

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 .

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)

<TABLE>

<S>	Delaware	<C>	95-4302784
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(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)	
	632 Broadway, Suite 301, New York, New York		10012
	-----		-----
(Address of principal executive offices)		(Zip Code)	

</TABLE>

(212) 529-9200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>

<S>	<C>
Title of each class	Name of each exchange on which registered
-----	-----
None	Not applicable

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value
</TABLE>

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 No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant as of March 25, 2002 was approximately \$49,717,247 (based on the last sale price of such stock on such date as reported by The Nasdaq National Market).

(Applicable only to corporate registrants) Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 30,880,278 as of 3/25/02

Documents incorporated by reference: None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) 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.

PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our business, financial condition and results of operations. The words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Further, we operate in an industry sector where securities values may be volatile and may be influenced by economic and other factors beyond our control. In the context of the forward-looking information provided in this annual report and in other reports, please refer to the discussions of risk factors detailed in, as well as the other information contained in, our other filings with the Securities and Exchange Commission.

Electric Fuel(R) is a registered trademark of Electric Fuel Corporation.

Instant Power(TM), Charge without electricity(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.

PART I

ITEM 1. BUSINESS

General

We are a world leader in primary and refuelable Zinc-Air fuel cell technology, pioneering advancements in consumer electronics, electric vehicles and defense and security products.

We based our line of Instant Power disposable chargers and batteries for cellular telephones, PDAs, digital cameras and camcorders on our patented Zinc-Air fuel cell technology. The batteries, which come fully charged and ready to use right out of the pack, provide consumers with up to five times more usage time when compared with conventional rechargeable batteries such as those typically provided by the device manufacturer as original equipment. The pocket-sized chargers, which weigh less than three ounces and plug directly into a cellphone or PDA, allow these devices to be recharged and used on the move without an electrical outlet.

We are also engaged in the design, development and commercialization of our proprietary fuel cell technology for other portable consumer electronic devices, as well as for electric vehicles and defense and security product applications.

We have been engaged in research and development in the field of zinc-air electrochemistry and battery design for over ten years, as a result of which we have developed our current technology and its applications. We have successfully applied our technology to our Instant Power line of high-capacity zinc-air chargers and disposable batteries for cellular telephones and other portable consumer electronic devices, and to high-energy battery packs for military and security applications. We have also applied our technology to the development of a refuelable zinc-air fuel cell for powering zero-emission electric vehicles, which we have successfully demonstrated in "on-the-road" programs in Germany, Sweden, Italy, Israel and the United States, most recently in a public test in Las Vegas, Nevada. Through these efforts, we have sought to position ourselves as a world leader in the application of zinc-air technology to innovative primary and refuelable power sources.

While zinc-air technology has been in use for over a century in a great variety of typically low-power devices (such as hearing aids), we have developed technologies that provide our (environmentally-friendly) batteries with enhanced performance in both power and energy at a low manufacturing cost. Our high-energy, high-power zinc-air fuel cell is composed of a zinc anode and an air (oxygen reduction) cathode. It is different from most other battery technologies in that one of the electrodes - the air cathode - is not consumed during discharge, but instead acts as a kind of electrochemical membrane that extracts oxygen from the atmosphere and introduces it into the cell. During discharge, the oxygen is electrochemically reduced to hydroxide ions at the cathode, and zinc at the anode is consumed by conversion to zinc oxide. In electric vehicles, fresh zinc is generated out of oxidized zinc in a regeneration process. In our batteries and chargers for consumer electronics devices, we construct the entire pack from low-cost, recyclable components which can be disposed of in an environmentally-safe manner.

For financial information concerning the business segments in which we operate, see Note 14 of the Notes to the Consolidated Financial Statements. For financial information about

geographic areas in which we engage in business, see Note 14(c) of the Notes to the Consolidated Financial Statements.

We were incorporated in Delaware in 1990. Unless the context requires otherwise, all references to us refer collectively to Electric Fuel Corporation (EFC) and EFC's wholly-owned Israeli subsidiary, Electric Fuel (E.F.L.) Limited (EFL), Electric Fuel Transportation Corp., and other subsidiaries of EFC and EFL.

