone. Previously, Mr. Rosenberg spent eight years at Laser Industries where he was Project Manager of a medical laser and Head of the Physics Department. Mr. Rosenberg holds a Ph.D. in Physics from the Hebrew University in Jerusalem.

ROBERT DOPP is Director of Research, New Products at the Company's Marietta Laboratory. He has been with Electric Fuel since December 1997. From February 1997 until November 1997, Mr. Dopp was Manager of Advanced Components Development at AER Energy Resources. Previous to that he was Principal Engineer, Zinc Air Development at Rayovac Corporation from December 1979 to February 1997. Mr. Dopp holds a B.S. in Biology from the University of Wisconsin.

RON PUTT is Director of Technology, New Products at the Company's Auburn R&D Facility since April 1997. From October 1995 until April 1997, Mr. Putt worked as a consultant for Auburn University and Electro-Energy Inc. Previous to that, Mr. Putt was Vice President at MATSI, Inc. from April 1990 to October 1995. Mr. Putt holds Bachelors and Masters Degrees in Chemical Engineering from the University of Delaware and University of California at Berkeley.

YOEL GILON is Director, Electric Vehicle Technologies at the Company's Beit Shemesh facility. He joined the Company in 1994. From 1991 to 1994, Mr. Gilon was Project Development Manager at Ormat Industries. Previous to that, Mr. Gilon was Vice President of System Engineering Development at Luz Industries. Mr. Gilon holds a B.Sc. in Mathematics and Physics and a M.Sc. in Mathematics from the Hebrew University of Jerusalem. He also holds a BA in Fine Arts from the Bezalel Academy in Jerusalem.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows the compensation paid and accrued by the Company for services rendered for 1996, 1997 and 1998 to the Chief Executive Officer and the three highest paid executive officers who received more than $100,000 in salary and bonuses during the year ended December 31, 1998 (collectively the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

	ANNUAL COMPENSATION				LONG TERM COMPENSATION	
NAME AND PRINCIPAL POSITION AT DECEMBER 31, 1998	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	AWARDS SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
YEHUDA HARATS/(1)/	1998	$118,246	$50,000/(2)/	$ 15,942/(4)/	368,177	$146,386/(5)/
President, Chief	1997	154,968	50,000/(3)/	10,691	0	280,748
Executive Officer	1996	145,220	47,000	127,558	150,000	372,875
and Director						
ROBERT EHRLICH/(1)/	1998	$118,246	$50,000/(2)/	$ 14,536/(4)/	372,577	$202,030/(6)/
Chairman and Chief	1997	154,968	50,000/(3)/	14,193	0	264,501
Financial Officer	1996	145,238	47,000	75,890	150,000	166,628
JOSHUA DEGANI/(1)/	1998	$109,497	$14,250/(2)/	$ 6,241/(4)/	185,071/(9)/	$ 41,996/(8)/
Executive Vice	1997	59,105	15,062/(7)/	3,449/(3)/	122,500	51,906
President, Chief						
Operating Officer						

</TABLE>

____

(1) The amounts reported for each Named Executive Officer were paid in New Israeli Shekels ("NIS") and have been translated into U.S. dollars at the exchange rate of NIS into U.S. dollars at the time of payment or accrual

(2) No cash bonuses were paid for fiscal year 1998. However, the Company has accrued bonuses for the named executive officers as per their contracts. The Compensation Committee is considering granting options in lieu of a bonus, the amount and terms of which have yet to be determined.

(3) In lieu of a cash bonus of $50,000 for fiscal year 1997, the Compensation Committee granted to each of Messrs. Ehrlich and Harats performance options to acquire 66,500 shares of the Company's Common Stock, at an exercise price of $2.50 per share, the fair market value of the Company's Common Stock on the date of grant. The options granted become exercisable as follows: 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $3.25 per share for a period of 20 consecutive trading days on The Nasdaq National Market ("NASDAQ"); 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $4.25 per share for a

period of 20 consecutive trading days on NASDAQ, and the final 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $5.50 per share for a period of 20 consecutive trading days on NASDAQ; provided, that such options shall, in all events, become exercisable seven years from the date of grant.

(4) Represents the costs of taxes paid by the Executive officer and reimbursed by the Company.

(5) Of this amount, $13,572 represents the Company's accrual for severance pay which would be payable to Mr. Harats upon a "change of control" of the Company or upon the occurrence of certain other events, ($96,441) represents the Company's reduction of the accrual for sick leave and vacation redeemable by Mr. Harats, $114,406 consisted of payments to Mr. Harats in lieu of vacation and sick leave, $74,608 represents compensation expense recorded in relation to the

sale of shares to the Company, $12,388 represents the Company's accrual for severance pay which would be payable to Mr. Harats under the laws of the State of Israel upon the termination of his employment by the Company, $35,907 consists of the Company's payments and accruals to a pension fund which provides a savings plan, insurance and severance pay benefits and an education fund which provides for the on-going education of employees. Additionally, $(16,163) represents the reduction of the Company's accrual to fund Mr. Harats' pension and education funds as well as provide him with certain other post-termination benefits, and $8,109 represents the value charged for tax purposes for the use of a car provided by the Company.

(6) Of this amount, $81,110 represents the Company's accrual for severance pay which would be payable to Mr. Ehrlich upon a "change of control" of the Company or upon the occurrence of certain other events, $18,461 represents the Company's accrual for sick leave and vacation redeemable by Mr. Ehrlich, $35,194 represents compensation expense recorded in relation to the sale of shares to the Company, $(664) represents a reduction of the Company's accrual for severance pay which would be payable to Mr. Ehrlich under the laws of the State of Israel upon the termination of his employment by the Company, and $35,715 represents the Company's payments and accruals to pension and education funds. Additionally, $25,482 represents the Company's accrual to fund Mr. Ehrlich's pension fund as well as provide him with certain other post-termination benefits, and $6,732 represents the value charged for tax purposes for the use of a car provided by the Company.

(7) In lieu of cash of $10,000 for part of his bonus for fiscal year 1997, Dr. Degani was granted options to acquire an aggregate of 6,826 shares of the Company's Common Stock, at an exercise price of $2.50 per share, the fair market value of the Company's Common Stock on the date of grant.

(8) Of this amount, $11,500 represents the Company's accrual for additional severance pay which would be payable to Dr. Degani if terminated by the Company, $1,775 represents the Company's accrual for vacation redeemable by Dr. Degani, $1,123 represents the Company's accrual for severance pay which would be payable to Dr. Degani under the laws of the State of Israel upon the termination of his employment by the Company, and $21,048 represents the Company's payments and accruals to pension and education funds. Additionally, $6,550 represents the value charged for tax purposes for the use of a car provided by the Company.

(9) Includes 122,500 stock options received by Dr. Degani in 1997 whose exercise price was adjusted in 1998.

The table below sets forth information with respect to stock options granted to the Named Executive Officers for the fiscal year 1998.

OPTION GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE OF ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	5% ($)	10% ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Yehuda Harats	66,500/(1)/	3.75%	$2.50	22-Apr-05	$ 67,743	$157,893
	26,977/(2)/	1.52%	$2.50	22-Apr-05	$ 27,481	$ 64,053
	160,000/(3)/	9.01%	$3.38	28-Oct-08	$339,956	$861,719
	6,010/(4)/	0.34%	$2.50	29-Dec-08	$ 9,459	$ 23,977
	108,690/(5)/	6.12%	$2.50	29-Dec-08	$171,064	$433,612
Robert Ehrlich	66,500/(1)/	3.75%	$2.50	22-Apr-05	$ 67,743	$157,893
	26,977/(2)/	1.52%	$2.50	22-Apr-05	$ 27,481	$ 64,053
	89,400/(6)/	5.04%	$2.69	29-Dec-03	$ 45,025	$119,780
	75,000/(3)/	4.22%	$3.38	28-Oct-08	$159,354	$403,931

	6,010/(4)/	0.34%	$2.50	29-Dec-08	$ 9,459	$ 23,977
	108,690/(5)/	6.12%	$2.50	29-Dec-08	$171,064	$433,612
Joshua Degani	10,000/(7)/	0.56%	$3.25	27-Jan-08	$ 20,453	$ 51,841
	6,826/(8)/	0.38%	$2.50	22-Apr-05	$ 6,954	$ 16,207
	4,170/(9)/	0.23%	$2.50	22-Apr-05	$ 4,248	$ 9,901
	5,575/(10)/	0.31%	$2.50	29-Dec-08	$ 8,774	$ 22,241
	36,000/(11)/	2.03%	$2.50	29-Dec-08	$ 56,659	$143,620

</TABLE>

(1) In lieu of a cash bonus for fiscal year 1997, the Compensation Committee granted to each of Messrs. Ehrlich and Harats performance options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options granted become exercisable as follows: 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $3.25 per share for a period of 20 consecutive trading days on NASDAQ; 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $4.25 per share for a period of 20 consecutive trading days on NASDAQ, and the final 1/3 of such options become exercisable when the closing sale price of the Company's Common Stock has been at least $5.50 per share for a period of 20 consecutive trading days on NASDAQ; provided, that such options shall, in all events, become exercisable seven years from the date of grant. During 1998 the first two milestones were reached and the options are now 2/3 vested.

(2) Messrs Ehrlich and Harats agreed, that for 1998, they would waive 25% of their base salary or $38,820 for the calendar year. In lieu of the amount waived, Messrs. Ehrlich and Harats were each granted options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options were fully vested by the end of 1998.

(3) Messrs Ehrlich and Harats were each granted fully vested options, at an exercise price equal to the fair market value of the Company's common stock on the date of grant. The options were granted to partially replace shares that were sold by Messrs. Ehrlich and Harats back to the Company in 1998.

(4) Messrs Ehrlich and Harats were each granted fully vested options, at an exercise price equal to the fair market value of the Company's common stock on the date of grant in lieu of additionally waived salary during 1999 totaling $2,404.

(5) Messrs Ehrlich and Harats agreed, that for 1999, they would each waive approximately 27% of their base salary, for a total of $43,476 for the calendar year. The number of options granted are based on a variety of factors considered by the Board of Directors of the Company. In lieu of the amount waived, Messrs. Ehrlich and Harats were each granted options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options vest 1/12th per month over the calendar year. Messrs. Ehrlich and Harats each have the right to cancel the arrangement upon two weeks notification to the Company prior to the beginning of each calendar quarter. Any unvested options would immediately be forfeited. Furthermore, while their base salary was decreased, their social benefits and 1999 bonuses, will still be calculated on the full base salary that they are entitled to by contract.

(6) Grant of fully vested options. These options were granted in acknowledgment that the grantee had failed to exercise $0.82 options that had expired.

(7) The options granted become exercisable as follows: 4,000 options on January 27, 2000, and 3,000 options each on January 27, 2001 & 2002.

(8) In lieu of cash for part of his bonus for fiscal year 1997, Dr. Degani was granted fully vested options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant.

(9) Dr. Degani agreed, that for 1998, he would waive $500 per month of his base salary, or $6,000 for the calendar year. In lieu of amount waived, Dr. Degani was granted options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant.

(10) Dr. Degani was granted fully vested options, at an exercise price equal to the fair market value of the Company's common stock on the date of grant in lieu of additionally waived salary during 1998 totaling $2,230.

(11) Dr. Degani agreed that for 1999, he would waive $1,200 per month of his base salary, or $14,400 for the calendar year. In lieu of the amount waived, Dr. Degani was granted options at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options vest 1/12th per month over the calendar year. Dr. Degani may cancel the arrangement upon two weeks notification to the Company prior to the beginning of each quarter. Any unvested options would immediately be forfeited. Furthermore, while his base salary was decreased, the social benefits and 1999 bonuses, will still be calculated on his full base salary.

The table below sets forth information for the Named Executive Officers with respect to fiscal 1998 year-end option values.

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS FISCAL-YEAR-END (1)	
	EXERCISABLE (NUMBER)	UNEXERCISABLE (NUMBER)	EXERCISABLE ($)	UNEXERCISABLE ($)
<S>	<C>	<C>	<C>	<C>
Yehuda Harats	331,720	280,857	24,918	32,714
Robert S. Ehrlich	237,320	280,857	19,330	32,714
Joshua Degani	68,838	116,233	17,209	26,558

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</TABLE>

(1) In-the-money options are options for which the fair market value of the underlying securities exceeds the exercise or base price of the option.

REPORT ON REPRICING OF OPTIONS/SAR'S

The table below sets forth information for all Executive Officers with respect to repricing of Options for the past 10 years.

TEN-YEAR OPTION SAR REPRICINGS

<TABLE>
<CAPTION>

NAME	DATE	NUMBER OF SECURITIES UNDERLYING OPTIONS/ SARS REPRICED OR AMENDED	MARKET PRICE OF STOCK AT TIME OF REPRICING OR AMENDMENT ($)	EXERCISE PRICE AT TIME OF REPRICING OR REPRICED ($)	NEW EXERCISE PRICE ($)	LENGTH OF ORIGINAL OPTION TERM REMAINING AT DATE OF REPRICING OR AMENDMENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
STEWART EDELMAN	27-Jan-98	1,667	3.25	5.875	3.25	0.53(1)
Treasurer and	27-Jan-98	1,000	3.25	5.750	3.25	1.90(1)
Controller	27-Jan-98	5,000	3.25	7.125	3.25	2.34(1)
	27-Jan-98	5,000	3.25	5.875	3.25	8.79
JOSHUA DEGANI Executive Vice President, Chief Operating Officer	22-Apr-98	122,500	2.50	5.500	2.50	9.05

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</TABLE>

(1) On June 8, 1998 the expiration dates of these options were extended by five years from their original expiration dates.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT ARRANGEMENTS

Each of Messrs. Ehrlich, and Harats are parties to similar employment agreements with the Company (the "Employment Agreements") which can be extended automatically for additional terms of two years each unless terminated sooner by either the executive or the Company. Each of the Employment Agreements end December 15, 2000. The Employment Agreements provide for a base salary of $11,736 per month for each of Messrs. Ehrlich, and Harats (the "Base Salary"). On January 1, of each year, Base Salary is adjusted in an amount equal to the greater of 3% or in an amount equal to the excess, if any, of any increase in the Israeli Consumer Price Index over any devaluation in the currency of Israel compared to the US Dollar; in each case during the immediately preceding year. Accordingly, Base Salary for each of Messrs. Ehrlich and Harats is, as of January 1, 1999, $13,330 per month. The Employment Agreements provide for bonuses to be paid to each of Messrs. Ehrlich and Harats in an amount of (a) not less than 50%

of Base Salary or (b) 2% of Net Earnings (defined as net income before taxes and extraordinary and other nonrecurring items) (the "Bonus"), subject to certain conditions, as well as other benefits such as vacation, sick leave, provision of automobiles and insurance contributions. The determination of the amount of Bonus to be paid pursuant to the Employment Agreements is based on attainment of the Company's budgeted results, including Net Earnings. Additionally, the Compensation Committee sets qualitative goals annually as a basis for paying the bonus to each of Messrs. Ehrlich and Harats. During 1998, no cash bonuses were paid to Messrs Ehrlich and Harats. However the Company accrued $50,000 for each of them, as per their contracts. In lieu of a cash bonus, the Compensation Committee is considering a grant of options to each of Messrs. Ehrlich and Harats, the number and terms of which have yet to be determined. The Employment Agreements also contain confidentiality and non-competition covenants. Pursuant to the Employment Agreements, each of Messrs. Ehrlich, and Harats was granted demand and "piggyback" registration rights covering shares of the Company's Common Stock held by them. The Employment Agreements may be terminated by the Company in the event of death, disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of the Company's Board of Directors or gross negligence or willful misconduct). Messrs. Ehrlich and Harats each have the right to terminate their employment for "Good Reason," which is defined to include adverse changes in employment status or compensation, insolvency of the Company, material breaches and certain other events. Upon termination of employment, the Employment Agreements provide for payment of all accrued and unpaid compensation as well as bonuses due for the year in which employment is terminated. The Employment Agreements also provide for a termination payment equal to thirty-six times monthly Base Salary at the highest rate in effect within the 90 day period prior to the termination of employment. Furthermore, certain benefits will continue and all outstanding options will be fully vested. In addition, Messrs. Harats and Ehrlich are entitled to an amount equal to the greater of (x) the average of all bonuses paid to the executive during the three most recent full calendar years immediately preceding the Termination Date or (y) all bonuses paid to the executive during the most recent full calendar year immediately preceding the Termination Date. Finally, Mr. Harats has the right to terminate his employment even without a "Good Reason", prior to the end of the agreement, and will still be entitled to all the termination benefits indicated above. On December 29, 1998, Messrs Ehrlich and Harats agreed, that for 1999, they would waive approximately 27% of their base salary or $43,476 for the calendar year. The Compensation Committee, in December 1998, approved a grant of 108,690 options to each of Messrs. Ehrlich and Harats, in lieu of the amount waived at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options vest 1/12th per month over the calendar year. Messrs. Ehrlich and Harats each have the right to cancel the arrangement upon two weeks notification to the Company prior to the beginning of each calendar quarter. Any unvested options would immediately be forfeited. Furthermore, while their base salary has been decreased, their social benefits and 1999 bonuses, will still be calculated on the full base salary that they are entitled to by contract.

