

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001 .

Commission file number: 0-23336

ELECTRIC FUEL CORPORATION

(Exact name of registrant as specified in its charter)

<TABLE>  
<S> Delaware <C> 95-4302784  
-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

</TABLE>

<TABLE>  
<S> 632 Broadway, Suite 301, New York, New York <C> 10012  
-----  
(Address of principal executive offices) (Zip Code)

</TABLE>

(212) 529-9200  
-----  
(Registrant's telephone number, including area code)

-----  
(Former address, if changed since last report)

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 [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's common stock as of August 13,  
2001 was 25,314,115.

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ELECTRIC FUEL CORPORATION

Item 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED BALANCE SHEETS

	June 30, 2001	December 31, 2000
ASSETS	(Unaudited)	(Audited)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents.....	\$12,912,673	\$11,596,225
Trade receivables.....	955,917	2,212,434
Other receivables.....	2,697,199	2,418,715
Inventories.....	4,698,292	3,208,948
Total current assets.....	21,264,082	19,436,322
Notes receivable from stockholders.....	778,087	778,677
Severance pay fund.....	1,063,253	995,283
<b>FIXED ASSETS:</b>		
Cost.....	11,453,538	10,572,954
Less - accumulated depreciation.....	4,605,478	4,126,890
	6,848,061	6,446,064
	\$29,953,483	\$27,656,346

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL COPORATION

CONSOLIDATED BALANCE SHEETS

	June 30, 2001	December 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited)	(Audited)
<b>CURRENT LIABILITIES:</b>		
Trade payables.....	\$ 1,324,645	\$ 3,242,460
Other payables.....	1,831,897	1,544,795
Total current liabilities.....	3,156,542	4,787,435
Liability for Employee Rights Upon Retirement.....	3,012,467	2,790,542
Total liabilities.....	6,169,009	7,577,977

STOCKHOLDERS' EQUITY:

Common stock - \$0.01 par value		
Authorized - 100,000,000 shares		
Issued - 21,422,691 shares and 25,869,448 shares as of December 31, 2000 and June 30, 2001 respectively		
Outstanding - 21,417,358 shares and 25,314,115 shares as of December 31, 2000 and June 30, 2001 respectively.....	258,695	214,227
Preferred stock - \$0.01 par value		
Authorized - 1,000,000 shares, no shares outstanding.....	-	-
Additional paid-in capital.....	99,436,845	87,658,990
Deferred stock compensation.....	(9,789)	(17,240)
Accumulated deficit.....	(71,465,106)	(63,449,673)
Treasury stock, at cost (common stock - 555,333 shares).....	(3,537,106)	(37,731)
Notes receivable from stockholders.....	(898,693)	(4,290,204)
	-----	-----
Total stockholders' equity.....	23,784,474	20,078,369
	-----	-----
	\$ 29,953,483	\$

27,656,346

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</TABLE>

The accompanying notes are an integral part of the Financial Statements.

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

June 30,	Six months ended June 30,		Three months ended	
	<C>	<C>	<C>	<C>
2000	2001	2000	2001	
Revenues.....	\$ 1,760,177	\$ 1,285,487	\$ 1,034,218	\$
632,541				
Cost of revenues *).....	3,215,624	-	2,253,839	
-				
Gross loss *).....	(1,455,447)	-	(1,219,621)	
-				
Research and development expenses, net *)... 1,863,031	1,659,658	3,953,252	889,718	
Sales and marketing expenses..... 718,721	3,222,672	1,174,014	1,424,784	
General and administrative expenses..... 1,053,227	2,013,944	1,629,846	1,117,764	
	-----	-----	-----	-----
	6,896,274	6,757,112	3,432,266	
3,634,979				
Operating loss.....	(8,351,721)	(5,471,625)	(4,651,887)	
(3,002,438)				
Financial income, net.....	335,916	137,384	61,047	
141,944				
	-----	-----	-----	-----
Loss for the period.....	\$ (8,015,805)	\$ (5,334,241)	\$ (4,590,840)	