We concentrate our consumer product sales and marketing efforts for North America from our headquarters office in New York. Our executive offices are located at 632 Broadway, Suite 301, New York, New York 10012, and our telephone number at our executive offices is (212) 529-9200. Our corporate website is www.electric-fuel.com, and our Instant Power Division has established

consumer-oriented websites at www.instant-power.com and www.instantpower.co.uk.

Reference to our websites does not constitute incorporation of any of the information thereon into this annual report.

We conduct our research, development and production activities primarily through EFL at its facility in Beit Shemesh, Israel. We also have a small battery research and development facility in Auburn, Alabama that builds and tests prototype cells and batteries.

Business Strategy

To fully utilize our zinc-air fuel cell technology for a wide selection of applications, we operate in three business segments: Instant Power, Electric Vehicles, and Defense and Security Products (formerly Defense and Safety

Products).

Our Instant Power Division develops and has introduced consumer products for a variety of portable electronic devices: disposable primary zinc-air batteries as a substitute for lower performing and initially more expensive rechargeable batteries for cellphones, digital cameras and camcorders, and ready-to-use zinc-air chargers for rechargeable cellphone and PDA batteries that allow consumers to keep talking or working on an empty battery during the charging process.

We believe that there is a large potential market for high-capacity primary chargers and batteries that are capable of powering and recharging high-drain electronic devices, and we are seeking ways to continue to commercialize our zinc-air technology for such devices. We intend to focus on increasing sales and distribution of our existing consumer products for cellular phones, PDAs, digital cameras and camcorders, marketing these products through distributors, wireless carriers, original equipment manufacturers (OEMs), accessory dealers, specialty and general retailers, and Internet resellers.

We also intend to explore the possibility of establishing strategic marketing and manufacturing partnerships. Potential strategic partners for batteries and chargers may include consumer electronic device manufacturers, major retailers, battery producers and assemblers, wireless accessory distributors, cellular phone service providers and consumer goods distributors. We currently manufacture zinc-air cells and assemble chargers and batteries for use in consumer electronic devices at our own facilities, although we may later outsource part of this work as volume increases.

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Our Electric Vehicle Division, conducted through our subsidiary Electric Fuel Transportation Corp., continues to focus on obtaining and implementing demonstration projects in the U.S. and Europe, and on building broad industry partnerships that can lead to eventual commercialization of the zinc-air energy system. This approach supports our long-term strategy of achieving widespread implementation of the Electric Fuel zinc-air energy system for electric vehicles in large commercial and mass transit vehicle fleets. We intend to strengthen existing relationships 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 Zinc-Air system.

With respect to our Defense and Security Products Division, we base our strategy in the defense business sector on the development and commercialization of our next-generation zinc-air fuel cell technology, as applied in our ongoing work for the U.S. Army's Communications and Electronics Command (CECOM). The Division has undertaken limited production of 800-Wh battery packs with specific energy of 350 Wh/kg, which we believe is the highest specific energy of any battery available to the US Armed Forces. We will continue to seek new applications for our technology in defense projects, wherever synergistic technology and business benefits may exist. We intend to continue to develop our battery products for defense agencies, and plan to sell our products either directly to such agencies or through prime contractors.

Our Defense and Security Products Division's safety products group, which produces lifejacket lights based on our patented water-activated magnesium-cuprous chloride battery technology, intends to continue to work with OEMs, distributors and end-user companies to expand its market share in the aviation and marine segments. We presently sell four products in the safety products group, two for use with marine life jackets and two for use with aviation life vests. All four products are certified under applicable international marine and aviation safety regulations.