Dr. Degani entered into an employment agreement with the Company upon joining the Company in June 1997 (the "Degani Employment Agreement"). The Degani Employment Agreement has no fixed termination date, and, subject to advance notice by either party of two months, may be terminated at will. The Degani Employment Agreement provides for a base salary of $9,000. This was adjusted to $9,500, effective January 1998. The Degani Employment Agreement provides for an annual bonus of not less than 1.5 months base salary, in accordance with Dr. Degani's success in the position, as well as other benefits such as vacation, sick leave, provision of an automobile and insurance contributions. Furthermore, Dr. Degani is entitled to a termination payment (in addition to severance pay by law), in an amount between 2-5 months base salary, depending on who gives notice, and how long Dr. Degani has been employed with the Company. The Degani Employment Agreement also contains confidentiality and non-competition covenants. During 1998, no cash bonus was paid to Dr. Degani. However the Company accrued $14,250 for him, as per his contract. In lieu of a cash bonus, the Compensation Committee is considering a grant of options to Dr. Degani, the number and terms of which have yet to be determined. On December 29, 1998, Dr. Degani agreed, that for 1999, he would waive $1,200 per month of his base salary, or $14,400 for the calendar year. The Compensation Committee, in December 1998, approved a grant of 36,000 options to Dr. Degani, in lieu of the amount waived at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. The options vest 1/12th per month over the calendar year. Dr. Degani has the right to cancel the arrangement upon two weeks notification to the Company prior to the beginning of each calendar quarter. Any unvested options would immediately be forfeited. Furthermore, while his base salary has been decreased, his social benefits and 1999 bonuses, will still be calculated on the full base salary that he is entitled to by contract.

On March 12, 1998, the Company and Mr. Menachem Korall (a former named executive officer of the Company) entered into an agreement (the "Termination Agreement") to terminate Mr. Korall's Employment Agreement, and all of each of the Company's and Mr. Korall's right and obligations thereunder effective as of January 31, 1998. Pursuant to the Termination Agreement, the Company paid

Mr. Korall all salary, other benefits and legally mandated severance pay due to him through that date. In addition, the Company agreed to pay to Mr. Korall additional severance pay in the amount of $120,000, payable in 24 equal monthly installments of $5,000 each, and to extend the date by which options held by Mr. Korall to purchase 90,000 Shares of the Company may be exercised to February 28, 2000. The Termination Agreement also contains mutual general releases between the Company and Mr. Korall. Simultaneously, the Company entered into a consulting agreement (the "Consulting Agreement") with Shampi Ltd., a consulting company with which Mr. Korall is affiliated. Pursuant to the terms of the Consulting Agreement, Mr. Korall will prepare several reports for the Company dealing with the Company's existing vehicle battery product and with a proposal for a new battery project. The Consulting Agreement terminates on April 10, 2000 unless renewed by mutual agreement of the parties. In consideration of these consulting services, the Company will make 24 equal monthly payments of $6,000 each to Shampi Ltd., in addition to two lump sum payments of $31,500 each at the beginning and end of the contract period. Furthermore, the Company agreed to provide to it a motor vehicle during such period for the use of Mr. Korall. Pursuant to the Consulting Agreement, Shampi Ltd and Mr. Korall have agreed to a five-year confidentiality provision and an agreement not to compete with the Company nor to solicit customers, suppliers or employees of the Company during the term of the Consulting Agreement and for a period of twelve months thereafter.

Other employees have entered into individual employment agreements with the Company. These agreements govern the basic terms of the individual's employment, such as salary, vacation, overtime pay, severance arrangements and pension plans. Subject to Israeli law, which restricts a company's right to relocate an employee to a work site further than sixty kilometers from his or her regular work site, the Company has retained the right to transfer certain employees to other locations and/or positions provided that such transfers do not result in a decrease in salary or benefits. In addition, all of these agreements contain provisions governing the confidentiality of information and ownership of intellectual property learned or created during the course of the employee's tenure with the Company. Under the terms of these provisions, employees must keep confidential all information regarding the Company's operations (other than information which is already publicly available) received or learned by the employee during the course of employment. This provision remains in force for five years after the employee has left the service of the Company. Further, intellectual property created during the course of the employment relationship belongs to the Company.

A number of the individual employment agreements, but not all, contain non-competition provisions which restrict the employee's rights to compete against the Company, or work for an enterprise which competes against the Company, for a period of two years after the employee has left the service of the Company.

Under the laws of Israel, an employee of the Company who has been dismissed from service, died in service, retired from service upon attaining retirement age, or left due to poor health, maternity or certain other reasons, is entitled to severance pay at the rate of one month's salary for each year of service. The Company funds this obligation currently by making monthly payments to approved private provident funds and by its accrual for severance pay in the consolidated financial statements. See Note 3 of the Notes to the Consolidated Financial Statements.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors for the 1998 fiscal year consisted of Dr. Jay Eastman, Jack Rosenfeld, and Lawrence Miller. None of the members have served as officers of the Company.

Robert S. Ehrlich, Chairman and Chief Financial Officer of the Company, serves as Chairman and a director of PSCX, for which Dr. Eastman serves as director and Mr. Rosenfeld serves as director and member of the Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the security ownership of those persons owning of record or known to the Company to be beneficial owners of more than five percent of the Company's Common Stock as of February 9, 1999, each of the Company's Named Executive Officers and directors, and the shares of Common Stock held by all directors and executive officers of the Company as a group.

<TABLE>
<CAPTION>

<S>	SHARES BENEFICIALLY OWNED(1)(2) <C>	PERCENTAGE OF TOTAL SHARES OUTSTANDING <C>
FIVE PERCENT HOLDERS		
Newton Becker 2743 Aqua Verde Circle Los Angeles, California	1,746,904/(3)/	12.2%
NAMED EXECUTIVE OFFICERS AND DIRECTORS		
Leon Gross	3,627,671/(4)(11)/	25.3%
Robert Ehrlich	1,248,618/(5)(8)(11)/	8.4%
Yehuda Harats	1,661,924/(6)(8)(11)/	11.3%
Joshua Degani	80,842/(7)/	*
Dr. Jay Eastman	20,000/(9)/	*
Jack E. Rosenthal	22,000/(9)/	*
Harvey M. Krueger	23,000/(9)/	*
Lawrence Miller	23,581/(10)/	*
All Directors and Executive Officers of the Company as a group (9 persons)	6,739,375/(4)(5)(6)(7)(8)(9)(10)(11)/	43.52%

</TABLE>

* Less than one percent.

(1) Unless otherwise indicated in these footnotes, each of the persons or entities named in the table has sole voting and sole investment power with respect to all shares shown as beneficially owned by that person, subject to applicable community property laws.

(2) For purposes of determining beneficial ownership of the Company's Common Stock, owners of options exercisable within sixty days are considered to be the beneficial owners of the shares of Common Stock for which such securities are exercisable. The percentage ownership of the outstanding Common Stock reported herein is baseon the assumption (expressly required by the applicable rules of the Securities and Exchange Commission) that only the person whose ownership is being reported has converted his options into shares of Common Stock.

(3) All shares are held in the name of the Becker Family Trust of which Mr. Becker is the trustee and sole beneficiary during his lifetime. Excludes 633,350 shares held by the Newton Becker Irrevocable Trust No. 1, as to which Mr. Becker disclaims beneficial ownership. Shares held by the Irrevocable Trust are held for the benefit of members of Mr. Becker's family. David E. Becker and Bryan Gordon, Mr. Becker's son and stepson, respectively, are co-trustees of the Irrevocable Trust.

(4) Based upon a Form 4 dated January 21, 1999. Includes 11,667 shares of Common Stock issuable upon exercise of options exercisable within 60 days, and 265,000 shares held by Leon Gross and Lawrence Miller as Co-Trustees of the Rose Gross Charitable Foundation.

(5) Includes 540,117 shares of Common Stock issuable upon exercise of options exercisable, or potentially exercisable, within 60 days.

(6) Includes 445,717 shares of Common Stock issuable upon exercise of options exercisable, or potentially exercisable, within 60 days.

(7) Includes 80,842 shares of Common Stock issuable upon exercise of options exercisable within 60 days.

(8) Messrs. Ehrlich and Harats are parties to a Stockholders Voting Agreement pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich and Harats (or their designees) as directors of the Company.

(9) Includes 20,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days.

(10) Includes 11,667 shares of Common Stock issuable upon exercise of options exercisable within 60 days.

(11) Messrs. Gross, Ehrlich and Harats are parties to a Voting Rights Agreement pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich, Harats and Miller for five years following October 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 1993, each of Messrs. Ehrlich, Harats and Korall exercised options to purchase 423,116, 719,304 and 343,785 shares of the Company's Common Stock, respectively, at an exercise price of $0.35 per share. In payment for the option exercise, each of Messrs. Ehrlich, Harats and Korall issued non-recourse promissory notes (the "Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at one point over the applicable United States federal funds rate. In December 1994, the Promissory Notes were amended to change the interest rate to the higher of a United States dollar rate of 7% or the percentage increase in the Israeli CPI between the date of the Promissory Notes and the date interest is calculated, based on the original principal amount of the loan expressed in NIS. Interest is payable at maturity. The Promissory Notes matured on January 3, 1998.The promissory notes of Messrs. Ehrlich and Harats were renewed as recourse notes for a period of 10 years through December 31, 2007. Mr. Korall's note was not renewed. As part of his termination agreement, Mr. Korall agreed to sell shares sufficient to pay the remaining balance of the loan. The loan balance has since been fully paid. In June 1998, the terms of the recourse notes were amended such that the Company would have recourse only to certain compensation due Messrs. Ehrlich and Harats upon termination, other than for cause, in which case Messrs. Ehrlich and Harats would continue to be personally liable on the notes. The Company's reserve fortermination benefits to each of Messrs. Ehrlich and Harats is greater than the outstanding amount due the Company under the Promissory Notes. Additionally, the Company agreed to repurchase shares of the Company's Common Stock, at any time, at current market prices, from either Messrs. Ehrlich or Harats as payment in full for the Promissory Notes; and if the shares were sold to the Company, that Messrs. Ehrlich and Harats would be granted new options at current market prices to purchase the same amount of shares of the Company's Common Stock that were sold. As of December 31, 1998, the aggregate amount outstanding pursuant to the Promissory Notes for each of Messrs. Ehrlich, and Harats was $220,463, and $378,422, respectively (including an aggregate of $200,685 in accrued interest receivable), which are also the largest aggregate amounts outstanding since the issuance of the Promissory Notes.

In August 1996, each of Messrs. Ehrlich, Harats exercised options to purchase 80,000, and 170,000 shares of the Company's Common Stock, respectively, at an exercise price of $5.75 per share. In payment for the option exercise, each of Messrs. Ehrlich, and Harats issued new non-recourse promissory notes (the "New Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at the rate of 6.2% per annum. The income taxes due on the option exercise were also added to the loan balance. Interest accrued at the higher of the abovementioned rate or the percentage increase in the Israeli CPI between the date of the New Promissory Notes and the date interest was calculated, based on the original principal amount of the loan expressed in NIS. Israel Value Added Tax ("VAT") was also being added to the interest. Both Interest and the related VAT were payable at maturity. During July 1998, the Company repurchased the underlying shares from each of Messrs Ehrlich and Harats for the aggregate amount outstanding under the New Promissory Notes, which at the time of the repurchase was $566,287 and $1,203,484 respectively (including an aggregate of $256,696 in accrued interest and VAT receivable).

In September 1996, Mr. Edelman exercised options to purchase 5,333 shares of the Company's Common Stock, at an average exercise price of $5.83 per share. In payment for the option exercise, Mr. Edelman issued a non-recourse promissory note (the "Promissory Note") secured by the shares of Common Stock purchased, bearing interest at the rate of 6.2% per annum. The income taxes due on the option exercise were also added to the loan balance. Interest accrued at the higher of the abovementioned rate or the percentage increase in the Israeli CPI between the date of the Promissory Note and the date interest was calculated, based on the original principal amount of the loan expressed in NIS. VAT was added to the interest and was paid currently. Interest was payable at maturity. During July 1998, the Company repurchased the underlying shares from Mr. Edelman for the aggregate amount outstanding under the New Promissory Notes, which at the time of the repurchase was $36,708 (including an aggregate of $3,888 in accrued interest receivable).

Pursuant to a Stock Purchase Agreement dated September 30, 1996, between the Company and Mr. Gross, (the "Purchase Agreement"), on October 2, 1996, the Company issued 1,538,462 shares of Common Stock to Mr. Gross at a price of $6.50 per share, for a total purchase price of $10.0 million.

Pursuant to the terms of the Purchase Agreement, Mr. Gross agreed that for a period of five (5) years from the date of the Purchase Agreement, neither Mr. Gross nor his Affiliates, as defined in the Securities Act, directly or indirectly or in conjunction with or through any Associate (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), will (i) solicit proxies with respect to any capital stock or other voting securities of the Company under any circumstances, or become a "participant" in any "election contest" relating to the election of directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A of the Exchange Act) or (ii) make an offer for the acquisition of substantially all of the assets or capital stock of the Company or induce or assist any other person to make such an offer or (iii) form or join any "group" within the meaning of Section 13(d)(3) of the Exchange Act with respect to any capital stock or other voting securities of the Company for the purpose of accomplishing the actions referred to in clauses (i) and (ii) above other than pursuant to the Voting Rights Agreement described below.

In connection with the Purchase Agreement, the Company and Mr. Gross also entered into a Registration Rights Agreement dated September 30, 1996, setting forth registration rights with respect to the shares of Common Stock issued to Mr. Gross in connection with the offering. These rights include the right to make two (2) demands for a shelf registration statement on Form S-3 for the sale of the Common Stock which may, subject to certain customary limitations and requirements, be underwritten. In addition, Mr. Gross was granted the right to "piggyback" on registrations of Common Stock in an unlimited number of registrations. Also under the Registration Rights Agreement, Mr. Gross is subject to customary underwriting lock-up requirements with respect to public offerings of the Company's securities.

Pursuant to a Voting Rights Agreement dated September 30, 1996 and as amended December 10, 1997, (the "Voting Rights Agreement"), between the Company, Mr. Gross and certain management shareholders, Robert S. Ehrlich (the Company's Chairman of the Board and Chief Financial Officer) and Yehuda Harats (the Company's President and Chief Executive Officer (the "Management Stockholders")), Lawrence M. Miller, Mr. Gross's advisor, will be entitled to be nominated to serve on the Company's Board of Directors, so long as Mr. Gross, his heirs or assigns retains at least 1,375,000 shares of Common Stock. As a result, the Company's Board of Directors was increased to a total of six members. In addition, under the Voting Rights Agreement, Mr. Gross and Messrs. Ehrlich and Harats agreed to vote and take all necessary action so that Messrs. Ehrlich, Harats, and Miller shall serve as members of the Board of Directors until the earlier of December 10, 2002 or the 5TH Annual Meeting after December 10, 1997. In addition, so long as Mr. Miller serves as a director, Mr. Gross, who shall succeed Mr. Miller should he cease to serve on the Board (unless Mr. Gross is then serving on the Board, in which case Mr. Gross may designate a Director), shall be entitled to attend and receive notice of Board meetings.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

a. 1. Financial Statements - See Index to Financial Statements attached hereto, page 23.

2. Financial Statements Schedules - See Index to Financial Statements attached hereto, page 23.

3. Exhibits - The following is a list of exhibits:

Exhibit Number	Description
2	Merger Agreement dated as of March 2, 1994 between the Company and Advanced Materials Technology, Inc.(1)
3.1	Amended and Restated Certificate of Incorporation of the Registrant.(1)

3.2 Amended and Restated By-Laws of the Company.(4)

4 Specimen Certificate for shares of Common Stock, $.01 par value of the Registrant.(1)

10.1 Option Agreement dated October 29, 1992 between Electric Fuel B.V. ("EFBV") and Electric Storage Advanced Technologies, Sr ("ESAT").(1)

10.2 Sublicense Agreement dated May 20, 1993 between EFBV and ESAT.(1)

10.3 Letter Agreement dated May 20, 1993 between EFBV and ESAT.(1)

10.4 Notice of Edison's assumption of ESAT's obligations under the Sublicense Agreement with EFBV.(1)

10.5 Agreement dated December 16, 1992 between EFL and Technischer Uberwachungsverein Bayern Sachsen e.V. ("TUV").(1)

10.6 Agreement dated July 29, 1992 between EFL and TUV.(1)

10.7 Letter of Intent between the Company and Deutsche Post AG dated November 18, 1993.(1)

10.8 Amended and Restated 1993 Stock Option and Restricted Stock Purchase Plan dated November 11, 1996.(8)+

10.9.1 Form of Management Employment Agreements. (1)+

10.9.2 General Employee Agreements.(1)*+

10.10 Office of Chief Scientist documents.(1)*

10.10.1 Letter from the Office of Chief Scientist to the Company dated January 4, 1995.(4)

10.11 Lease Agreement dated December 2, 1992 between the Company and Har Hotzvim Properties Ltd.(1)*

10.12 Letter of Approval by the Investment Center of the Ministry of Trade.(1)*

10.13 Execution Copy of Purchase Agreement dated as of June 9, 1993 among the Company, EFL, Advanced Materials Technology, Inc. and the Trustee of the Chapter 7 Bankruptcy Estate of Luz International Ltd.(1)

10.14 Agreement between EFL and Dr. Walter Trux dated as of March 1, 1993.(1)

10.15 Cooperation Agreement between EFL and Hoechst GmbH dated as of August 22, 1994.(2)

10.16 Agreement between Deutsche Post AG and EFL dated as of September 19, 1994.(2)

10.17 Agreement between Deutsche Post AG and EFL dated as of October 21, 1994.(2)

10.18 Framework Agreement between Vattenfall AB and EFL dated March 27, 1995.(3)

10.19 Summary of the terms of the Lease Agreements dated as of November 11, 1994, November 11, 1994 and April 3, 1995 between EFL and Industries Building Company, Ltd.(4)*

10.20 Amended and Restated 1995 Non-Employee Director Stock Option Plan.(5)+

10.21 Framework Contract between the Company and Stadtwerke Bremen AG ("Stadtwerke") dated July, 1995.(4)

10.22 Assignment Agreement dated December 31, 1995 between EFL, Hoechst GmbH and Uhde GmbH ("Uhde").(4)

10.23 Lease between EFL and Stadtwerke dated July 17, 1995.(5)*

10.24 Framework Agreement for Cooperation in Marketing and Establishment of Regeneration Plants between EFL and Uhde dated February 11, 1996.(5)

10.25 Letters of Approval of Lines of Credit from First International Bank of Israel Ltd. dated March 14, 1996 and March 18, 1996.(5)

10.26 Stock Purchase Agreement between the Company and Leon S. Gross ("Gross") dated September 30, 1996.(6)

10.27 Registration Rights Agreement between the Company and Gross dated September 30, 1996.(6)

10.28 Voting Rights Agreement between the Company, Gross, Robert Ehrlich and Yehuda Harats dated September 30, 1996. (6)

10.29 Agreement between the Company and Walter Trux dated December 18, 1996. (7)

10.30 Cooperation Agreement between The Israel Electric Corporation and EFL dated as of October 31, 1996.(7)

10.31 Amended and Restated Employment Agreement, dated as of October 1, 1996 between the Company, EFL and Yehuda Harats+ (7)

10.32 Amended and Restated Employment Agreement dated as of October 1, 1996 between the Company, EFL and Robert S. Ehrlich+ (7)

10.33 Lease Agreement between Mori Investments Ltd. and EFL dated March 18, 1996. (7)

10.34 Agreement dated February 20, 1997 between STN ATLAS Elektronik GmbH and EFL.(7)

10.35 Agreement dated February 2, 1998 between Deutsche Post AG and EFL.(8)

10.36 Employment Agreement dated May 13, 1997 between the Company, EFL, and Joshua Degani.+ (8)

10.37 Termination Agreement dated March 12, 1998 between the Company, EFL and Menachem Korall.+ (8)

10.38 Consulting Agreement dated March 12, 1998 between the Company, EFL, and Shampi Ltd. (8)

10.39 Amendment No. 1 to the Voting Rights Agreement between the Company, Gross, Robert Ehrlich, and Yehuda Harats dated December 10, 1997. (8)

10.40 Amendment No. 2 to the Registration Rights Agreement between the Company, Gross, Robert Ehrlich and Yehuda Harats dated December 10, 1997. (8)

10.41 1998 Non-Executive Stock Option and Restricted Stock Purchase Plan (9).