\$ (2,860,494)

Loss per share.....	\$ (0.36)	\$ (0.30)	\$ (0.19)
\$ (0.15)			
Weighted average number of shares outstanding.	22,381,029	18,048,108	23,562,099
18,935,208			

</TABLE>

\* In the first six months of 2000, the Company's cost of revenues was combined with research and development costs, since (i) the Company's production was integrated with the product development process, (ii) it was impossible to segregate the cost of revenue from the research and development expenses, and (iii) these expenses were interrelated by their nature.

The accompanying notes are an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>  
<CAPTION>

Treasury stock	Common Stock		Additional paid-in capital	Deferred Stock Compensation	Accumulated deficit	
	Shares	Amount				
	<C>	<C>	<C>	<C>	<C>	
BALANCE AT JANUARY 1, 2001 - AUDITED.....	21,422,691	\$214,227	\$87,658,990	\$ (17,240)	\$ (63,449,673)	\$
(37,731)						
CHANGES DURING THE SIX-MONTH PERIOD ENDED JUNE 30, 2001:						
Accrued interest on notes receivable from stockholders..						
Issuance of shares, net.....	4,446,749	44,468	11,777,855			
Purchase of treasury stock.....						
(3,499,375)						
Amortization of deferred stock compensation.....				7,451		
Loss.....					(8,015,805)	
BALANCE AT JUNE 30, 2001 - UNAUDITED.....	25,869,448	\$258,695	\$99,436,845	\$ (9,789)	\$ (71,465,478)	
\$(3,537,106)						

<CAPTION>

Notes receivable from shareholders	Total
------------------------------------	-------

<S>

BALANCE AT JANUARY 1, 2001 - AUDITED.....	\$ (4,290,204)	\$20,078,369
CHANGES DURING THE SIX-MONTH PERIOD ENDED JUNE 30, 2001:		
Accrued interest on notes receivable from stockholders..	(92,725)	(92,725)
Issuance of shares, net.....	23,500	11,845,823
Purchase of treasury stock.....	3,460,736	(38,639)

Amortization of deferred stock compensation.....		7,451
Loss.....		(8,015,805)
	-----	-----
BALANCE AT JUNE 30, 2001 - UNAUDITED.....	\$ (898,693)	\$23,784,474
	=====	=====

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

<TABLE>  
<CAPTION>

	Six months ended June 30,	
	2001	2000
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss for the period.....	\$ (8,015,805)	\$ (5,334,241)
Adjustments required to reconcile loss to net cash used in operating activities:		
Depreciation and amortization.....	512,000	285,053
Expenses due to options and shares granted to suppliers.....	49,295	107,000
Expenses due to options granted to employees.....	119,823	-
Amortization of deferred stock compensation.....	7,451	-
Interest accrued on notes from stockholders.....	(130,774)	(69,634)
Liability for employee rights upon retirement, net.....	153,955	65,131
Changes in operating asset and liability items:		
Decrease (Increase) in accounts receivable.....	966,191	(1,030,962)
Increase in inventories.....	(1,489,344)	(606,244)
Increase (Decrease) in accounts payable and accruals....	(1,403,663)	603,789
Net cash used in operating activities.....	(9,230,871)	(5,980,109)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets.....	(913,997)	(744,816)
Repayment of suppliers due to purchase of fixed assets....	(227,230)	-
Loans granted to shareholders.....	-	(733,059)
Net cash used in investing activities.....	(1,141,227)	(1,477,875)
FORWARD	\$ (10,372,098)	\$ (7,457,983)

</TABLE>

The accompanying notes are an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

<TABLE>  
<CAPTION>

	Six months ended June 30,	
	2001	2000
	-----	-----
<S>	<C>	<C>
FORWARD	\$ (10,372,098)	\$ (7,457,983)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of share capital, net.....	11,363,321	13,062,500
Proceeds from exercise of options and warrants.....	325,225	5,288,372
Net cash provided by financing activities.....	11,688,546	18,350,872
INCREASE IN CASH AND CASH EQUIVALENTS.....	\$ 1,316,448	10,892,888
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD....	11,596,225	2,555,645
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 12,912,673	\$13,448,533

=====			=====		
SUPPLEMENTARY INFORMATION ON ACTIVITIES NOT INVOLVING CASH FLOW:					
Issuance of share capital (including additional paid-in capital) upon notes receivable.....	-			\$ 3,698,575	
=====			=====		
Purchase of treasury stock upon notes receivable.....	\$ 3,499,375			-	
=====			=====		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH (PAID)					
RECEIVED DURING THE PERIOD FOR:					
Interest.....	\$ 225,522			\$ 178,924	
=====			=====		
Advances to income tax authorities.....	\$ (7,229)			\$ (25,300)	
=====			=====		

</TABLE>

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The accompanying notes are an integral part of the Financial Statements.

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NOTE TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

GENERAL

The interim consolidated financial statements of Electric Fuel Corporation reflect all adjustments, consisting only of normal recurring accruals, which are, in the opinion of our management, necessary for a fair statement of results for the periods presented. Operating revenues and expenses for any interim period are not necessarily indicative of results for a full year.

For the purpose of these interim consolidated financial statements, certain information and disclosures normally included in financial statements have been condensed or omitted. These unaudited statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2000.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Important Factors Regarding Forward-Looking Statements," filed as Exhibit 99 to our Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference.

Electric Fuel(R) is a registered trademark of Electric Fuel Corporation. Instant Power(TM), PowerCartridge(TM) and SmartCord(TM) are trademarks of Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders.

The following discussion and analysis should be read in conjunction with the interim financial statements and notes thereto appearing elsewhere in this Quarterly Report. We have rounded amounts reported here to the nearest thousand, unless such amounts are more than 1.0 million, in which event we have rounded such amounts to the nearest hundred thousand.

General

During 2001, we accelerated our efforts to further develop, commercialize and market our disposable Instant Power Zinc-Air batteries and chargers for cellular phones and PDAs. These products use the proprietary high-rate primary zinc-air technology that we developed in the last three years for use in portable electronic devices. We also focused during the past six months on expanding the distribution channels for our products, in order to continue the transition from a research and development company to a global consumer goods company, and on expanding the range of products that we offer.

Our line of existing products now includes batteries for Nokia 5100/6100/7100 phones, the Ericsson 600/800/1000 line, the Samsung SCH-3500 phone, and an auxiliary battery for the Motorola StarTAC, and chargers with SmartCords for various series and models of Nokia, Motorola, Ericsson, Panasonic, Siemens, Samsung, Audiovox, Mitsubishi, Sagem and Philips cellphones, models of Pocket PC, Palm, Handspring, HP, Casio and Compaq PDAs and Novatel wireless modems.

During the second quarter of 2001, we consolidated and increased our marketing presence with respect to our Instant Power line, particularly in Germany, where we signed an exclusive distribution agreement with respect to our chargers with DNT GmbH. Additionally, we received orders from retailers in the U.S., the U.K., Australia, Germany, Italy, Spain and Israel (where seven retail chains carry Instant Power products. These retailers include CompUSA, Fred Meyer Stores, CarToys, Wal-Mart (under the EverActive brand name) in the United States, and the Carphone Warehouse, the PocketPhone Shop, BT Retail and Orange in the UK. We are also selling through other, smaller distributors and online at [www.amazon.com](http://www.amazon.com), [www.iGo.com](http://www.iGo.com) and our own website, [www.electric-fuel.com](http://www.electric-fuel.com), among

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others. Addi-

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tionally, our products are available in airport shops in the United States (AltiTUNES and Laptop Lane), the U.K. and Israel.