10.42 Form of Distribution agreement

21 Subsidiaries.(4)

23.1 Consent of Kesselman & Kesselman (a member of PriceWaterhouseCoopers International Limited), independent certified public accountants in Israel.

27 Financial Data Schedule.

27.1 Amended Financial Data Schedule Nine Months Ended September 30, 1997. (8)

27.2 Amended Financial Data Schedule Six Months Ended June 30, 1997. (8)

27.3 Amended Financial Data Schedule Three Months Ended March 31, 1997. (8)

27.4 Amended Financial Data Schedule Year Ended December 31, 1996. (8)

27.5 Amended Financial Data Schedule Nine Months Ended September 30, 1996. (8)

27.6 Amended Financial Data Schedule Six Months Ended June 30, 1996 (8)

27.7 Amended Financial Data Schedule Three Months Ended March 31, 1996. (8)

99. Important factors regarding forward-looking statements

(b) Reports on Form 8-K

The Company did not file any Current Reports on Form 8K during the last quarter of fiscal year 1998.

- ----------------

* English translation or summary from original

\+ Includes management contracts and compensation plans and arrangements.

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-73256), which became effective on February 23, 1994.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as amended.

(3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.

(4) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-97944), which became effective on February

5, 1996.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

(6) Incorporated by reference to the Company's Report on Form 8-K dated October 4, 1996.

(7) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, as amended.

(8) Incorporated by reference to Company's Annual Report on Form 10-K for the year ended December 31, 1997, as amended.

(9) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333 - 74197), which became effective on March 10, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 23, 1999.

ELECTRIC FUEL CORPORATION

By /s/ Robert S. Ehrlich

Name: Robert S. Ehrlich
Title: Vice President, Chairman, Chief Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 23,1999.

<TABLE>
<CAPTION>

Signature	Title
/s/ Yehuda Harats Yehuda Harats	Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ Robert S. Ehrlich Robert S. Ehrlich	Chief Financial Officer, Vice President and Director (Principal Financial Officer)
/s/ Evan Fishman Evan Fishman	Controller (Principal Accounting Officer)
/s/ Jay M. Eastman Jay M. Eastman	Director
/s/ Leon S. Gross Leon S. Gross	Director
/s/ Harvey M. Krueger Harvey M. Krueger	Director
/s/ Lawrence M. Miller Lawrence M. Miller	Director
/s/ Jack E. Rosenfeld Jack E. Rosenfeld	Director

</TABLE>

ELECTRIC FUEL CORPORATION
1998 CONSOLIDATED FINANCIAL STATEMENTS

ELECTRIC FUEL CORPORATION
1998 CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders of

ELECTRIC FUEL CORPORATION

We have audited the consolidated balance sheets of Electric Fuel Corporation (hereafter - the "Company") and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of loss, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel and in the United States, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, either due to error or to intentional misrepresentation. 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 the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a fair basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1998 and 1997 and the results of their operations, changes in stockholders' equity and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in the United States.

Jerusalem, Israel
February 26, 1999

Kesselman & Kesselman
Certified Public Accountants (Israel)

ELECTRIC FUEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31 1998	DECEMBER 31 1997
	U.S. DOLLARS	
A S S E T S		
CURRENT ASSETS (note 7):		
Cash and cash equivalents	5,242,555	11,771,816
Marketable debt securities (note 8a)	3,700,575	3,101,846
Accounts receivable:		
Trade	613,467	801,927
Other (note 8b)	1,299,056	1,711,037
Inventories	374,543	538,682
Total current assets	11,230,196	17,925,308
MARKETABLE DEBT SECURITIES (note 8a)		1,843,326

FIXED ASSETS (note 2):		
Cost	6,342,171	7,058,716
Less - accumulated depreciation and amortization	2,907,312	2,304,327
	3,434,859	4,754,389
OTHER ASSETS, net of accumulated amortization		49,182
	14,665,055	24,572,205

</TABLE>

<TABLE>
<CAPTION>

<S>	DECEMBER 31 1998 U.S. DOLLARS <C>	1997 <C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES (note 7):		
Accounts payable and accruals:		
Trade	1,099,352	1,169,371
Other (note 8c)	1,003,522	1,786,163
Deferred income	136,549	1,014,948
Total current liabilities	2,239,423	3,970,482
LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT, net of amount funded (note 3)	1,844,120	1,842,749
COMMITMENTS (note 4)		
Total current liabilities	4,083,543	5,813,231
STOCKHOLDERS' EQUITY (note 5):		
Common stock - $ 0.01 par value; authorized - 28,000,000 shares as of December 31, 1998 and 1997; issued - 14,303,387 shares as of December 31, 1998 and 14,218,161 shares as of December 31, 1997 outstanding - 14,048,054 shares as of December 31, 1998 and 14,218,161 shares as of December 31, 1997	143,034	142,182
Preferred stock -$ 0.01 par value; authorized - 1,000,000 shares, no shares outstanding		
Additional paid-in capital	57,398,814	57,077,708
Accumulated deficit	(44,553,027)	(36,020,457)
Accumulated other comprehensive income (loss)	(1,943)	436
Treasury stock, at cost (common stock - 255,333 shares)	(1,806,481)	
Notes receivable from stockholders	(598,885)	(2,440,895)
Total stockholders' equity	10,581,512	18,758,974
	14,665,055	24,572,205

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF LOSS

<TABLE>
<CAPTION>

<S>	1998 U.S. dollars <C>	1997 <C>	1996 <C>
REVENUES (note 10)	4,013,263	4,526,216	5,405,303
RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES			
Expenses incurred (note 9a)	10,055,571	12,227,559	13,067,747
Less - royalty-bearing grants (note 4a)	489,546	2,381,777	1,505,720
	9,566,025	9,845,782	11,562,027
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (note 9b)	3,675,024	4,440,194	4,693,008
	13,241,049	14,285,976	16,255,035
OPERATING LOSS	(9,227,786)	(9,759,760)	(10,849,732)
FINANCIAL INCOME - net (note 9c)	652,042	775,111	793,853
LOSS BEFORE TAXES ON INCOME	(8,575,744)	(8,984,649)	(10,055,879)
TAXES ON INCOME (note 6)	(43,174)	144,850	(38,261)

LOSS	(8,532,570)	(9,129,499)	(10,017,618)
LOSS PER SHARE - basic and diluted (note 1p)	(0.61)	(0.73)	(0.91)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (note 1p)	14,013,305	12,502,330	10,961,765

</TABLE>

The accompanying notes are an integral part of the financial statements.

(Continued) - 1

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common stock - Shares	Common stock - Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)
	U.S. dollars				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	11,328,110	113,282	24,168,108	(16,873,340)	29,048
CHANGES DURING 1996 (note 5):					
Shares issued in a public offering	3,750,000	37,500	/(1)/21,562,647		
Shares issued in a private placement	1,538,462	15,384	/(2)/9,920,407		
Shares issued in connection with the exercise of options	293,099	2,931	1,516,933		
Compensation cost in connection with exercise of options			159,834		
Treasury stock retired	(2,652,163)	(26,522)	(166,652)		
Purchase of treasury stock (72,300 shares) and options issued as compensation for services rendered by consultant			68,000		
Options issued as compensation for services rendered by consultant			9,959		
Loans granted to stockholders					
Accrued interest on notes receivable from stockholders			102,215		
Realization of gain on available-for-sale securities					(25,891)
Loss				(10,017,618)	
BALANCE AT DECEMBER 31, 1996	14,257,508	142,575	57,341,451	(26,890,958)	3,157
CHANGES DURING 1997 (note 5):					
Shares issued in connection with the exercise of options	32,953	330	36,552		
Treasury stock retired	(72,300)	(723)	(455,671)		
Options issued as compensation for services rendered by consultant			9,000		
Loans granted to stockholders					
Payment of interest and principal on note receivable from stockholders					
Accrued interest on notes receivable from stockholders			146,376		
Realization of gain on available-for-sale securities					(2,721)
Loss				(9,129,499)	
BALANCE AT DECEMBER 31, 1997 - forward	14,218,161	142,182	57,077,708	(36,020,457)	436

<CAPTION>

	Treasury stock	Notes receivable from stockholders	Total
<S>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	(193,174)	(1,422,942)	5,820,982
CHANGES DURING 1996 (note 5):			
Shares issued in a public offering			21,600,147
Shares issued in a private placement			9,935,791

Shares issued in connection with the exercise of options		(1,465,978)	53,886
Compensation cost in connection with exercise of options			159,834
Treasury stock retired	193,174		
Purchase of treasury stock (72,300 shares) and options issued as compensation for services rendered by consultant	(456,394)	815,046	426,652
Options issued as compensation for services rendered by consultant			9,959
Loans granted to stockholders		(94,131)	(94,131)
Accrued interest on notes receivable from stockholders		(102,215)	
Realization of gain on available-for-sale securities			(25,891)
Loss			(10,017,618)
	---------	----------	----------
	(456,394)	(2,270,220)	27,869,611
BALANCE AT DECEMBER 31, 1996			
CHANGES DURING 1997 (note 5):			
Shares issued in connection with the exercise of options	456,394		36,882
Treasury stock retired			
Options issued as compensation for services rendered by consultant			9,000
Loans granted to stockholders		(38,395)	(38,395)
Payment of interest and principal on note receivable from stockholders		14,096	14,096
Accrued interest on notes receivable from stockholders		(146,376)	
Realization of gain on available-for-sale securities			(2,721)
Loss			(9,129,499)
	---------	---------	----------
	-,-	(2,440,895)	18,758,974
BALANCE AT DECEMBER 31, 1997 - forward			

</TABLE>

(CONCLUDED) - 2

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK
		U.S DOLLAR				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1997 - forward	14,218,161	142,182	57,077,708	(36,020,457)	436	
CHANGES DURING 1998 (note 5):						
Shares issued in connection with the exercise of options	81,226	812	90,094			
Purchase of treasury stock (255,333 shares) for notes receivable from stockholders and compensation costs in connection therewith			110,302			(1,806,481)
Options issued as compensation for services rendered by employees			110,000			
Shares issued as compensation for services rendered by directors	4,000	40	10,710			
Loans granted to stockholders						
Payment of interest and principal on note receivable from stockholders						
Accrued interest on notes receivable from stockholders						
Unrealized loss on available for-sale securities					(2,379)	
Loss				(8,532,570)		
	----------	-------	----------	-----------	-----	-------
BALANCE AT DECEMBER 31, 1998	14,303,387	143,034	57,398,814	(44,553,027)	(1,943)	(1,806,481)
	==========	=======	==========	==========	=====	=========

<CAPTION>

NOTES RECEIVABLE FROM STOCKHOLDERS	TOTAL
------------	-----

<S>	<C>	<C>
BALANCE AT DECEMBER 31, 1997 - forward	(2,440,895)	18,758,974
CHANGES DURING 1998 (note 5):		
Shares issued in connection with the exercise of options		90,906
Purchase of treasury stock (255,333 shares) for notes receivable from stockholders and compensation costs in connection therewith	1,806,481	110,302
Options issued as compensation for services rendered by employees		110,000
Shares issued as compensation for services rendered by directors		10,750
Loans granted to stockholders	(19,158)	(19,158)
Payment of interest and principal on note receivable from stockholders	147,299	147,299
Accrued interest on notes receivable from stockholders	(92,612)	(92,612)
Unrealized loss on available-for-sale securities		(2,379)
Loss		(8,532,570)
BALANCE AT DECEMBER 31, 1998	(598,885)	10,581,512

</TABLE>

/(1)/ Net of $ 2,774,853 - offering expenses.

/(2)/ Net of $ 64,211 - issuing expenses.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	1998	1997	1996
		U.S. DOLLARS	
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss	(8,532,570)	(9,129,499)	(10,017,618)
Adjustments required to reconcile loss to net cash used in operating activities:			
Writedown of investment in an investee company	35,849		
Depreciation and amortization	903,945	866,327	951,955
Amortization of net premium (discount) on marketable debt securities	21,897	(44,591)	
Capital loss from disposal of fixed assets	5,321	6,405	7,145
Capital loss from disposal of marketable debt securities, net	150		30,991
Liability for employee rights upon retirement - net	1,371	701,719	585,122
Waiver of loan to stockholder			358,652
Compensation cost in connection with exercise of options			159,834
Write-down of fixed assets	1,251,604		
Issue of shares as compensation for services rendered by directors	10,750		
Issue of stock options as compensation for services rendered by employees	110,000		
Compensation in connection with purchase of treasury stock for notes receivable from stockholders	110,302		
Issue of stock options as compensation for services rendered by consultants		9,000	77,959
Interest accrued on notes and loan to stockholders	(92,612)		
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable	222,540	(233,457)	118,619
Decrease (increase) in inventories	164,139	376,350	(379,824)
Increase (decrease) in accounts payable and accruals	(852,660)	570,656	(4,516,367)
Increase (decrease) in deferred income	(878,399)	88,349	(3,296,467)
Net cash used in operating activities	(7,518,373)	(6,788,741)	(15,919,999)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	(985,507)	(507,882)	(2,225,459)
Investment grant relating to fixed assets	377,901		355,137
Loans granted to stockholders	(19,158)	(38,395)	(94,131)
Proceeds from disposal of fixed assets	157,500		19,731
Sale or redemption of (purchase of) marketable debt securities - net	1,220,171	6,393,080	(7,137,746)
Net cash provided by (used in) investing activities	750,907	5,846,803	(9,082,468)
Forward	(6,767,466)	(941,938)	(25,002,467)

</TABLE>

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	1998	1997	1996
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
Forward	(6,767,466)	(941,938)	(25,002,467)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital (including additional paid in capital), net of offering expenses			32,246,490
Proceeds from exercise of options	90,906	36,882	53,886
Payment on note receivable from stockholders	147,299	14,096	
Net cash provided by financing activities	238,205	50,978	32,300,376
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,529,261)	(890,960)	7,297,909
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,771,816	12,662,776	5,364,867
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	5,242,555	11,771,816	12,662,776
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH PAID DURING THE YEAR FOR:			
Interest	1,045	30,001	28,247
Income taxes	88,340	49,563	92,483

</TABLE>

SUPPLEMENTARY INFORMATION ON ACTIVITIES NOT INVOLVING CASH FLOWS:

1. As to the writedown, in 1997, of equipment in the amount of $ 2.2 million, see note 11.

2. As to transaction, in 1996, whereby the Company purchased shares of its common stock from a stockholder, see note 5a(4).

3. As to 1998 purchase of treasury stock for notes receivable from stockholders, see note 5a(6).

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows (see also e. below):

a. GENERAL:

1) Nature of operations

Electric Fuel Corporation ("EFC") - a Delaware corporation - together with its subsidiaries, is referred to as the Company. Substantially all operating assets of the Company are situated at, and operations of the Company are primarily carried out by, Electric Fuel (E.F.L.) Ltd. ("EFL") - an Israeli wholly-owned subsidiary. The Company also maintains a small battery research and development facility in the United States.