While we have successfully marketed our products to retailers such as Wal-Mart, certain of our customers have indicated to us in response to slower than anticipated initial sales results that we would benefit from educating consumers as to the advantages of disposable batteries and chargers for cellphones and PDAs. We have begun addressing this need, both on our own and in cooperative programs with certain of our retailers, through an advertising and public relations campaign in national newspapers, in-flight and consumer magazines and at major airports, as well as through in-store point-of-sale efforts.

In March and April 2001, we announced major price reductions for our Instant Power line of disposable cellphone chargers and batteries, lowering the manufacturer's suggested retail price (MSRP) of our batteries to \$9.95, and reducing the MSRPs on our Instant Power charger (SmartCord and PowerCartridge together) to \$19.95 (\$24.95 for PDA kits) and on the PowerCartridge alone to \$9.95. These price cuts were enabled by improved efficiencies anticipated to be achieved through the full operation of our automated production line. As a result of these price reductions, we recorded additional expenses reflected in the cost of goods sold for the six months ended June 30, 2001.

As of June 30, 2001, we had 32 unexpired U.S. patents and 15 corresponding European patents issued covering general aspects and various applications of our zinc-air technology. We also have more than 50 new applications filed, focusing specifically on Instant Power batteries and chargers for consumer electronic devices and cellphones.

We are continuing to develop other applications for our disposable Instant Power batteries and chargers, including for other portable consumer electronic devices, such as camcorders, as well as devices for the telecommunications, hand-held computer and defense markets.

Our Electric Vehicle Division is continuing its American all-electric transit bus development project, subcontracted by the Federal Transit Administration (FTA). We successfully completed Phase I of the FTA program in June 2000, and are now engaged in Phase II of the program, which focuses on conducting evaluation of the system and vehicle performance, including track testing and limited on-road demonstrations, enhancing the all-electric propulsion system developed in Phase I, including incorporating ultracapacitors and associated interface controls, and testing and evaluating the zinc-air battery system.

In August 2001, we announced that we had successfully completed the performance testing of our zinc-air electric bus, as the first and most significant milestone of our Phase II contract with the Federal Transit Administration to demonstrate and evaluate the all-electric transit bus. In the final performance test, the bus was driven a record-breaking total of 110 miles, more than 100 of them under the rigorous stop-and-go driving conditions of the Society of Automotive Engineers' Central Business District (CBD) cycle, and with a load simulating nearly the maximum passenger payload of the bus. The bus was designed to be driven for 95 miles on the CBD cycle with a 50% passenger load. The most recent testing took place at Rome, New York, on a taxiway of the former Griffiss Air Force Base, and included evaluation of constant-speed driving and acceleration to 45 mph.

Our Safety Products Division is continuing with the introduction of the new emergency lights for the marine life jackets market, and sales are steadily increasing.

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We have experienced significant fluctuations in the sources and amounts of our revenues and expenses, and we believe that the following comparisons of results of operations for the periods presented do not necessarily provide a meaningful indication of our development. During these periods, we have received periodic lump-sum payments relating to licensing and other revenues from our strategic partners, which have been based on the achievement of certain milestones, rather than ratably over time. Our expenses have been based upon meeting the contractual requirements under our 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. Our research and development expenses have been offset, to a limited extent, by the periodic receipt of research grants from Israel's Office of the Chief Scientist. We expect 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 necessarily be meaningfully compared with those of current and prior periods. Thus, we believe that period-to-period comparisons of its past results of operations should not necessarily be relied upon as indications of future performance.

We incurred significant operating losses for the years ended December 31, 2000, 1999 and 1998 and for the first six months of 2001. While we expect to continue 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 and defense and safety products that we manufacture, as well as from licensing rights to the Electric Fuel technology to third parties, there can be no assurance that we will ever derive significant revenues or achieve profitability.

## Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which our Israeli subsidiary, Electric Fuel (E.F.L) Limited ("EFL") operates. Further, we believe that the operations of EFL's subsidiaries are an integral part of the Israeli operations. EFL has therefore adopted and is using the United States dollar as its functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

## Results of Operations

Three months ended June 30, 2001, compared to the three months ended June 30, 2000.

Revenues. Revenues for the second quarter of 2001 totaled \$1,035,000, compared to \$633,000 in the comparable period in 2000, an increase of \$402,000, or 64%. This increase was the result of a substantial increase in sales of our Instant Power batteries and chargers as compared with the comparable period in 2000, which was partly offset by a decrease in revenues for the Electric Vehicle division owing to completion of Phase I of the FTA program late in 2000.

During the second quarter of 2001, we recognized revenues from the sale of lifejacket lights and sale of consumer batteries. We also recognized revenues from subcontracting fees received in connection with the United States Department of Transportation (DOT) program which began in 1998 and, after we completed Phase I in July of 2000, was extended in the fourth quarter of 2000. We participate in this program as a member of a consortium seeking to demonstrate the ability of the Electric Fuel battery system to power a full-size, all-electric transit bus. The total program cost of Phase II is approximately \$2.7 million, 50% of which will be covered by the DOT subcontracting fees. Subcontracting fees cover less than all of the expenses and expenditures associated with our participation in the program. In 2000, we de-

## ELECTRIC FUEL CORPORATION

rived revenues principally from the sale of lifejacket lights and consumer batteries. Additionally, we also recognized revenues from activities related to the DOT program.

During the second quarter of 2001, revenues were \$634,000 for the Instant Power division (compared to \$139,000 in the comparable period in 2000, an increase of \$495,000, or 356%), \$119,000 for the Electric Vehicle division (compared to \$232,000 in the comparable period in 2000, a decrease of \$113,000, or 49%) and \$282,000 for the Defense and Safety division (compared to \$254,000 in the comparable period in 2000, an increase of \$28,000, or 11%).

Cost of revenues and gross loss. Cost of revenues totaled \$2,254,000 during



the second quarter of 2001. Gross loss was \$1,220,000 during the second quarter of 2001. In the second quarter of 2000, our cost of revenues was combined with research and development costs, since (i) our production was integrated with the product development process, (ii) it was impossible to segregate the cost of revenue from the research and development expenses, and (iii) these expenses were interrelated by their nature. Hence, we are unable to provide comparative data for the comparable quarter of 2000.

Direct expenses for our three divisions during the second quarter of 2001 were \$3.9 million in the Instant Power division (compared to \$1.8 million during the second quarter of 2000, an increase of \$2.1 million, or 86%), \$210,000 in the Electric Vehicle division (compared to \$314,000 during the second quarter of 2000, a decrease of \$104,000, or 33%), and \$226,000 in the Defense and Safety division (compared to \$294,000 during the second quarter of 2000, a decrease of \$68,000, or 23%).

Research and development expenses, net. Research and development expenses less royalty-bearing grants for the second quarter of 2001 were \$890,000. In the second quarter of 2000, our cost of revenues was combined with research and development costs, since (i) our production was integrated with the product development process, (ii) it was impossible to segregate the cost of revenue from the research and development expenses, and (iii) these expenses were interrelated by their nature. Hence, we are unable to provide comparative data for the comparable quarter of 2000.

Our 2001 grant applications have been approved by the Research Committee of the Office of the Chief Scientist of the Ministry of Industry and Trade. As a result, royalty-bearing grants of up to approximately \$1.0 million will be available to us during 2001 to offset R&D expenses. \$304,000 of these royalty-bearing grants was recognized in the second quarter of 2001 (compared to \$187,000 in the second quarter of 2000).

Selling expenses. Selling expenses for the second quarter of 2001 were \$1,425,000, compared to \$719,000 in the second quarter of 2000, an increase of \$706,000, or 98%, primarily attributable to increased sales and marketing expenses in the Instant Power division. We expect further increases in selling expenses, particularly with respect to marketing expenses, as we continue to market our products to consumers and expand the applications for our technology.