The Company is involved in the research, development and commercial exploitation of zinc-air electrochemical technology for primary and reusable battery systems. The Company operates in three business segments: consumer batteries, electric vehicles and defense and safety products. As more fully reflected in note 10, the Company's defense and safety products have achieved commercial sales. Other segments, however, have yet to reach the stage of commercial sales; revenues are derived primarily from the sale of pre-production prototype systems and technology contracts.

Until commencement of commercial product sales, the Company plans to meet its funding requirements through fees from potential users of its technology, continued sales of prototype systems, grants from various U.S. and Israeli governmental and quasi-governmental agencies and its available capital. For the Company to meet its projected level of activity however, the Company will require additional funding via the issuance of equity or debt securities or via the formation of joint venture or other strategic relationships. Should the Company be unsuccessful in obtaining additional funding, management of the Company intends to modify, reduce, defer or eliminate certain of its anticipated programs in order to continue reduced operations.

The other active subsidiaries are:

Electric Fuel B.V. - a Netherlands company, wholly-owned by EFL.

Electric Fuel GmbH - a German company, wholly owned by EFL.

2) Accounting principles

The financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

3) Use of estimates in the preparation of financial statements

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions 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 reported years. Actual results could differ from those estimates.

b. FUNCTIONAL CURRENCY OF SUBSIDIARIES

The Company's management considers the United States dollar to be the currency of the primary economic environment in which EFL operates and, therefore, EFL has adopted and is using the United States dollar as its functional currency. Further, the Company believes that the operations of EFL's subsidiaries are an integral part of the Israeli operations. While a significant proportion of EFL's revenues have been denominated in German marks as a result of its involvement in the Field Test, based on the Company's historical experience and the Company's strategic objectives, management continues to consider the United States dollar to be the currency of the primary economic environment in which EFL operates. Furthermore, revenues not related to the field test are primarily in dollars. Transactions and balances originally denominated in dollars are presented at their original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

c. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EFC and its subsidiaries. Intercompany balances and transactions have been eliminated.

d. MARKETABLE DEBT SECURITIES

These securities are classified as available-for-sale. Accordingly, these securities are stated at market value and the changes in their market value are carried directly to a separate component of Stockholders' Equity, under other comprehensive income (loss). Realized gains and losses are carried to the statements of loss.

e. INVENTORIES

Composed mainly of raw materials and supplies valued at the lower of cost or market. Cost is determined as per 1998 on the moving average basis (previously -first-in, first-out). The effect of this change is immaterial.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. FIXED ASSETS

These assets are stated at cost, net of related investment grant.

The assets are depreciated by the straight-line method, on the basis of their estimated useful life.

Annual rates of depreciation are as follows:

	%
Machinery and equipment	10;25 (mainly 10)
Computers and related equipment	20
Office furniture and equipment	6;10
Vehicles	15

Leasehold improvements are amortized by the straight-line method over the term of the lease, which is shorter than the estimated useful life of the improvements.

g. OTHER ASSETS

Other assets represent know-how purchased in 1994 and fully amortized through 1998 and an investment in an Israeli company (3.9% owned) that was written-off in 1998.

h. REVENUE RECOGNITION

Revenues in respect of contracts for prototype equipment, technical assistance, services, etc. are recognized upon the delivery of the equipment or as the services are performed. Payment from technology licenses is recognized upon sale of the license.

If such payment is uncertain, revenue is recognized to the extent of non-refundable fees received.

Revenue and costs in connection with the Company's contractual program commitments are recognized on the "percentage of completion" method. The percentage of completion is determined according to the ratio of amounts already expended to estimated total cost as projected at balance sheets dates. Full provision is made for losses arising from these commitments upon their anticipation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

i. RESEARCH AND DEVELOPMENT

Research and development expenses are included under "Research and development expenses and cost of revenues". Because of the nature of the Company's operations, management is of the opinion that it is not meaningful to segregate these costs. Research and development expenses, are charged to operations as incurred. Participation by governmental or quasi-governmental agencies is recognized as a reduction of expense as the related costs are incurred (see also note 4a).

j. DEFERRED INCOME TAXES

The Company uses the liability method of accounting for income taxes, as set forth in Statement No. 109 of the U.S. Financial Accounting Standards Board ("FASB"), "Accounting for Income Taxes". Under this method, deferred income taxes are provided on the basis of the differences between the financial reporting and income tax bases of assets and liabilities at the statutory rates enacted for future periods.

k. CASH EQUIVALENTS

The Company considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents.

l. IMPAIRMENT IN VALUE OF FIXED ASSETS

In accordance with Statement No. 121 of the FASB, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Based on the Company's estimate of future undiscounted cash flows, the Company expects to recover the carrying amounts of its remaining fixed assets.

During 1997, the Company recorded a writedown of equipment relating to the Field Test in Germany in the amount of $ 2.2 million. This writedown was charged against the provision for anticipated program losses established in prior years (see note 10e(1)).

During 1998, the Company completed its Field Test in Germany and recorded a writedown relating to these assets in the approximate amount of $ 830,000.

During 1998, the Company recorded a writedown of certain production equipment in Israel in the approximate amount of $ 420,000.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

m. CONCENTRATION OF CREDIT RISKS

Most of the Company's cash and cash equivalents and marketable debt securities at December 31, 1998 and 1997 are deposited with Israeli and U.S. banks and U.S. brokers. Accordingly, the Company considers the inherent credit risks to be remote.

The Company's revenues are earned primarily from large institutional customers. In general, the exposure to concentration of credit risks relating to trade receivables is limited, due to the nature of the Company's customers.

n. COSTS INCURRED RELATING TO THE YEAR 2000 ISSUE

The Company charges the costs incidental to adaptation of its software, in accordance with its operating plan, to income as incurred.

o. ADVERTISING COSTS

Advertising costs are charged to income as incurred.

p. LOSS PER SHARE:

1) Loss per share is computed based on the weighted average number of shares outstanding (net of treasury stock) during each year.

2) Since the basic earnings per share ("EPS") represents loss per share, the effect of including the incremental shares from assumed exercise of options in EPS computation is anti-dilutive, and accordingly the basic and diluted EPS are the same amount.

3) The shares purchased with non-recourse notes receivable from stockholders are assumed - for per share computation - to be stock options.

q. COMPREHENSIVE INCOME

In 1998, the Company adopted FAS No. 130, "Reporting Comprehensive Income" which was issued in June by the FASB.

FAS 130 requires the reporting and display of comprehensive income and its components, in a full set of general purpose financial statements. In addition to net income (loss), comprehensive income includes all non-owner changes in equity ("other comprehensive income (loss)") which, as applicable to the Company, include unrealized gain on marketable securities available for sale.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

r. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT

In June 1998, the FASB issued FAS No. 133, "Accounting For Derivative Instruments and Hedging Activities". FAS 133 established a new model for accounting for derivatives and hedging activities. FAS 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. FAS 133 is effective for calendar-year companies as from January 1, 2000.

The Company is currently evaluating the impact FAS 133 will have on its financial statements; however, since the use of derivatives by the Company is limited (see also note 8d), it expects that the adoption of FAS 133 will have no material impact on its consolidated results of operations, financial position or cash flows.

NOTE 2 - FIXED ASSETS:

a. COMPOSITION OF ASSETS, GROUPED BY MAJOR CLASSIFICATIONS, IS AS FOLLOWS:

<TABLE>
<CAPTION>

	COST*		ACCUMULATED DEPRECIATION AND AMORTIZATION	
	DECEMBER 31		DECEMBER 31	
	1998	1997	1998	1997
	U.S. DOLLARS			
<S>	<C>	<C>	<C>	<C>
Machinery and equipment	4,408,687	5,030,996	1,868,107	1,494,097
Computers and related equipment	513,142	463,710	269,381	181,582
Office furniture and equipment	300,570	334,821	70,273	80,836
Vehicles	659,768	634,430	273,619	239,213
Leasehold improvements	460,004	594,759	425,932	308,599
	6,342,171	7,058,716	2,907,312	2,304,327

</TABLE>

* Net of related investment grant in the amount of $ 989,036 and $919,601 as of December 31, 1998 and 1997, respectively (see also note 6b).

b. Depreciation and amortization of fixed assets totalled $ 893,940, $856,327 and $ 941,955 in 1998, 1997 and 1996, respectively.

c. As to liens on fixed assets, see note 6b(1)(c).

NOTE 3 - EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. EFL's severance pay liability to its Israeli employees, based upon the number of years of service and the latest monthly salary (see also note 4c), is partly covered by purchase of insurance policies and by deposits with severance pay and pension funds.

The amounts funded by EFL for the purchase of insurance policies for its employees are reflected as plan assets since substantially all employees are entitled to irrevocably receive such funds by the terms of employment contract or Company policy and these insurance policies cannot ordinarily be withdrawn by EFL.

The amounts accrued and the portion funded for Israeli employees of EFL are composed as follows:

<TABLE>
<CAPTION>

	DECEMBER 31	
	1998	1997
	U.S. DOLLARS	
<S>	<C>	<C>
Accrued severance pay	2,578,585	2,726,520
L e s s - plan assets (primarily insurance policies)	734,465	883,771
Unfunded balance*	1,844,120	1,842,749

</TABLE>

* Reflects primarily obligations of the Company in connection with employment agreements with certain senior employees (see note 4c).

The amounts of accrued severance pay as above cover the Company's severance pay liability in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay.

b. The Change in accrued severance pay for 1998 is comprised of increase in liability of approximately $156,000 less benefits paid of approximately $304,000 (1997-increase in liability of approximately

$993,000 less benefits paid of approximately $70,000).

The change in plan assets for 1998 is comprised of contributions of approximately $217,000, benefits paid of approximately $187,000 and loss on plan assets of approximately $180,000 (1997 is comprised of contributions of approximately $216,000, benefits paid of approximately $63,000 and return on plan assets of approximately $69,000).

Expenses included in employee rights upon retirement for the year 1996 amounted to approximately $1,140,000. Detailed information is not readily available for this year.

NOTE 4 - COMMITMENTS:
- ----

a. ROYALTY COMMITMENTS:

1) Since its inception, EFL has received royalty-bearing research and development ("R&D") grants from the Chief Scientist's Office ("Chief Scientist") of the Israeli Ministry of Industry and Trade. Pursuant to the terms of these grants, EFL is obligated to pay royalties to the Chief Scientist on proceeds from the sale of products in the R&D of which the Chief Scientist participated.

Royalties in connection with the grants received are payable at a rate of 3%-5% of net sales (up to 100% of grants received). In the case of approved transfer of technology out of Israel, the rate of payment may be accelerated and total payments may reach 300% of the amount granted.

2) The Company in cooperation with a U.S. participant has received approval from the Israel U.S. Binational Industrial Research and Development Foundation (BIRD) for 50% funding of a project for the development of a hybrid propulsion system for transit buses. The maximum approved cost of the project is approximately $1.8 million and the Company's share in the Project costs is anticipated to amount to approximately $1.1 million, which will be reimbursed by BIRD at the aforementioned 50% rate.

Royalties at rates from 2.5%-5% of sales are payable up to a maximum of 150% of the grant amounts - linked to the U.S. consumer price index. Accelerated royalties are due under certain circumstances.

3) At the time the grants were received, successful development of the related products was not assured. In the case of failure of a project that was partly financed by the aforementioned royalty bearing participations, the Company is not obligated to pay any such royalties.

As of December 31, 1998, total commitments to pay royalties are as follows: Chief Scientist (at 100%) - approximately $7.5 million. BIRD (at 150%) -approximately $ 64,000.

b. LEASE COMMITMENTS

The Company has entered into various non-cancelable operating lease agreements for the premises it occupies. The leases will expire in 2000.

The rental payments under the above leases, at rates in effect at December 31, 1998, are as follows:

<TABLE>
<CAPTION>

<S>	<C> U.S. DOLLARS IN THOUSANDS
Year ending December 31:	
1999	124
2000	31

</TABLE>

The rental payments are primarily payable in Israeli currency linked to the Israeli Consumer Price Index ("Israeli CPI").
Rental expenses totaled approximately $ 470,000, $ 525,000 and $360,000 in 1998, 1997 and 1996, respectively.

NOTE 4 - COMMITMENTS (continued):

c. EMPLOYMENT CONTRACTS

Two senior employees (related parties) have employment agreements with the Company expiring in 2000. Base salary presently payable by the Company under these agreements amounts to $ 320,000 annually, with further amounts payable as bonuses of not less than 50% of base salary or in the aggregate 5% of net income as defined, subject to certain conditions, including attainment of the Company's budgeted goals. Base salaries are to be adjusted for the increase in the Israeli inflation rate over the devaluation of the shekel, but not less than 3% per annum.

The employees are entitled to other usual benefits and are to receive a termination payment equal to 36 times monthly base salary - in addition to the usual severance pay required by Israeli law - upon fulfillment of the contractual terms. These employees are entitled to an additional bonus payment upon termination based upon past bonuses paid to such employees, and a vesting schedule as stipulated in the agreements. The Company has fully provided for all vested benefits under the employee agreements.

d. OTHER - see note 10e(5).

NOTE 5 - STOCKHOLDERS' EQUITY:

a. CAPITAL TRANSACTIONS:

1) The Company's common stock are traded in the United States on the NASDAQ under the Symbol "EFCX". On December 31, 1998, the closing price of one share was $ 2.75.

2) In 1996, the Company completed a public offering of 3,750,000 shares of its common stock of par value of $ 0.01 per share, at an offering price of $ 6.50 per share.

3) In 1996, the Company issued 1,538,462 shares of its common stock of $ 0.01 par value in a private placement at an offering price of $ 6.50 per share.

4) During 1996, the Company purchased 72,300 shares of its common stock from a consultant, in consideration of partial waiver of a loan of $ 720,000 granted to the consultant, sale to the consultant of the Company's 80% interest in Erbato GmbH in consideration of DM 1 and granting of options to purchase 20,000 shares of the Company's stock at $ 6.25 per share.

As a result of the aforementioned transactions, the Company recorded additional treasury stock in the amount of $ 456,394 - determined based on the market price of the Company's share on the transaction date, and the balance - approximately $ 460,000 - was charged to selling, general and administrative expenses in the Company's 1996 financial statements.

NOTE 5 - STOCKHOLDERS' EQUITY (CONTINUED):

5) Non-recourse notes receivable from employee-stockholders arising from the purchase of 1,500,000 of the Company's shares matured in 1998. The notes were renewed as recourse notes, due on December 31, 2007 bearing interest of 5.5% or linked to the Israeli CPI whichever is higher. In June 1998, the terms of the recourse notes were amended such that the Company would have resource only to certain termination compensation due to the employee-stockholders (which exceeds the amounts outstanding under the notes), or if terminated for cause the employee-stockholders would continue to be personally liable.

Additionally, the Company agreed to purchase Company stock from the employee-stockholders, at prevailing market prices, up to the full amount outstanding under the notes. The Company further agreed to grant new options at exercise prices equal to prevailing market prices, in the amount of shares sold by the employee-stockholder.

6) In 1996, 255,333 stock options were exercised and the purchase price of the stock was financed by the Company's acceptance of interest-bearing non-recourse notes receivable. In addition, the income and other taxes due were added to the note balance. As a result of this transaction, compensation expense in the approximate amount of $ 160,000 was recorded in 1996.

In 1998, the Company purchased the aforementioned 255,333 shares for the aggregate amount outstanding under the aforementioned non-recourse notes. As a result of this transaction, compensation expense in the approximate amount of $ 110,000 was recorded in 1998.

7) Under the common stock option plans (see b. below) 81,226, 32,953, and 293,099 options were exercised to purchase the Company's shares in 1998, 1997 and 1996, respectively.

8) In 1998, 4,000 shares of the Company's common stock were issued to directors. Accordingly, the Company recorded compensation expense of $10,710.

b. COMMON STOCK OPTION PLANS:

1) The Company has adopted the following stock option plans whereunder options may be granted for purchase of the Company's common stock:

(a) 1991 Employee Plan - 2,115,600 shares reserved for issuance.

(b) 1993 Employee Plan - as amended - 2,700,000 shares reserved for issuance.

(c) 1998 Employee Plan - 1,500,000 shares reserved for issuance.

Under the terms of the employee plans, the Board of Directors or the designated committee will grant options and will determine the vesting period and the exercise terms.

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

(d) 1995 Non-Employee Director Plan - 500,000 shares reserved for issuance. Non-employee directors will receive an initial grant of options to purchase 15,000 shares of the Company's common stock and thereafter will receive options to purchase 5,000 shares of common stock per year of service to the Board. All such options will be granted at fair market value.

2) As of December 31, 1998, the total number of options authorized under the plans is 6,815,600, and 1,792,730 options are available for future grant. Under these plans, options usually expire no later than 10 years from the date of grant. Each option can be exercised to purchase one share having the same rights as the other common stock shares.

The options usually vest over a three year period (33.3% per annum). As to options having accelerated vesting rights - see (3) hereafter.

3) A summary of the status of the Company's plans and other stock options granted as of December 31, 1998, 1997 and 1996, and changes during the years ended on those dates, is presented below:

<TABLE>
<CAPTION>

	1998		1997		1996	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
		$		$		$
<S>	<C>	<C>	<C>	<C>	<C>	<C>
OPTIONS OUTSTANDING AT BEGINNING OF YEAR	1,616,363	5.38	1,472,381	5.24	1,173,033	4.71
CHANGES DURING THE YEAR:						
Granted /(2)(4)(5)/	1,775,421	2.79	187,085	5.79	617,286	6.30
Exercised	(81,226)	1.12	(32,953)	1.12	/(3)/(293,099)	5.19
Repriced:						
Old exercise price	(536,450)	6.16				
New exercise price	536,450	3.08				
Forfeited or canceled	(346,303)	2.7	(10,150)	6.64	(24,839)	7.05
OPTIONS OUTSTANDING AT END OF YEAR	2,964,255	3.7	1,616,363	5.38	1,472,381	5.24
OPTIONS EXERCISABLE AT YEAR-END	1,638,834	3.67	784,800	4.35	657,181	3.66
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR/(1)/	1.64		2.71		3.33	

</TABLE>

/(1)/ The fair value of each option grant is estimated on the date of grant using the Black & Scholes option-pricing model with the following weighted average assumptions:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Dividend yield	0%	0%	0%
Expected volatility	103%	80%	55%
Risk-free interest	4.5%-5.6%	6.1%	6%-6.7%
Expected life of up to	10 years	10 years	10 years

</TABLE>

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

/(2)/ Includes options issued to consultants as compensation for services rendered: 1997 - 3,273 options; 1996 - 22,286 options. The compensation cost that has been charged against income is $ 9,000 and $ 77,959, respectively.

/(3)/ See a(6) above.

/(4)/ Includes 803,325 options granted to related parties in 1998, partially in lieu of salaries or bonuses and 300,000 options which were granted in 1996 whose exercise date may be accelerated based on the share price of the Company's common stock.

Of the aforementioned options, 495,612 options are fully vested as at December 31, 1998 .

/(5)/ In 1998, 206,267 out-of-the-money options were extended approximately 5 years.

4) The following table summarizes information about options outstanding at December 31, 1998:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1998	WEIGHTED AVERAGE EXERCISE PRICE
$		YEARS	$		$
<S>	<C>	<C>	<C>	<C>	<C>
0-2	2,645	2.63	0.35	2,645	0.35
2-4	2,232,838	8.12	2.84	1,246,029	2.91
4-6	314,106	4.84	5.74	292,439	5.75
6-8	404,666	6.69	6.76	94,388	7.12
8-10	10,000	8.75	9.06	3,333	9.06
	2,964,255	7.57	3.70	1,638,834	3.67

</TABLE>

5) Accounting treatment of stock option plans ("the plans")

The Company accounts for its plans using the treatment prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, compensation cost for employee and director common stock option plans is measured using the intrinsic value based method of accounting.

The FASB issued FAS No. 123, "Accounting for Stock-Based Compensation". FAS 123 established a fair value based method of accounting for an employee stock option or similar equity instrument, and encourages adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans using the accounting treatment prescribed by APB 25.

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

The Company has elected to continue accounting for stock-based compensation according to APB 25 and has accordingly complied with the disclosure requirements set forth in FAS 123 for companies electing to apply APB 25.

Accordingly, the difference, if any, between the quoted market price of the shares on the date of the award of the options and the exercise price of such options is charged to income over the vesting periods. The amount of the difference is correspondingly credited to additional paid-in capital.

The compensation cost that has been charged in the consolidated statements of loss in respect of options to employees in 1998, 1997 and 1996 was $222,300, $-0- and $159,834 respectively.

Had compensation cost for the Company's plans been determined based on the fair value at the grant dates for awards granted in 1996 and thereafter during 1997and 1998 under the plans consistent with the method of Statement 123, the Company's loss and loss per share would have been increased to the pro-forma amounts indicated below:

<TABLE>
<CAPTION>

	1998		1997		1996	
	AS REPORTED	PRO-FORMA	AS REPORTED	PRO-FORMA	AS REPORTED	PRO-FORMA
	U.S. DOLLARS		U.S. DOLLARS		U.S. DOLLARS	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loss	8,532,570	11,633,365	9,129,499	9,753,337	10,017,618	11,997,287
Loss per share - basic and diluted	0.61	0.83	0.73	0.78	0.91	1.09

</TABLE>

NOTE 6 - TAXES ON INCOME:

a. TAXATION OF U.S. PARENT (EFC)

Since EFC incurred net losses or had earnings arising from tax-exempt income during the reported years, no provisions for income taxes were required. Taxes are primarily composed of federal alternative minimum taxes. The difference between the tax provision and the total tax benefit computed by applying the statutory federal income tax rate to pre-tax loss is the valuation allowance which was established to eliminate the deferred tax assets.

As at December 31, 1998, EFC has operating loss carryforwards for U.S. federal income tax purposes of approximately $ 231,000, which are available to offset future taxable income, if any, expiring primarily in 2009.

NOTE 6 - TAXES ON INCOME (continued):

b. ISRAELI SUBSIDIARY (EFL):

1) TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENTS, 1959 (HEREAFTER - THE "LAW")

EFL's manufacturing facility has been granted "approved enterprise" status under the above law, and is entitled to investment grants from the State of Israel of 38% on fixed assets located in Jerusalem and 20% on fixed assets located at its plant in Beit Shemesh and to reduced tax rates on income arising from the approved enterprise, as detailed below. The approved investment program is in the approximate amount of $ 500,000. EFL substantially placed the program into operation during 1993 and is entitled to the tax benefits available under the law. EFL is entitled to additional tax benefits as a "foreign investment company", as defined by the law. Further, in 1995, EFL received approval for a second approved enterprise program for investment in fixed assets of approximately $ 6 million and approval for grants at the aforementioned rates for these approved fixed assets.

The main tax benefits available to EFL are:

(a) Reduced tax rates

During the period of benefits - for 7 or 10 years - commencing in the first year in which EFL earns taxable income from the approved enterprise (provided the maximum period to which it is restricted by law has not elapsed), a reduced corporate tax rate of 10%-25% (depending on percentage of foreign ownership; based on present ownership percentages - 15%) will apply, instead of the regular tax rates (see (4) hereafter).

(b) Accelerated depreciation

EFL is entitled to claim accelerated depreciation in respect of machinery and equipment used by the approved enterprise for the first five years of the operation of these assets.

(c) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon EFL's fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be canceled and EFL may be required to refund the amount of the benefits, in whole or in part, with the addition of interest.

As security for compliance with the terms attaching to the investment grants, EFL has registered floating charges on all its assets in favor of the State of Israel.

NOTE 6 - TAXES ON INCOME (continued):

2) MEASUREMENT OF RESULTS FOR TAX PURPOSES UNDER THE INCOME TAX (INFLATIONARY ADJUSTMENTS) LAW, 1985 (HEREAFTER - THE "INFLATIONARY ADJUSTMENTS LAW")

Under this law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. As explained in note 1b, the financial statements are presented in dollars. The difference between the change in the Israeli CPI and in the Israeli currency/dollar exchange rate - both on annual and cumulative bases - causes a difference between loss for tax purposes and the loss reflected in the financial statements.

3) TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF INDUSTRY (TAXATION), 1969

EFL is an "industrial company" as defined by this law and as such is entitled to certain tax benefits, mainly accelerated depreciation as prescribed by regulations published under the inflationary adjustments law, the right to claim public issue expenses and amortization of know-how, patents and certain other intangible property rights as deductions for tax purposes.

4) TAX RATES APPLICABLE TO INCOME FROM OTHER SOURCES

Income not eligible for approved enterprise benefits mentioned in (1) above is taxed at the regular rate of 36%.

5) TAX RATES APPLICABLE TO INCOME DISTRIBUTED AS DIVIDENDS BY EFL

The effective tax on income distributed by EFL to its parent, EFC, would be increased as a result of the Israeli withholding tax imposed upon such dividend distributions. The overall effective tax rate on such distribution would be 28% in regard of income arising from EFL's approved enterprise and 44% regarding other income. EFL does not have any earnings available for dividend distribution nor does it intend to distribute any dividends in the foreseeable future.

6) TAX LOSS CARRYFORWARDS

As at December 31, 1997, EFL has operating loss carryforwards for Israeli tax purposes of approximately $ 43 million, which are available, indefinitely, to offset future taxable income.

c. EUROPEAN SUBSIDIARIES

Income of the European subsidiaries, which arises as a result of intercompany transactions, is taxed based upon tax laws in their countries of residence.

NOTE 6 - TAXES ON INCOME (continued):

d. DEFERRED INCOME TAXES

<TABLE>
<CAPTION>
DECEMBER 31

	1998	1997
	U.S. DOLLAR	
<S>	<C>	<C>
DOMESTIC INCOME TAXES:		
Deferred tax asset	67,000	80,000
L e s s - valuation allowance	(67,000)	(80,000)
	-,-	-,-
FOREIGN INCOME TAXES:		
Deferred tax asset*	6,500,000	6,000,000
L e s s - valuation allowance	(6,500,000)	(6,000,000)
	-,-	-,-

</TABLE>

* Mainly in respect of loss carryforwards, deductible expenditures reported as a reduction of the proceeds from issuing capital stock, accrued employee rights upon retirement and depreciation on fixed assets.

e. TAXES ON INCOME INCLUDED IN THE STATEMENTS OF LOSS

These represent current income taxes, as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
U.S.	22,993	39,000	30,000
Israeli (in respect of prior years)			(68,261)
European	(66,167)	105,850	
	(43,174)	144,850	(38,261)

</TABLE>

f. TAX ASSESSMENTS:

1) EFL received final assessments through the year ended December 31, 1996.

2) EFC and its other subsidiaries have not been assessed for tax purposes since incorporation.

NOTE 7 - MONETARY BALANCES IN NON-DOLLAR CURRENCIES:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		
	ISRAELI CURRENCY- UNLINKED	OTHER NON-DOLLAR CURRENCIES	ISRAELI CURRENCY- LINKED TO THE ISRAELI CPI
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
ASSETS:			
Current assets:			
Cash and cash equivalents	218,495	180,052	
Accounts receivable	606,045	187,634	36,739
	824,540	367,686	36,739
LIABILITIES - current liabilities - accounts payable and accruals	1,128,772	116,888	

</TABLE>

NOTE 8 - SUPPLEMENTARY BALANCE SHEETS INFORMATION:

A. INVESTMENT IN MARKETABLE DEBT SECURITIES

<TABLE>
<CAPTION>

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	COST	FAIR MARKET VALUE	COST	FAIR MARKET MARKET
	U.S. DOLLARS			
<S>	<C>	<C>	<C>	<C>
Obligations of states and political subdivisions	3,702,518	3,700,575	4,944,736	4,945,172
Less - portion due in one year or less - presented among current assets	3,702,518	3,700,575	3,103,272	3,101,846
Balance - due in one to two years	-,-	-,-	1,841,464	1,843,326

</TABLE>

Unrealized gain (loss) in respect of these securities - at December 31, 1998 and 1997 -aggregates $ (1,943) and $ 436, respectively.

NOTE 8 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

b. ACCOUNTS RECEIVABLE - OTHER

<TABLE>
<CAPTION>

	DECEMBER 31	
	1998	1997
	U.S. DOLLARS	
<S>	<C>	<C>
Israeli government departments and agencies:		
Research and development grant receivable	356,541	658,055
Investment grant receivable	3,784	400,844
VAT and other receivables	43,107	155,527
Other	35,187	125,474
	438,619	1,339,900
U.S. Government	380,776	
Employees	19,937	35,994
Prepaid expenses	141,321	71,500
Interest receivable	141,951	89,451
Sundry	176,452	174,192
	1,299,056	1,711,037

c. ACCOUNTS PAYABLE AND ACCRUALS - OTHER

Employees and employee institutions	347,950	849,327
Provision for vacation pay	214,303	286,508
Income taxes payable	9,393	125,518
Accrued expenses	408,597	505,103
Sundry	23,279	19,707
	*1,003,522	*1,786,163
* Including related parties	131,981	105,073

</TABLE>

d. FINANCIAL INSTRUMENTS

1) Derivative financial instruments

The Company had only limited involvement with derivative financial instruments, in 1998 and 1997. At December 31, 1998 the Company had no involvement in derivatives. In 1996, the Company entered into a limited number of forward exchange contracts, in order to hedge foreign currency exposure on firm commitments. Gains and losses from these contracts were deferred and included as part of the measurement of the results from the underlying hedged transactions.

NOTE 8 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

2) Fair value of financial instruments

The financial instruments of the Company consist of cash and cash equivalents, marketable debt securities, accounts receivable and accounts payable and accruals.

In view of their nature, the fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying value.

The marketable debt securities - not included among working capital - are also presented at their fair market value.

NOTE 9 - SELECTED STATEMENTS OF LOSS DATA:

a. RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES

<TABLE>
<CAPTION>

	1998	1997	1996
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
Materials, subcontracted work and consulting	2,527,183	3,005,443	4,307,617
Salaries and related expenses	4,366,995	6,365,241	5,706,440
Other	3,161,393	2,856,875	3,053,690
	10,055,571	12,227,559	13,067,747

</TABLE>

NOTE 9 - SELECTED STATEMENTS OF LOSS DATA (CONTINUED):

<TABLE>
<CAPTION>

	1998	1997	1996
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
b. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and related expenses	1,608,743	1,724,498	1,959,664
Consulting and professional fees	544,525	1,304,349	1,251,286
Royalties (note 4a)	114,385	106,722	28,800
Other	1,407,371	1,304,625	1,453,258
	/(1)(2)/3,675,024	/(1)(2)/4,440,194	/(1)(2)/4,693,008
/(1)/ Including advertising and promotion	255,520	240,353	216,682
/(2)/ Including related parties	38,404	43,009	11,865
c. FINANCIAL INCOME (EXPENSES) - NET			
Interest, bank charges and fees	(29,485)	(58,159)	(117,721)
Exchange differences, net	(34,154)	(128,871)	(162,653)
Interest income	715,681	962,141	1,074,227
	/(1)/652,042	775,111	793,853
/(1)/ Including related parties	92,612		

</TABLE>

NOTE 10 - SEGMENT INFORMATION:

a. GENERAL INFORMATION

The company adopted in 1998 FAS 131 (Disclosures about Segments of an Enterprise and Related information) which was issued in June 1997 by the FASB.

1) Factors management used to identify the enterprise's reportable segments:

The company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different marketing strategies.

2) Description of the types of products from which each reportable segment derives its revenues:

The company is involved in the research, development and commercial exploitation of zinc-air electrochemical technology for primary and reusable battery systems. The Company operates in three business segments: consumer batteries, electric vehicles and defense and safety products.

NOTE 10 - SEGMENT INFORMATION (CONTINUED):

b. INFORMATION ABOUT REPORTED SEGMENT GAINS AND LOSSES AND ASSETS:

The accounting policies of the segments are the same as those described in the significant accounting policies. The Company evaluates performance based on gross profit or loss.

<TABLE>
<CAPTION>

<S>	<C> ELECTRIC VEHICLES	<C> DEFENSE AND SAFETY PRODUCTS	<C> CONSUMER BATTERIES	<C> ALL OTHER	<C> TOTAL
			U.S. DOLLARS		
1998:					
Revenues from external customers	2,792,000	1,181,000		40,000	4,013,000
Depreciation expense	(526,000)	(37,000)	(7,000)	(324,000)	(894,000)
Direct expenses	/(1)/(4,766,000)	(1,188,000)	(3,011,000)	/(2)/(3,338,000)	(12,303,000)
Segment gross loss	(2,500,000)	(44,000)	(3,018,000)	(3,622,000)	(9,184,000)
Financial income, net					652,000
Loss					(8,532,000)

(1) Including non-cash expense arising from writedown of fixed assets of $1.25 million.

(2) Including selling, general and administrative expenses and income taxes.

	ELECTRIC VEHICLES	DEFENSE AND SAFETY PRODUCTS	CONSUMER BATTERIES	ALL OTHER	TOTAL
Segment assets	1,153,000	369,000	730,000	1,183,000	3,435,000
Expenditures for segment assets	75,000	67,000	694,000	149,000	985,000
1997:					
Revenues from external customers	3,397,000	1,129,000			4,526,000
Depreciation expense	(556,000)	(17,000)		(283,000)	(856,000)
Direct expenses	(8,550,000)	(713,000)	(281,000)	(1)(4,030,000)	(13,574,000)
Segment gross loss	(5,709,000)	399,000	(281,000)	(4,313,000)	(9,904,000)
Financial income, net					775,000
Loss					(9,129,000)

(1) Including selling, general and administrative expenses and income taxes.

	ELECTRIC VEHICLES	DEFENSE AND SAFETY PRODUCTS	CONSUMER BATTERIES	ALL OTHER	TOTAL
Segment assets	3,013,000	339,000	43,000	1,359,000	4,754,000
Expenditures for segment assets	395,000	56,000	-,-	57,000	508,000

</TABLE>

1996:

The Company's 1996 operations were substantially in the Electric Vehicle segment (84% of total revenues) and it is not practical for the Company to prepare segment information for 1996.

NOTE 10 - SEGMENT INFORMATION (CONTINUED):

c. GEOGRAPHIC INFORMATION

Information about geographic areas, classified by EFC's country of domicile and by foreign countries - based on the location of the customers, is as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
Revenues from external customers:			
U.S.A.	1,374,261	473,250	74,700
Germany	2,138,690	3,558,141	3,928,641
Italy	295,937	494,825	429,414
Israel	204,375		972,548
	4,013,263	4,526,216	5,405,303

</TABLE>

As discussed in Note 2, the Company had a pilot plant in Germany. Substantially all other long-lived assets are located in Israel.

d. REVENUES FROM MAJOR CUSTOMERS

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Electric vehicles			
Customer A	51%	33%	58%
Customer B	7%	30%	8%
Customer C		11%	
Customer D			18%
Defense and safety products			
Customer A		14%	13%

</TABLE>

NOTE 10 - SEGMENT INFORMATION (continued):

e. AGREEMENTS RELATING TO THE COMPANY'S TECHNOLOGY:

1) Field Test with German Postal Authority - Deutsche Post AG ("Deutsche Post").