General and administrative expenses. General and administrative expenses for the second quarter of 2001 were \$1.1 million, compared to \$1.1 million in the second quarter of 2000.

Financial income. Financial income, net of interest expenses and exchange differentials, totaled approximately \$61,000 in the second quarter of 2001 compared to \$142,000 in the same quarter in 2000, a decrease of \$81,000, due primarily to lower balances of invested funds as a result of our use of the proceeds of private placements of our securities conducted in November 2000.

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Income taxes. We and our Israeli subsidiary EFL incurred net operating losses or had earnings arising from tax-exempt income during the halves ended June 30, 2001 and 2000 and, accordingly, we were not required to make any provision for income taxes. Taxes in these entities incurred in 2001 and 2000 are primarily composed of United States federal alternative minimum taxes.

Net loss. Due to the factors cited above, we reported a net loss of \$4.6 million in the second quarter of 2001, compared to a net loss of \$2.9 million in the second quarter of 2000, an increase of \$1.7 million, or 59%.

Six months ended June 30, 2001, compared to the six months ended June 30, 2000.

Revenues. Revenues for the first six months of 2001 totaled \$1.8 million, compared to \$1.3 million in the comparable period in 2000, an increase of \$500,000, or 38%. This increase was the result of an increase in sales of our Instant Power batteries and chargers as compared with the comparable period in 2000 and an increase in revenues for the Electric Vehicle division.

During the first six months of 2001, we recognized revenues from the sale of lifejacket lights and sale of consumer batteries. We also recognized revenues from subcontracting fees received in connection with the United States Department of Transportation (DOT) program which began in 1998 and, after we completed Phase I in July of 2000, was extended in the fourth quarter of 2000. We participate in this program as a member of a consortium seeking to demonstrate the ability of the Electric Fuel battery system to power a full-size, all-electric transit bus. The total program cost of Phase II is approximately \$2.7 million, 50% of which will be covered by the DOT subcontracting fees. Subcontracting fees cover less than all of the expenses and expenditures associated with our participation in the program. In 2000, we derived revenues principally from the sale of lifejacket lights and consumer batteries. Additionally, we also recognized revenues from activities related to the DOT program.

During the first six months of 2001, revenues were \$856,000 for the Instant Power division (compared to \$503,000 in the comparable period in 2000, an increase of \$353,000, or 70%), \$316,000 for the Electric Vehicle division (compared to \$232,000 in the comparable period in 2000, an increase of \$84,000, or 36%) and \$588,000 for the Defense and Safety division (compared to \$540,000 in the comparable period in 2000, an increase of \$48,000, or 9%).

Cost of revenues and gross loss. Cost of revenues totaled \$3.2 million during the first six months of 2001. Gross loss was \$1.5 million during the first six months of 2001. In the first six months of 2000, our cost of revenues was combined with research and development costs, since (i) our production was integrated with the product development process, (ii) it was impossible to segregate the cost of revenue from the research and development expenses, and (iii) these expenses were interrelated by their nature. Hence, we are unable to provide comparative data for the comparable half of 2000.

Direct expenses for our three divisions during the first six months of 2001 were \$6.8 million in the Instant Power division (compared to \$3.7 million during the first six months of 2000, an increase of \$3.1 million, or 84%), \$419,000 in the Electric Vehicle division (compared to \$459,000 during the first six months of 2000, a decrease of \$40,000, or 9%), and \$473,000 in the Defense and Safety division (compared to \$506,000 during the first six months of 2000, a decrease of \$33,000, or 7%).

Research and development expenses, net. Research and development expenses less royalty-bearing grants for the first six months of 2001 were \$1.7 million. In the first six months of 2000, our cost of revenues was combined with research and development costs, since (i) our production was integrated with the product development process, (ii) it was impossible to segregate the cost of revenue from the re-

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search and development expenses, and (iii) these expenses were interrelated by their nature. Hence, we are unable to provide comparative data for the comparable half of 2000.