In 1994, EFL signed agreements with Deutsche Post and other partners for the purpose of conducting a Field Test using EFL's technology ("the Field Test"), which reached completion in 1997. In 1997, the Company and the Deutsche Post agreed to an extension program in respect of the Field Test through mid-1998.

The anticipated cost of the Company's share in the Field Test was greater than anticipated revenues and accordingly the Company recorded a provision for anticipated losses in prior years. The balance of the provision for anticipated losses amounted to $ 2.2 million as of December 31, 1996. This amount was applied against the writedown of equipment relating to the Field Test (see note 11) in 1997.

In 1996, Deutsche Post requested that the Company refund approximately DM 1.8 million (approximately $ 1.0 million) which was the subject of a dispute between Deutsche Post and the Company. The Company did not believe it is required to refund any of this amount. However, until resolution of this issue, the Company deferred recognizing this amount in revenues.

Upon completion of the extension program and the signing of general waivers between the Company and the Deutsche Post, the Company recorded the aforementioned disputed amount in its 1998 revenues.

2) Edison

Pursuant to agreements between the Company and a major Italian energy company (Edison Termoelettrica subsidiary of Edison S.P.A., hereafter "Edison"), the Company has provided batteries and related equipment and technical assistance in respect of the Company's technology. The Company has also granted Edison a sublicense for its technology in certain areas in Europe until the year 2008 and will be entitled to royalties of 3% to 5% of sales in excess of $ 10 million.

NOTE 10 - SEGMENT INFORMATION (continued):

3) Vattenfall AB

During 1997, EFL signed a rights agreement with Vattenfall AB, (Vattenfall), a Swedish utility company. Vattenfall exercised its right for a license to establish and operate regeneration facilities and sell Electric Fuel in the Nordic region. Although a final agreement has not been signed, the rights agreement covers the main elements of a 25 year license in consideration of royalties and other considerations to the Company.

4) Israel Electric Corporation

During 1996, EFL signed an agreement with the Israel Electric Corporation granting a license for production, distribution and marketing of Electric Fuel in Israel and certain Middle East countries in consideration of royalty payments.

5) U.S. Government:

(a) In 1998, the Company in cooperation with U.S. participants, received approval from the U.S. Government (Department of Transportation -Federal Transit Administration) for 50% funding of a project for the construction and operation of a passenger bus using the Company's technology. The maximum approved cost of the project is approximately $ 4 million. The Company's share in the Project costs is anticipated to amount to approximately $ 3.5 million, which will be reimbursed by the U.S. Government at the aforementioned 50% rate.

(b) In 1998, the Company was awarded a contract from the U.S. Army's Communications-Electronics Command to develop and deliver prototype battery packs using the Company's zinc-air technology. The total contract is approximately $ 487,000.

This form of Distribution agreement is used in connection with distribution of the Company's small batteries, including its agreement with Tessco Technologies for a three year term.

DISTRIBUTION AGREEMENT
- ----------------------

This Distribution Agreement (this "Agreement"), is made as of this __ day of December, 1998 by and between Electric Fuel Limited, a company organized under the laws of the State of Israel, and having its principal place of business at 5 Kiryat Mada Street, Har Hotzvim Science Park, Jerusalem 91230, Israel (the "Company") _______________________ a company duly organized under the laws of _______________ and having its principal place of business at _______________ (the "Distributor").

WHEREAS, the Company manufactures and markets certain products and desires to increase the sales of such products;

WHEREAS, the Distributor has represented that it possesses the necessary expertise and marketing organization to promote and sell such products; and

WHEREAS, the Company is willing to appoint the Distributor and the Distributor is willing to accept such appointment as a distributor of the Company's products in the territory defined herein;

NOW, THEREFORE, In consideration of the mutual premises and covenants hereinafter set forth, the parties agree as follows:

1. DEFINITIONS

1.1 For purposes of this Agreement, the following capitalized terms shall have the meanings assigned to them in this Article 1 unless the context otherwise requires:

1.2 Products. "Products" shall mean those products described in Exhibit I hereto as that Exhibit may be amended by the Company, at its sole discretion, from time to time. the Company shall give the Distributor thirty (30) days written notice of any such Amendment.

1.3 Territory. "Territory" shall mean the area specifically described in Exhibit II hereto as that Exhibit may be amended from time to time.

1.4 Distributor List Price. "Distributor List Price" shall mean the prices then being quoted by the Company in Exhibt VI for sales of Products to its distributors.

1.5 Company Information. "Company Information" shall mean all information, other than information in published form or expressly designated by the Company as non-confidential, which is directly or indirectly disclosed to the Distributor or embodied in Products provided hereunder, regardless of the form in which it is disclosed, relating in any way to the Company's markets, customers, products, patents, inventions, procedures, methods, designs, strategies, plans, assets, liabilities, costs, revenues, profits, organization, employees, agents, distributors or business in general.

2 APPOINTMENT

2.1 Scope. The Company hereby appoints the Distributor and the Distributor hereby accepts appointment, as a distributor for the Company's products during the term of this Agreement with the right to sell or otherwise distribute Products in the Territory, under the Company's brand names and trademarks, subject to all the terms and conditions of this Agreement.

2.2 Subdistributors. The Distributor shall not, without the prior written approval of the Company, appoint any subdistributors or agents to promote and/or distribute Products in any country within the Territory. Further, notwithstanding any such appointments, or the Company's approval thereof, the Distributor shall at all times remain fully liable for the performance of its subdistributors and/or agents and the Distributor hereby agrees to indemnify and hold harmless the Company from all damage, losses, costs or expenses arising in any manner from any act or omission on the part of its Subdistributors or agents.

2.3 Sales Outside the Territory. Nothing herein shall be construed as precluding the Distributor from selling Products outside the Territory, provided that the Distributor shall not actively advertise, promote or solicit customers for Products outside the Territory nor establish any office through which orders are solicited or any depot at which inventories of the Company's Products are stored outside the Territory.

3. GENERAL OBLIGATIONS OF THE DISTRIBUTOR

3.1 Marketing. The Distributor shall have the following obligations with respect to the marketing and distribution of the Company's Products:

3.1.1 To use its best efforts to further the promotion, marketing, sale and other distribution of Products in the Territory;

3.1.2 To maintain an adequate and balanced inventory of Products and supplies;

3.1.3 To promptly respond to all inquiries from customers, including complaints, process all orders, and effects all shipments of Products;

3.1.4 To diligently investigate all leads with respect to potential customers referred to it by the Company;

3.1.5 To permit the Company to visit the Distributor's customers and to visit the Distributor's place of business and inspect its inventories, service records, and other relevant documents.

3.1.6 To maintain throughout the Territory an adequate sales force dedicated on a full-time basis to the sale of Products;

3.1.7 To participate actively in sales or merchandising programs; to participate in all fairs and exhibitions in the Territory where such participation will, in the judgment of the Company and the Distributor, promote the Products; and

to develop and implement sales programs for the promotion of the Products;

3.1.8 To provide the Company contemporaneously with the execution of this Agreement with a comprehensive yearly business plan of its private label in the form and detail reasonably requested by the Company, and to update such business plan each year within ___________ days of the end of the Distributor's fiscal year; and

3.1.9 To provide the Company with ________________ days of the end of the Distributor's fiscal year with a report of its activities with respect to the Products in the Territory during such year, which report shall be in such form and in such detail as the Company may reasonably require.

3.2 Advertising. The Distributor shall diligently undertake to advertise the Products in the Territory. The Company shall furnish the Distributor with a reasonable quantity of the Company's brochures, in the English language, for use by the Distributor in preparing its own advertising materials. The Distributor may utilize such advertising materials to promote sales of the Products and in preparing its own advertising materials. All expenses incurred by the Distributor with respect to creating advertising materials and advertising the Products shall be subject to the terms of Exhibit VII of this agreement.

3.3 Manufacture or Distribution of Competitive Goods. The Distributor shall not manufacture or distribute any disposable zinc-air battery products which are directly competitive with the Products.

3.4 Customer Support The Distributor agrees to cooperate with the Company in dealing with any customer complaints concerning the Products and to take any action requested by the Company to resolve such complaints. The Distributor also agrees to assist the Company in arranging for any customer warranty service.

3.5 Expenses. The Distributor assumes full responsibility for all costs and expenses which it incurs in carrying out its obligations under this Agreement including but not limited to all rentals, salaries, commissions, demonstration, travel and accommodation expenses without the right to reimbursement for any portion thereof from the Company.

3.6 Private Label Packaging The Distributor may purchase batteries from the Company in bulk quantities for repackaging into private label packages. The Company grants the Distributor this non-exclusive, non-transferrable right, provided that the Company's brand name and trademark are prominently displayed on the front of any retail packaging and that all relevent technical data provided by the Company is displayed on the packaging. Any private label packaging must be approved by both parties in writing.

4. ORDERS FOR PRODUCTS

4.1 Purchase Orders. The Distributor shall submit quarterly purchase orders to meet demand and maintain adequate inventory of the Products. The purchase orders for the Products will be sent to the Company in writing or by facsimile which shall set forth, at a minimum:

4.1.1 An identification of the Products ordered, including model numbers;

4.1.2 Quantity;

4.1.3 Requested delivery dates; and

4.1.4 Shipping instructions and shipping address.

The Distributor shall place the purchase orders with the understanding that the Company requires at least a ________ day lead time to deliver the Products.

4.2 Acceptance of Orders. All purchase orders from the Distributor are subject to acceptance in writing by the Company at its principal offices in Jerusalem which acceptance shall be delivered by mail or sent by facsimile. Each purchase order shall be deemed to be an offer by the Distributor to purchase the Products pursuant to the terms of this Agreement and, when accepted by the Company as hereinabove provided, shall give rise to a contract under the terms set forth herein to the exclusion of any additional or contrary terms set forth in the purchaser order.

4.3 Delivery Terms. All deliveries of the Products shall be made to the Distributor's facility from the Company's US facility using a carrier chosen by the Distributor at the Distributor's own cost. The Company shall have no further responsibility for the Products, and all risk of damage to or loss or delay of the Products shall pass to the Distributor upon pick up by the Distributor's chosen carrier.

4.4 Modification of Orders. No accepted purchase order shall be modified or canceled except upon the written agreement of both parties. The Distributor's purchase orders or mutually agreed change orders shall be subject to all provisions of this Agreement, whether or not the purchase order or change order so states.

4.5 Order Verification. Upon the reciept of a purchase order, the Company will confirm pricing and scheduled shipment dates. Should there be a change in scheduled shipment date, the Company will notify the Distributor. Upon shipment, the Company will notify the Distributor by a fax of the packing slip, or similar document that shows part number, quantity, and carrier information.

4.6 Product Changes. The Company reserves the right, in its sole discretion and without incurring any liability to the Distributor, to:

4.6.1 Alter the specifications for any Product;

4.6.2 Discontinue the manufacture of any Product;

4.6.3 Discontinue the development of any new product, whether or not such product has been announced publicly; or

4.6.4 Commence the manufacture and sale of new products having features which make any Product wholly or partially obsolete, whether or not the Distributor is granted any distribution rights in respect of such new products.

Notwithstanding the above, the Company shall provide the Distributor with prompt written notice of such decisions and shall fill all accepted purchase orders

from the Distributor for any such altered or discontinued Products of which manufacturing and commercial deliveries have commenced.

4.7 Quality Assurance. All incoming Product is subject to qaulity assurance testing based upon acceptable quality levels (AQL). The Distributor reserves the right to return for replacement or credit all or part of any lot that does not pass the quality testing.

4.7.1 The Company agrees to work with the Distributor to resolve concerns with quality or make modifications to the Products in order to meet product performance or appearance specifications. In addition, if requested, the Company will provide steps of corrective actions taken for any modifications required to correct a quality defect, this preventing the defect in the future. The Company agrees to review, revise, aceept, and sign the Distributor's inspection program of the Products. For any shipment that does not pass product inspection, the Company agrees to pay the labor charges for culling the lot, and/or the freight charges for the return shipment.

4.7.2 The Company must allow Distributor representatives to visit their facilities to asses Company quality assurance and capabilities.

4.7.3 The Distributor agrees to provide all information pertaining to Product specifications and the pre-determined product inspection program. The Distributor will make available the test results of any rejected lot for review by the Company.

4.8 Forecasts. The Distributor agrees to provide the Company with a twelve (12) month forecast indicating the Distributor's intended purchase of Products during each calendar quarter of such period as well as such other information as the Company may reasonably request in the format specified by the Company from time to time. Such forecasts by the Distributor shall be used for purposes of facilitating the Distributor's marketing plans and in order to meet the lead times required by certain of the Company's suppliers, but they shall not be determinative for purposes of establishing the mutually agreed fiscal year forecast.

5. PURCHASE REQUIREMENTS

5.1 Best Efforts. The Distributor agrees to use its best efforts to aggressively grow the sale of the Company's Products and purchase the forecasted quantities of the Products.

6. PRICES AND PAYMENTS

6.1 Prices. The prices to be paid by the Distributor for Products purchased pursuant to this Agreement shall be the Distributor List Prices in effect at the time of acceptance of the relevant purchase order submitted by the Distributor, except as provided in Section 6.2 below. All Distributor unit List Prices do not include delivery to the Distributor from the Company's facility in the US. Special packing or handling shall be at the sole expense of the Distributor.

6.2 Price Increases, Decreases. The Company may, at any time during the term of this Agreement, increase its prices for the Products by providing the Distributor with at least _____ days prior written notice. Increased prices for all Products shall not apply to purchase orders accepted prior to the effective date of the price increase unless such orders provide for delivery, and delivery is in fact made, more than _____ days after the date of acceptance of the order. Price decreases with respect to all Products shall be effective immediately upon written notice to the Distributor on all such Products. The Company shall provide the Distributor with price protection equal to the unit price decrease times the number of affected units remaining in the Distributor's inventory ____ days following the price decrease.

6.3 Payment Terms. All payments shall be due _____ days from the date of shipment of the Products, or from the date of invoice for such charges as taxes, duties, interest or like special charges, payable to the bank or banks specified by the Company in writing from time to time. All payments hereunder shall be made in U.S. dollars or such other currency as may be mutually agreed upon. Payment shall be made by wire transfer to the Company's designated account. The Company shall not be obligated to ship Products against accepted orders in the event the Company's outstanding accounts receivable from the Distributor then exceed or would after any such shipment exceed _____ of the U.S. dollar value of the Distributor's then current fiscal year forecast based on the then current Distributor List Prices or such other amount as may be mutually agreed upon from time to time by the Company and the Distributor. In the event of any dispute arising over any part of an invoice or the total amount due under an invoice, all undisputed amounts shall be promptly paid by the Distributor in accordance with this Section 6.3.

6.4 Resale Prices. The Distributor may resell Products at such prices as the Distributor, in its sole discretion, shall determine. The Distributor shall, however, provide the Company with a list of its initial sales prices for the Products to be charged to its customers and shall keep the Company fully informed by providing the Company with any new list sales prices within then (10) days of any change in such list prices.

6.5 Overdue Payments. If, and for so long as any payment from the

Distributor to the Company under this Agreement shall be overdue:

6.5.1 Interest at the rate of ten percent (10%) per annum shall automatically become due on all balances outstanding plus a minimum administrative and handling charge of U.S. 50 per month or part thereof; and

6.5.2 The Company shall have the right, in its sole discretion, to require payment for additional shipments of Products either by cash in advance or by an irrevocable transferrable, divisible letter of credit in U.S. dollars confirmed by a bank specified by the Company, instead of by open account as provided above.

7. ACCEPTANCE AND WARRANTY

7.1 Acceptance and Products. In the event of any shortage, damage or

discrepancy in or to a shipment of Products, the Distributor shall promptly report the same to the Company and furnish such written evidence or other documentation as the Company may deem appropriate. The Company shall not be liable for any such shortage, damage or discrepancy unless the Company has received notice and substantiating evidence thereof from the Distributor within thirty (30) days of arrival of the Products at the Distributor's shipping address in the Territory. If the substantiating evidence delivered by the Distributor demonstrates to the Company's satisfaction that the Company is responsible for such shortage, damage or discrepancy, the Company shall promptly deliver additional or substitute Products to the Distributor in accordance with the delivery procedures set forth herein; provided that in no event shall the Company be liable for any additional costs, expenses or damages incurred by the Distributor directly or indirectly as a result of such shortage, damage or discrepancy in or to a shipment.

7.2 Product Warranty. The Company warrants against all manufacturing defects for a period of twelve (12) months. The Company's sole obligation in the event of a breach of such warranty shall be to provide at no charge to the Distributor replacement parts for all defective parts. In no event shall the Company have any responsibility or bear any liability for the cost of labor for the repair of any defective Products or parts, the removal of defective parts or the installation of replacement parts. All costs of shipment of the replacement parts to the Distributor shall be borne by the Company. The Distributor shall retain all replaced parts subject to the foregoing warranty for the Company's inspection for a period of six (6) months after their replacement. All such replaced parts shall become the property of the Company upon their replacement.

7.3 Notice. Warranty claims hereunder must be made promptly and in writing; must recite the nature and details of the claim, the date the cause of the claim was first observed and the serial number of the Product concerned.

7.4 Excessive Claims. If the number of Products returned and/or number of warranty claims exceed(s) a level deemed acceptable by the Ditributor, the Distributor and the Company agree to jointly resolve the issue in the best interest of both, the Company and Distributor.

7.5 Excluded Claims. The Company shall have no obligation under Section 7.2 above in the event that:

7.5.1 Repair or replacement or Products or parts shall have been required through normal wear and tear or necessitated in whole or in part by force majeure as defined in Section 15.1 hereof, or by the fault or negligence of the Distributor or its customers; or

7.5.2 The Products or parts have not been properly used, maintained, or repaired in accordance with the Company's then applicable operating and/or maintenance manuals, whether by the Distributor or its customers, or shall have been modified in any manner without prior written consent of the Company.