Our 2001 grant applications have been approved by the Research Committee of the Office of the Chief Scientist of the Ministry of Industry and Trade. As a result, royalty-bearing grants of up to approximately \$1.0 million will be available to us during 2001 to offset R&D expenses. \$490,000 of these royalty-bearing grants was recognized in the first six months of 2001 (compared to \$187,000 in the first six months of 2000).

Selling expenses. Selling expenses for the first six months of 2001 were \$3.2 million, compared to \$1.2 million in the first six months of 2000, an increase of \$2.0 million, or 174%, primarily attributable to increased sales and marketing expenses in the Instant Power division. We expect further increases in selling expenses, particularly with respect to marketing expenses, as we continue to market our products to consumers and expand the applications for our technology.

General and administrative expenses. General and administrative expenses for the first six months of 2001 were \$2.0 million compared to \$1.6 million in the first six months of 2000, an increase of \$385,000, or 24%. This increase was primarily attributable to increases in salary expenses due to the hiring of new employees and consultants, and litigation expenses incurred in the first six months of 2001 but not in the comparable period in 2000 in connection with our lawsuit against Electrofuel, Inc., which lawsuit was settled during the first six months as described under "Part II - Item 1. Legal Proceedings," below.

Financial income. Financial income, net of interest expenses and exchange differentials, totaled approximately \$336,000 in the first six months of 2001 compared to \$137,000 in the same half in 2000, an increase of \$199,000, due primarily to higher balances of invested funds as a result of the deposit of the proceeds of private placements of our securities conducted in November 2000.

Income taxes. We and our Israeli subsidiary EFL incurred net operating losses or had earnings arising from tax-exempt income during the halves ended June 30, 2001 and 2000 and, accordingly, we were not required to make any provision for income taxes. Taxes in these entities incurred in 2001 and 2000 are primarily composed of United States federal alternative minimum taxes.

Net loss. Due to the factors cited above, we reported a net loss of \$8.0 million in the first six months of 2001, compared to a net loss of \$5.3 million in the first six months of 2000, an increase of \$2.7 million, or 51%.

#### Liquidity and Capital Resources

As of June 30, 2001, we had cash and cash equivalents of approximately \$12.9 million, compared to \$13.4 million as of June 30, 2000.

In May 2001, we sold an aggregate of 4,045,454 shares of our common stock to a group of institutional investors for an aggregate of \$11,125,000. Investors in the offering also received an aggregate of 2,696,971 warrants to purchase shares of common stock at an exercise price of \$3.22 per share.

We used available funds in the first six months of 2001 primarily for continued research and development expenditures, and other working capital needs. We increased our investment in fixed assets by \$914,000 during the quarter ended June 30, 2001, primarily in the Instant Power Division. Our fixed assets, net, amounted to \$6.8 million as at quarter end.

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Our Israeli subsidiary EFL presently has a line of credit with the First International Bank of Israel Ltd. (FIBI) of up to \$750,000, guaranteed by our receivables (up to 75% of the receivables total amount as determined from time to time). This credit facility imposes financial and other covenants on EFC and EFL. As of June 30, 2001, the bank had issued letters of credit and bank guarantees totaling approximately \$57,000.

We believe that our cash position and cash flows from operations as of the date of this report will be sufficient to satisfy our estimated cash requirements for at least the next year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to the impact of interest rate changes and foreign currency fluctuations due to our international sales, production and funding requirements.

Our research, development and production activities are primarily carried out by our wholly-owned subsidiary EFL, at its facility in Beit Shemesh, Israel, and we market some of our products in Israel; accordingly we have sales and expenses in New Israeli Shekels. However, the majority of our sales are made outside Israel in U.S. dollars, and a substantial portion of our costs are incurred in U.S. dollars or in New Israeli Shekels linked to the U.S. dollar. Therefore, our functional currency is the U.S. dollar. Although we have a line of credit that may be affected by interest rate changes, given our level of borrowing, we do not believe the market risk from interest rate changes is material.