7.6 Limited Warranty. The warranties set forth in this Article 7 are intended solely for the benefit of the Distributor. All claims hereunder shall be

made by the Distributor and may not be made by the Distributor's customers. The warranties set forth above are in lieu of all other warranties, express or implied, which are hereby disclaimed and excluded by the Company, including without limitation any warranty of merchantability or fitness for a particular purpose or use and all obligations or liabilities on the part of the company for damages arising out of or in connection with the use, repair or performance of the products.

8. LIMITATION OF REMEDIES

8.1 Delay. The Company shall not be liable for any loss or damage caused by delay in furnishing products and services or any other performance under or pursuant to this Agreement.

8.2 Sole Remedies. The sole and exclusive remedies for breach of any and all warranties and the sole remedies for the Company's liability of any kind (including liability for negligence) with respect to the products and services covered by this Agreement and all other performance by the Company under or pursuant to this Agreement shall be limited to the remedies provided in Section 7.2.

8.3 Consequential Damages. In no event shall the Company's liability of any kind include any special, indirect, incidental or consequential losses or damages, even if the Company shall have been advised of the possibility of such potential loss or damage.

8.4 Product Indemnification. The Company agrees to indemnify and defend the Distributor from all claims arising out of any products supplied by the Company. This includes, but is not limited to, indemnification against all claims that any of the products delivered by the Company directly infringe any third party's patent, copyright, or trade secret under the laws of the United States or any state of the United States. The only exception would be claims resulting solely from the Distributor's act of negligence. The Company agrees to this indemnification, provided that the Distributor gives the Company immediate notice in writing of any notice or claims arising out of any products supplied by the Company and if the Company so wishes and at the Company's sole discretion, permits the Company through the Company's counsel to defend the same and gives the Company all available information, assistance and authority to enable the Company to assume such defense. Should the Company so decide, the Company shall have control of the defense of such suit, including appeals from any judgement therein and any negotiations for the settlement or compromise thereof with full authority to enter into a binding settlement or compromise.

8.5 Product Liability: The Company agrees to provide evidence of liability insurance (including product liability), with the Distributor as an additional name insured on such policy, with coverage up to at least _________ US dollars _________ general aggregate. The Company agrees to renew the insurance policy yearly for as long as this agreement is valid.

9. CONFIDENTIALITY

9.1 The Distributor acknowledges and agrees that all Company Information is confidential and proprietary to the Company. The Distributor agrees not to use any of such Company Information during the term of this Agreement and for a period of five (5) years thereafter for any purpose other than as permitted or required for performance by the Distributor hereunder. The Distributor further agrees not to disclose or provide any of such Company Information to any third party and to take all necessary measures to prevent any such disclosure by its employees, agents, contractors or consultants during the term hereof and for a period of five (5) years thereafter. Nothing herein shall prevent the Distributor from using, disclosing or authorizing the disclosure of any Company Information which is, or hereafter becomes, part of the public domain.

In addition the Company acknowledges and agrees that all ideas, information, designs and data provided by TESSCO shall remain the property of the Distributor. The Company agrees to hold in strictest confidence, during the term of this agreement and for at least five (5) years thereafter, any and all information of a confidential nature regarding ________ business or affairs.

10. TRADEMARKS

10.1 Use of Trademarks. The Company hereby grants to the Distributor a non-exclusive, non-transferable, and royalty-free right and license to use the Company's trademarks specified in Exhibit V attached hereto, as such Exhibit may be modified from time to time during the term of this Agreement, in connection with the sale or other distribution, promotion, advertising and maintenance of the Products for so long as such trademarks are used by the Distributor in accordance with the Company's standards, specifications and instructions but in no event beyond the term of this Agreement. The Distributor shall afford the Company reasonable opportunities during the term hereof to inspect and monitor the activities of the Distributor in order to ensure the Distributor's use of the trademarks in accordance with the Company's standards and instructions. The Distributor shall acquire no right, title or interest in such Company trademarks other than the foregoing limited license, and the Distributor shall not use any Company trademarks as part of the Distributor's corporate or trade name or permit any third party to do so without the prior written consent of the

Company.

10.2 Registration. The Company shall use its best efforts to register the Company trademarks specified in Exhibit V, as such Exhibit may be modified during the term of this Agreement, in such jurisdictions within the Territory in which the Company determines that registration is necessary or useful to the successful distribution of the Products. In addition, in the event the Company believes that it is advisable to effect any filing or obtain any governmental approval or sanction for the use by the Distributor of any of the Company's trademarks pursuant to this Agreement, the parties shall fully cooperate in order to do so. All expenses relating to the registration of the Company's trademarks in the Territory as well as the marking of any filing or obtaining any governmental approvals for the use by the Distributor of the Company's trademarks shall be

borne by the Company.

10.3 Markings. The Distributor shall not, without the prior written consent of the Company, remove or alter any patent numbers, trade names, trademarks, notices, serial numbers, labels, tags or other identifying marks, symbols or legends affixed to any Products or containers or packages.

10.4 Infringements. The Distributor shall promptly notify the Company of any use by any third party of the Company's trademarks or any use by such third parties of similar marks which may constitute an infringement or passing off of the Company's trademarks. The Company reserves the right in its sole discretion to institute any proceedings against such third party infringers and the Distributor shall refrain from doing so. The Distributor agrees to cooperate fully with the Company in any action taken by the Company against such third parties, provided that all expenses of such action shall be borne by the Company and all damages which may be awarded or agreed upon in settlement of such action shall accrue to the Company.

10.5 Termination of Use. The Distributor acknowledges the Company's proprietary rights in and to the Company's trademarks and any trade names regularly applied by the Company to the Products, and the Distributor hereby waives in favor of the Company all rights to any trademarks, tradenames and logotypes now or hereafter originated by the Company. The Distributor shall not adopt, use or register any words, phrases or symbols which are identical to confusingly similar to any of the Company's trademarks. Upon termination of this Agreement, the Distributor shall cease and desist from use of the Company's trademarks in any manner. In addition, the Distributor hereby empowers the Company and agrees to assist the Company, if requested, to cancel, revoke or withdraw any governmental registration or authorization permitting the Distributor to use the Company's trademarks in the Territory.

11. PATENTS

11.1 Indemnification. The Company shall, at its own expense, defend any suit instituted against the Distributor which is based on an allegation that any Products manufactured by the Company and sold to the Distributor hereunder constitute an infringement of any patent of the United States of America and shall indemnify the Distributor against any award of damage and costs made against the Distributor by a final judgment of a court of last resort if it is determined therein that any such Product constitutes an infringement of any patent of the United States of America, provided that the Distributor gives the Company immediate notice in writing of any notice or claims of infringement and permits the Company through the Company's counsel to defend the same and gives the Company all available information, assistance and authority to enable the Company to assume such defense. The Company shall have control of the defense of such suit, including appeals from any judgement therein and any negotiations for the settlement or compromise thereof with full authority to enter into a binding settlement or compromise. In the event that any Product is held to infringe and its use is enjoined, the Company shall, at its option and expense, (i) procure for the Distributor the right to continue using such Product, (ii) provide

the necessary parts and documentation to replace or modify such Product so that it no longer infringes, or (iii) grant the Distributor a credit for such Product upon its return to the Company, allowing for reasonable depreciation for use, damage and obsolescence.

11.2 Limitation of Obligation. Notwithstanding the provisions of Section 11.1 hereof, the Company shall have no liability whatsoever to the Distributor with respect to any patent infringement or claim thereof which is based upon or arises out of (i) the use of any Product in combination with an apparatus or device not manufactured or supplied by the Company, if such combination causes or contributes to the infringement, (ii) the use of any Product in a manner for which it was neither designed nor contemplated, or (iii) any modification of any Product by the Distributor or any third party which causes the Product to become infringing. Section 11.1 hereof states the entire liability of the Company for or arising out of any patent infringement or claim thereof with respect to Products furnished to the Distributor under this Agreement.

12. TAXES

12.1 The Company shall be solely responsible for and shall pay, or reimburse the Distributor for, all taxes, duties, import deposits, assessments and other governmental charges, however designated, which are now or hereafter imposed under or by any governmental authority or agency, that are (a) associated with the performance by the Distributor of its obligations hereunder; the payment of any amount by the Company to the Distributor pursuant to this Agreement, (b) based on the Products or their use, or (c) relate to the import of the Products into the Territory in accordance with then prevailing law or regulations.

12.2 All payments to be made by the Distributor to the Company pursuant to this Agreement represent net amounts the Company is entitled to receive and shall not be subject to any deductions for any reason whatsoever other than the price reduction on the Distributor's Product inventory, outlined in Article 6.2. In the event any of said charges become subject to taxes, duties, assessments or fees of whatever kind or nature levied outside Israel, said payments shall be increased to such an extent as to allow the Company to receive the net amounts due under this Agreement.

13. IMPORT AND EXPORT OF PRODUCTS

13.1 Import Documentation. The Company shall be responsible for obtaining all licenses and permits and for satisfying all formalities as may be required to import Products into the Territory in accordance with then prevailing law or regulations.

13.2 Export Regulations. The Distributor shall supply the Company on a timely basis with all necessary information and documentation requested by the Company in order to permit the Company to export the Products with respect to any sale or order solicited by the Distributor hereunder. The Distributor shall not dispose of any Israel-origin Products, software, know-how, technical data, documentation or other products or materials furnished to it pursuant to this

Agreement to any party or in any manner which would constitute a violation of the export control regulations of Israel now or hereafter in effect.

14. TERM AND TERMINATION

14.1 Term. This Agreement shall take effect with respect to each country comprising the Territory as set forth in Exhibit II as of the date first above written and shall continue in force for the initial period specified in Exhibit III. Thereafter, this Agreement shall be renewed for additional periods of one (1) year each, commencing on January 1 of each year, if each of the parties shall have given the other written notice of its renewal of this Agreement no later than July 1 of the previous year.

14.2 Termination. Notwithstanding the provisions of Section 14.1 above, this Agreement may be terminated in accordance with the following provisions:

14.2.1 Either party hereto may terminate this Agreement at any time by giving notice in writing to the other party, which notice shall be effective upon dispatch, should the other party file a petition of any type as to its bankruptcy, be declared bankrupt, become insolvent, make an assignment for the benefit of creditors, go into liquidation or receivership, or otherwise lose legal control of its business, or should the other party or a substantial part of its business come under the control of a third party;

14.2.2 Either party may terminate this Agreement by giving notice in writing to the other party should an event of Force Majeure continue for more than six (6) months as provided in Section 15.5 below;

14.2.3 Either party may terminate this Agreement by giving notice in writing to the other party in the event the other party is in material breach of this Agreement and shall have failed to cure such breach within thirty (30) days of receipt of written notice thereof from the first party;

14.3 The Distrubutor may terminate this Agreement upon giving the Company a written notice at least ninety (90) days prior to the effective date of termination in the following cases:

14.3.1 The Distributor deems the Products are inferior, due to lesser product quality and/or uncompetitive pricing in comparison to products similar to the Products.

14.3.2 The Distributor deems the time of delivery of the Products unacceptable, in which the Company repeatedly fails to deliver the Products by the scheduled delivery dates.

14.4 The Company may terminate this Agreement upon giving the Distributor a written notice at least ninety (90) days prior to the effective date of the termination if the Company deems the Distributor's efforts inferior as such efforts are defined under Article 3 of this agreement.

14.5 Partial Termination. In the event the Company shall have the right pursuant to the provisions of Sections 14.2(b), 14.2(c) to terminate this Agreement in its entirety, the Company may elect to terminate this Agreement

solely as it applies to any specific country or countries within the Territory upon providing the Distributor with written notice in accordance with the relevant Section referred to above; provided, that nothing in this Section 14.3 shall be construed as creating a precondition to or otherwise precluding the Company from terminating this Agreement in its entirety in accordance with the terms of Section 14.2

14.6 Rights and Obligations on Termination. In the event of termination of this Agreement for any reason, the parties shall have the following rights and obligations;

14.6.1 Termination of this Agreement shall not release either party from the obligation to make payment of all amounts then or thereafter due and payable;

14.6.2 The Company shall have the right, at its option, to (i) cancel any or all accepted purchase orders which provide for delivery after the effective date of termination, and/or (ii) repurchase any part of all of the Distributor's inventory of Products in the Distributor's possession as of the termination date at the Company's invoiced price to the Distributor for such products, less any appropriate amount for excessive wear. The Company shall exercise its option under this subsection by notifying the Distributor in writing no later than thirty (30) days after the effective termination date.

14.6.3 The Distributor's obligations pursuant to Article 9 hereof shall survive termination of this Agreement.

14.7 No Compensation. In the event either party terminates this Agreement for any reason in accordance with the terms hereof, the parties hereby agree that, subject to the provisions of Section 14.4(a) hereof and without prejudice to any other remedies which either party may have in respect of any breach of this Agreement, neither party shall be entitled to any compensation or like payment from the other as a result of such termination.

15. FORCE MAJEURE

15.1 Definition. Force Majeure shall mean any event or condition, not existing as of the date of signature of this Agreement, not reasonably foreseeable as of such date and not reasonably within the control of either party, which prevents in whole or in material part the performance by one of the parties of its obligations hereunder or which renders the performance of such obligations so difficult or costly as to make such performance commercially unreasonable. Without limiting the foregoing, the following shall constitute events or conditions or Force Majeure: acts of State or governmental action, riots, disturbance, war, strikes, lockouts, slowdowns, prolonged shortage of energy supplies, epidemics, fire, flood, hurricane, typhoon, earthquake, lightning and explosion. It is in particular expressly agreed that any refusal or failure of any governmental authority to grant any export license legally required for the fulfillment by the Company of its obligations hereunder shall constitute an event of Force Majeure.

15.2 Notice. Upon giving notice to the other party, a party affected by an event of Force Majeure shall be released without any liability on its part from the

performance of its obligations under this Agreement, except for the obligation to pay any amounts due and owing hereunder, but only to the extent and only for the period that its performance of such obligations is prevented by the event of Force Majeure. Such notice shall include a description of the nature of the event of Force Majeure, and its cause and possible consequences. The party claiming Force Majeure shall promptly notify the other party of the termination of such event.

15.3 Confirmation. The party involving Force Majeure shall provide to the other party confirmation of the existence of the circumstances constituting Force Majeure. Such evidence may consist of a statement of certificate of any appropriate governmental department or agency where available, or a statement describing in detail the facts claimed to constitute Force Majeure.

15.4 Suspension of Performance. During the period that the performance by one of the parties of its obligations under this Agreement has been suspended by reason of an event of Force Majeure, the other party may likewise suspend the performance of all or part of its obligations hereunder to the extent that such suspension is commercially reasonable.

15.5 Termination. Should the period of Force Majeure continue for more than six (6) consecutive months, either party may terminate this Agreement without liability to the other party, except for payments due to such date, upon giving written notice to the other party.

16. MISCELLANEOUS

16.1 Relationship. This Agreement does not make either party the employee, agent or legal representative of the other for any purpose whatsoever. Neither party is granted any right or authority to assume or to create any obligation or responsibility, express or implied, on behalf of or in the name of the other party. In fulfilling its obligations pursuant to this Agreement each party shall be acting as an independent contractor.

16.2 Assignment. Neither party shall have the right to assign or otherwise transfer its rights and obligations under this Agreement except with the prior written consent of the other party; provided, however, the Company shall be entitled to assign any or all of its rights and obligations hereunder to any of its subsidiaries or related companies, provided that the Company shall remain fully liable for the performance of all its obligations hereunder; and further provided that a successor in interest by merger, by operation of law, assignment, purchase or otherwise of the entire business of either party shall acquire all rights and obligations of such party hereunder. Any prohibited assignment shall be null and void.

16.3 Notices. Notices permitted or required to be given hereunder shall be deemed sufficient if given by registered or certified air mail, postage prepaid, return receipt requested, addressed to the respective addresses of the parties as first above written or at such other addresses as the respective parties may designate by like notice from time to time. Notices so given shall be effective upon (a) receipt by the party to which notice is given, or (b) on the fourteenth

(14th) day following the date such notice was posted, whichever occurs first.

16.4 Entire Agreement. This Agreement, including Exhibits I through VI attached hereto and incorporated as an integral part of this Agreement, constitutes the entire agreement of the parties with respect to the subject matter hereof, and supersedes all previous distributorship agreements by and between the Company and the Distributor as well as all proposals, oral or written and all negotiations, conversations or discussions heretofore had between the parties related to this Agreement. The Distributor acknowledges that it has not been induced to enter into this Agreement by any representations or statements, oral or written, not expressly contained herein.

16.5 Amendment. This Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived, in whole or in part, except by written amendment signed by the parties hereto.

16.6 Publicity. This Agreement is confidential and no party shall issue press releases or engage in other types of publicity of any nature dealing with the commercial and legal details of this Agreement without the other party's prior written approval, which approval shall not be unreasonably withheld. However, approval of such disclosure shall be deemed to be given to the extent such disclosure is required to comply with governmental rules, regulations or other governmental requirements. In such event, the publishing party shall furnish a copy of such disclosure to the other party.

16.7 Severability. In the event that any of the terms of this Agreement are in conflict with any rule or regulations of any government or subdivision thereof, such terms shall be deemed stricken from this Agreement, but such invalidity or unenforceability shall not invalidate any of the other terms of this Agreement and this Agreement shall continue in force, unless the invalidity or unenforceability of any such provisions hereof does substantial violence to or where the invalid or unenforceable provisions comprise an integral part of, or are otherwise inseparable from, the remainder of this Agreement.

16.8 Governing Law. This Agreement shall be governed by, and interpreted and construed in accordance with the laws of the State of Maryland.

16.9 Counterparts. This Agreement shall be executed in two or more counterparts in the English language, and each such counterpart shall be deemed an original hereof. In case of any conflict between the English version and any translated version of this Agreement, the English version shall govern.

16.10 Waiver. No failure by either party to take any action or assert any right hereunder shall be deemed to be a waiver of such right in the event of the continuation or repetition of the circumstances giving rise to such right.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the date first above written.

The Company:

ELECTRIC FUEL, LTD.

By: __________________________

Name:

Title:

The Distributor:

By: __________________________

Name:

Title:

EXHIBIT I

Products

Product Number

Description
Rated Capacity
Availability

EF-M1-29
Standard size, zinc-air battery which fits Motorola "MicroTAC" series
2900 mAh
April 1999

EF-M1-45
Ultra-capacity, zinc-air battery which fits Motorola "MicroTAC", series
4500 mAh
June 1999

EF-M2-29
Standard size, auxiliary zinc-air battery which fits Motorola brand "StarTAC" phones
2900 mAh
June 1999

EF-N6-29
Standard size, zinc-air battery which fits Nokia brand 6100 & 5100 series phones
2900 mAh
June 1999

EF-E3-29
Standard size, zinc-air battery which fits Ericsson brand 300 series phones
2900 mAh
April 1999

EF-E6-29
Standard size, zinc-air battery which fits Ericsson brand 600 series phones
2900 mAh
April 1999

EXHIBIT II

Territory

EXHIBIT III

Term of Agreement

The term of the agreement shall be ________ years from the date first above written in this Agreement, subject to the terms of articles as defined in the Distribution Agreement.

EXHIBIT IV

Initial Forecast

The initial term of this Agreement shall commence on the date first above written in this Agreement and shall continue through _________________.

Initial Forecast

To be determined

Q2 `99

Q3 `99

Q4 `99

Q1 `00

Q2 `00

Q3 `00

Q4 `00

Unit Volume

EXHIBIT V

Trademarks

To be determined.

EXHIBIT VI

Price List

Distributor Initial Unit Price

Product #
Suggested Retail Price
__ discount from sugg. Retail

EF-M1-29

EF-M1-45

EF-M2-29

EF-N6-29

EF-E3-29

EF-E6-29

Prices good through ______________

Exhibit VII

Cooperative Marketing Program

The Company will engage in marketing activities in order to promote and enhance the sales of the Company's products. These activities shall include but are not limited to the following:

Public Relations

Advertising

Trade Shows

Training

The Distributor must submit to the Company for approval an annual marketing plan on which the above activities are based. Any amendments to such a marketing plan must also be submitted to the Company for approval. The marketing plan must be submitted and approved by the Company prior to the payment by the Company for any expenses related to such marketing activities.

The Distributor will be compensated by the Company for such activities as follows:

In order to be eligible for payment, the Distributor must issue detailed invoices, as well as copies of any third party invoices to the Company.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the registration statements (No's 33-81044, 333-19753 and 333-74197) on Form S-8 of Electric Fuel Corporation of our report dated February 26, 1999 relating to the consolidated balance sheets of Electric Fuel Corporation as of December 31,1998 and 1997 and the related consolidated statements of loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998 which report appears in the December 31, 1998 annual report an Form 10-K of Electric Fuel CorporatIon.

Kesselman & Kesselman
Certified Public Accountants (Israel)

Jerusalem, Israel
March 24, 1999

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<F1>Total costs includes research and development expenses and cost of revenues. Because of the nature of the company's operations, management is of the opinion that it is not meaningful to segregate these costs.
</FN>

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EXHIBIT 99

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time.

COMPANY IS INCURRING OPERATING LOSSES

The Company was incorporated in 1990 and began its operations in 1991. The Company has funded its operations principally from licensing arrangements, research contracts and supply contracts, funds received under research and development grants from the Government of Israel, sales of Survivor Lights and funds raised in each of the initial public offering of the Company's Common Stock in February 1994, the offering of the Company's Common Stock in February 1996 and a private placement of the Company's Common Stock in October 1996. The Company incurred significant operating losses for the years ended December 31, 1996, 1997 and 1998, and expects to continue to incur significant operating losses in 1999. These losses may increase as the Company expands its research and development activities in each of its three divisions and establishes production and regeneration facilities, and such losses may fluctuate from quarter to quarter. There can be no assurance that the Company will ever achieve profitability.

COMPANY HAS SIGNIFICANT FUTURE CAPITAL REQUIREMENTS

The Company will require substantial funds to conduct the necessary research and development and testing of its products, to establish commercial scale manufacturing facilities and to market its products. The Company is seeking additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that the Company will obtain any such additional financing. If additional funds are raised by issuing equity securities, stockholders may incur further dilution. If additional funding is not secured, the Company will have to modify, reduce, defer or eliminate certain of its anticipated future commitments and/or programs, in order to continue reduced operations.

COMPANY IS AT AN EARLY STATE OF DEVELOPMENT

Other that a signal light powered by water activated batteries for use in life jackets and other rescue apparatus, the Company currently has no commercial products available for sale. The Company has announced plans to begin small scale commercial deliveries of its cellphone battery products starting in May, 1999 and expects to increase production to commercial levels

in 2000. Additional development may be necessary in order to commercialize the Company's technology and each of the components of the Electric Fuel System for electric vehicles and defense products. Significant resources will be required to scale up production of cellphone batteries to commercial scale. No assurance can be given that the Company will be able to complete such development, engineering or commercialization successfully, or that the Company, will be able to develop products for commercial sale or that, if developed, they can be produced in commercial quantities or at acceptable costs or be successfully marketed. The likelihood of the Company's future success must be considered in light of the risks, expenses, difficulties and delays frequently encountered in connection with the operation and development of a relatively early stage business and development activities generally.

COMPANY'S MANUFACTURING EXPERIENCE IS LIMITED

The Company currently has no capacity for, or experience in, manufacturing in commercial quantities and has, to date, produced only limited quantities of components of the Electric Fuel Electric Vehicle System for the Field Test and Edison and prototypes of consumer batteries. In order for the Company to be successful in the commercial market, its products must be manufactured to meet high quality standards in commercial quantities at competitive prices. The development of such manufacturing technology and processes will require extensive lead times and the commitment of significant financial and engineering resources of the Company and others. There can be no assurance that the Company will successfully develop this technology or these processes or obtain access to these resources. Moreover, there can be no assurance that the Company will be able to successfully implement the quality control measures necessary for commercial manufacturing.

COMPANY IS RELIANT ON OTHERS

To introduce the Electric Fuel zinc-air technology' into the marketplace, the Company intends to strengthen existing and develop new networks of strategic alliances, joint ventures and other associations. The success of any strategic alliance is dependent upon, among other things, the general business condition of the partners, its commitment to the strategic alliance and the skills and experience of its employees responsible for the strategic alliance. Even if the Company successfully initiates alliances, there can be no assurance that any alliance will be successful.

Prior to obtaining market acceptance, in order to engineer and establish the products for commercial ability of the Electric Fuel System, the commitment of significant additional investment and other resources, including capital, will be required of the Company and other parties. There can be no assurance that the funds will be available to allow the Company to complete the development, engineering, production and commercialization of its products.

MARKET ACCEPTANCE OF THE ELECTRIC FUEL SYSTEM IS UNCERTAIN

The Company believes that public pressure and government initiatives are important factors in creating an electric vehicle market. There can be no assurance that such public pressure will continue or that further legislation or other governmental initiatives will be enacted, or that current legislation will not be repealed, amended, or have its implementation delayed, or that a different form of zero emission or low emission vehicle, or other solutions to the problem of containing emissions created by internal combustion engines, will not be invented, developed and produced, and achieve greater market acceptance than electric vehicles. The lack of a significant market for electric vehicles would have a material adverse effect on the ability of the Company to commercialize this aspect of its technology. Even if a significant market for electric vehicles develops, there can be no assurance that the Company's technology will be commercially competitive within such a market.

In addition, further engineering is required in order to establish the refueling and regeneration infrastructure required for commercial viability of the Electric Fuel Vehicle System. There can be no assurance that the Company will succeed in developing commercial scale refueling systems. The Company believes that a regeneration facility of at least 10,000 kg/hour or larger will be required for commercial operation of the Electric Fuel Vehicle System for a substantial size fleet. There can be no assurance that a commercial regeneration facility of this size can he engineered, constructed and operated; the failure to do so would have a material adverse effect on the commercial application of the Electric Fuel Electric Vehicle System and, accordingly, on the results of operations and financial condition of the Company.

While, the Company believes that there is a substantial market for its cellphone batteries and batteries for handheld electronic devices, the Electric Fuel battery has not yet been accepted by the consumer products market for this application. There is no assurance that the Electric Fuel cellphone battery will be commercially competitive, in terms of price or performance, in this market.

COMPANY'S FIELD OF BUSINESS IS HIGHLY COMPETITIVE

The competition to develop electric vehicle battery systems, consumer batteries and defense and safety products and to obtain funding for the development of these products is, and is expected to remain, intense. The Company's technology competes with other battery technologies, as well as other zinc-air technologies. The competition consists of development stage companies, major international companies and consortia of such companies, including battery manufacturers, automobile manufacturers, energy production and transportation companies, consumer goods companies and defense contractors, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company.

Various battery technologies are being considered for use in electric vehicles, consumer batteries and defense and safety products by other manufacturers and developers, including the following: lead-acid, nickel-cadmium, nickel-iron, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide and zinc-air. Additionally, some manufacturers of alkaline batteries are offering alkaline battery packs for cellphone users.

SAFETY RISKS; DEMANDS OF REGULATORY COMPLIANCE IN THE ELECTRIC INDUSTRY

Components of the Electric Fuel technology contain certain elements which are known to pose potential safety risks. Also, because electric vehicle batteries contain large amounts of electrical energy, they may cause injuries if not handled properly. In addition to risks posed by the Electric Fuel technology, and although the Company incorporates safety procedures in its research, development and manufacturing processes designed to minimize safety risks, there can be no assurance that accidents in its facilities will not occur. Any accident, whether occasioned by the use of all or any part of the Electric Fuel technology or the Company's manufacturing operations, could adversely affect commercial acceptance of the Company's products and could result in significant production delays or claims for damages resulting from injuries, all of which would materially adversely affect the Company's operations and financial condition.

Regulations in Europe, Israel and the United States impose various controls and requirements relating to potassium hydroxide and zinc metal, as well as other components of the Electric Fuel technology. The Company believes that its current and contemplated operations conform to those regulations. The Company has applied for, but has not yet received, the necessary permits under the Israeli Dangerous Substances Law, 1993, required for the use of potassium hydroxide and zinc metal. The Company believes that the permits will granted, but there can be no assurance that such permits will be granted or that changes in regulations will not impose costly compliance requirements on the Company or otherwise subject it to future liabilities. Seeking these approvals could require significant time and resources from the Company's technical staff and, if redesign were necessary, could result in delays in the introduction of the Company's products.

COMPANY IS DEPENDENT ON PATENTS AND PROPRIETARY RIGHTS

The Company's ability to compete effectively will depend on its ability to maintain the proprietary nature of its technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements. The Company holds patents, or patent applications, covering elements of its technology in the United States and in Europe. In addition, the Company has patent applications pending in the United States and in foreign countries, including the European Community, Israel and Japan. The Company intends to continue to file patent applications covering important features of its technology. There can be no assurance, however, that patents will issue from any of these

pending applications or, if patents issue, that the claims allowed will be sufficiently broad to protect the Company's technology, or that issued patents will not be challenged or invalidated or that any of its issued patents will afford protection against a competitor. Litigation, or participation in administrative proceedings, may be necessary to protect the Company's patent position. Such litigation can be costly and time consuming and there can be no assurance that the Company would be successful if such litigation were instituted. The invalidation of patents owned by or licensed to the Company could have a material adverse effect on the Company. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States. Thus, there can be no assurance that foreign patent applications related to patents issued in the United States will be granted. Furthermore, even if these patent applications are granted, some foreign countries provide significantly less patent protection that the United States. In the absence of patent protection, and despite the Company's reliance upon its proprietary confidential information, competitors of the Company may be able to use innovations similar to those used by the Company to design and manufacture products directly competitive with Electric Fuel's products. In addition, no assurance around by others or that others will not obtain patents that the Company will need to license or design around. Moreover, to the extent any of the Company's products are covered by third party patents, development and marketing of such products by the Company could require a license under such patents.

Despite the Company's efforts to safeguard and maintain its proprietary rights, there can be no assurance that the Company will be successful in doing so. In addition, competition is intense, and there can be no assurance that the Company's competitors will not independently develop or patent technologies that are substantially equivalent or superior to the Company's technology. Moreover, if the issues were to be place before a court, the Company cannot be certain that such a court would determine that the Company was the first creator of inventions covered by its issued patents or pending patent applications or that it was the first to file patent applications for such inventions. If existing or future third party patents containing broad claims are upheld by the courts or if the Company is found to infringe third party patents, there can be no assurance that it will be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure of the Company to obtain necessary licenses could result in delays in the introduction of the products based on the Company's technology and in costly attempts to design around such patents, or could foreclose the development, manufacture or sale of the Company's products. The Company could also incur substantial costs in defending itself in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

The Company also relies on trade secrets and proprietary know-how that it seeks to protect, in part, through non-disclosure and confidentiality agreements with its customers, employees, consultants, strategic partners and potential strategic partners. There can be no assurance that these agreements will not be breached, that the company would have adequate remedies for any breach or that the Company's trade secrets will not otherwise become known or be independently developed by competitors.

COMPANY IS DEPENDENT ON KEY PERSONNEL; COMPANY MUST MANAGE GROWTH AND EXPANSION.

The Company is highly dependent on certain members of its management and engineering staff, the loss of the services of one or more of whom could adversely affect the Company. The Company is especially dependent on the services of its President and Chief Executive Officer, Yehuda Harats; and its Chairman of the Board of Directors and Chief Financial Officer, Robert S. Ehrlich, the loss of either of these could have a material adverse effect on the Company. The Company is party to employment agreements with Messrs. Harats, and Ehrlich, each for an initial term of three years commencing in 1993, subject to further extensions. In 1994, each of the employment agreements was extended for a period of two years ending December 1998, and in 1996 true agreements were extended until 2000. The Company has no key-man life insurance.

In addition, the Company is currently experiencing a period of development activity which could place a significant strain on the Company's personnel and resources. The Company's activity has resulted in increased levels of responsibility for both existing and new management personnel. Many of the Company's management personnel have had limited or no experience in managing growing companies. The Company has sought to manage its current and anticipated growth through the recruitment of additional management and technical personnel and the implementation of internal systems and controls. However, the failure to manage growth effectively could adversely affect the Company's results of operations.

POTENTIAL INCREASED UNITED STATES TAXATION

The Company believes that EFC and EFL will be treated as personal holding companies for purposes of the personal holding company ("PHC") rules of the Internal Revenue Code of 1986. Under the PHC rules, a PHC is subject to a special 39.6% tax on its "undistributed PHC income", in addition to regular income tax. The Company believes that EFC and EFL not have bad any material undistributed PHC income. However, no assurance can be given that EFC and EFL will not have undistributed PHC income in the future.

Approximately 48.6% of the stock of EFL was owned (directly or indirectly by application of certain attribution rules) as of March 12, 1999 by three United States citizens, If 50 % of the shares of the Company is ever acquired or deemed to be acquired by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 48.6% of the Company) who are United States citizens or residents, EFL would satisfy the foreign personal holding company ("FPHC") stock ownership test under the Internal Revenue Code, and the Company could be subject to additional U.S. taxes (including PHC tax) on any "undistributed FPHC income/EFL /of EFL. The Company believes that EFL has not had any material undistributed FPHC income. However, no assurance can be given that EFL will not become a FPHC and have undistributed FPHC income in the future.

LOCATION IN ISRAEL

The offices and facilities of the Company's principal subsidiary are located in Israel. Although the Company expects that substantially all its sales will be made to customers outside Israel; the Company is nonetheless directly affected by economic political and military conditions in that country. Accordingly, any major hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on the Company's operations. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan and the Palestine Liberation Organization, no prediction can be made as to whether a full resolution of these problems will be achieved or as to the nature of any such resolution.

Many of the Company's officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called for active military duty at any time. No assessment can be made of the full impact of such requirements on the Company in the future, particularly if emergency circumstances occur, and no prediction can be made as to the effect on the Company of any expansion of these obligations.

The Company benefits from certain Israeli government programs, grants and tax benefits, particularly as a result of the "Approved Enterprise" status of a substantial portion of the Company's existing facilities and the receipt of grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the "Chief Scientist"). To be eligible for certain of these programs, grants and tax benefits, the Company must continue to meet certain conditions, including making certain specified investments in fixed assets. If the Company fails to meet such conditions in the future, it could be required to refund grants already received. There can be no assurance that such programs and tax benefits will be continued in the future at their current levels or otherwise, and the Government: of Israel has announced that programs receiving "Approved Enterprise" status in 1996 and thereafter will be entitled to a Lower level of government grants than was previously available. The termination or reduction of certain programs and tax benefits (particularly benefits available to the Company as a result of the "Approved Enterprise" status of a substantial portion of its existing facilities and approved programs and as a recipient of grants from the Chief Scientist) could have a material adverse effect on the Company's business, results of operations and financial condition. EFL has granted a floating charge over all of its assets as a security to the State of Israel to secure its obligations under the "Approved Enterprise" programs.