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PART II

ITEM 1. LEGAL PROCEEDINGS.

On August 1, 2000 we sued Electrofuel, Inc., a Canadian corporation, in United States District Court for the Southern District of New York, alleging that its use of the "Electrofuel" trademark and tradename in the United States in connection with its lithium polymer batteries constituted an infringement of our trademark rights to the "Electric Fuel" mark, as registered with the United States Patent and Trademark Office, and seeking an injunction against Electrofuel's use of the "Electrofuel" mark and name in the United States in connection with its battery business, and damages. On September 26, 2000, Electrofuel filed an answer and counterclaims challenging our use of the "Electric Fuel" trademark and tradename. Electrofuel's counterclaim also seeks an injunction against our use of the "Electric Fuel" mark and name, a cancellation of our trademark registration, and damages. In June 2001, we settled our lawsuit with Electrofuel; pursuant to the terms of this settlement, Electrofuel agreed to discontinue its use of Electrofuel as a trademark or company name in connection with batteries within six months. The settlement with Electrofuel permits it to continue to use the name on the Toronto Stock Exchange, and in connection with its ceramics-related business.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Effective as of May 3, 2001, we effected modifications to our Series A Warrant dated November 17, 2000 to purchase 666,667 shares of our common stock (the "Series A Warrant") and our Series B Warrant dated November 17, 2000 to purchase 333,333 shares of our common stock (the "Series B Warrant"). The Series A Warrant and the Series B Warrant were originally issued by us to an institutional investor pursuant to a securities purchase agreement dated as of November 17, 2000 by and between us and that institutional investor. In May 2001, the institutional investor consented to, and waived certain provisions in the securities purchase agreement related to, our sale of certain of our securities in May 2001, as described under "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," above. In consideration for the institutional investor's waiver and consent we (i) amended the exercise price applicable to

the Series A Warrant held by the institutional investor from \$12.56 per share to \$3.50 per share and (ii) amended the exercise price applicable to the Series B Warrant held by the institutional investor from \$11.31 per share to \$2.52 per share.

As additional consideration for the institutional investor's waiver and consent and discussed in the immediately preceding paragraph, we issued to the institutional investor a Series C warrant to purchase 250,000 shares of our common stock at a per share price of \$3.08. We issued these securities in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

ITEM 5. OTHER INFORMATION.

In January 2001, we agreed to issue to certain of our employees a total of 400,000 shares of our common stock and 400,000 warrants to purchase shares of our common stock for a total purchase price of \$2,225,000, which was to be paid by such employees by means of a non-recourse promissory note secured by the shares of common stock and warrants purchased, in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. We reported this transaction in our quarterly report on Form 10-Q filed by us with the Securities and Exchange Commission on May 14, 2001. In late May 2001, prior to the actual issuance of the share certificates and warrant certificates, the Board, at the recommendation of the Compensation Committee

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and with the agreement of the above-referenced employees, decided to abandon this transaction. The non-recourse notes were accordingly cancelled and the share certificates and warrant certificates were not issued.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(b) The following reports on Form 8-K were filed during the second quarter of 2001:

Date Filed -----	Item Reported -----
May 7, 2001	Modification of Series A and Series B Warrants issued in November 2000 and issuance of a new Series C Warrant
May 7, 2001	Filing of Form of Common Stock Purchase Warrant as an exhibit to our Form S-3 registration statement (No. 333-59346)

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SIGNATURES

Pursuant to the requirements 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.

ELECTRIC FUEL CORPORATION

By: /s/ Robert S. Ehrlich

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Name: Robert S. Ehrlich  
Title: President and Chief Financial Officer

Dated: August 13, 2001

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