Instant Power Division

The Instant Power Division began initial deliveries of disposable cellphone batteries in the first line of commercial consumer products based on Electric Fuel's zinc-air fuel cell technology in the second half of 1999. By the end of 2001, we were manufacturing and marketing chargers compatible with various models of Nokia, Motorola, Ericsson, Panasonic, Siemens, Samsung, Audiovox, Nextel, Mitsubishi, Sagem and Philips cellphones and with various models of Palm, Handspring, Audiovox, Sharp, Toshiba, Sony, HP, Casio, IBM and Compaq PDAs and Novatel wireless modems, as well as disposable batteries suitable primarily for various models of Nokia cellphones, various models of SONY, Nikon Coolpix, Olympus and Kodak digital cameras, and various models of Sony Handycam and JVC camcorders. At the end of 2001, our products were on sale at retail outlets throughout the United States, Canada, Europe and Israel, including at such well-known retailers as RadioShack, 7-Eleven, CompUSA, Staples, AT&T Wireless, and Wal-Mart, and other cellular and retail stores in the United States, and at the Carphone Warehouse, Orange, The Link, Dixons, Tescos and other cellular and retail stores in the United Kingdom, as well as on British Airways flights.

We believe that two industry trends will have a strong positive impact on the market for our line of chargers and batteries:

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We believe that the emergence and projected growth of so-called "convergence" products - those which combine wireless communications with computer functions such as data and media transmission, and internet and e-mail connection - will lead to an increased demand for high-power batteries and rechargers. The energy consumption of the new

devices will underscore the limited capacity of rechargeables, which incorporate high-drain elements such as color screens and video.

The amount of usage per user (usually measured in minutes of airtime) is increasing even faster than the number of users.

Chargers

Our Instant Power Chargers for cellphones and PDAs are the first such chargers that not only require no electricity but also give consumers the option to keep talking or working on an empty battery during the charging process. The chargers consist of a compact replaceable PowerCartridge, which is the same no matter what cellphone or PDA is being charged, and a reusable SmartCord electronic adapter that connects the PowerCartridge to the particular cellphone or PDA and stays with the user for the life of the device. The PowerCartridge has a capacity of 3300 milliampere-hours (mAh), weighs approximately 76 grams (2.7 oz.) and is good for up to three charges (or more on some models) and hours of talk.

We produce or develop SmartCords for various series and models of Nokia, Motorola, Ericsson, Panasonic, Siemens, Samsung, Audiovox, Mitsubishi, Sagem, Nextel and Philips cellphones, models of Palm, Handspring, Casio, Audiovox, Sharp, Toshiba, SONY, HP and Compaq PDAs, and Novatel modems. We sell the Instant Power charger as a package, where we sell the PowerCartridge with a SmartCord and a recloseable aluminum pouch designed to store the cartridge between uses. We also sell the Instant Power charger as our "2in1 Charger," where it is bundled with a universal in-car adaptor that can be used in any car's cigarette lighter. Replaceable PowerCartridges are sold separately.

Batteries

Cellphones

We currently offer four models of disposable zinc-air batteries for most Nokia and some Motorola, Ericsson and Samsung cellphones, all built from the same Electric Fuel zinc-air cells, which are connected in series in order to deliver the required voltage.

Digital Cameras and Camcorders

We offer fully charged, ready-to-use high-capacity back-up batteries for digital, VHS-C and 8mm video camcorders and digital cameras. We currently produce six models of digital camera batteries (three of which are for digital cameras that normally use AA alkaline batteries) and two models of camcorder batteries, all built from the same Electric Fuel zinc-air cells, which are connected in series in order to deliver the required voltage. We sell all of them under the brand name Instant Power. The batteries that we offer are compatible with various models of SONY (Mavica and Cyber-Shot), Nikon (Coolpix), Olympus and Kodak digital cameras and SONY (Handycam) and JVC camcorders. Our digital camera and camcorder batteries connect to

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the device through its DC jack. The battery comes complete with a 90 cm (36") cord, and has an integral belt clip for convenience of use.

Advantages of Our Consumer Charger Products

Performance - Charge Without Electricity

Our Instant Power chargers, which consist of a replaceable PowerCartridge and a reusable SmartCord, allow users to simultaneously charge a cellphone or PDA anywhere, anytime, without the need of an electric outlet, and to keep talking and working even if the unit's rechargeable battery is empty. Each disposable PowerCartridge provides up to three charges (or more on some models). We supply the PowerCartridge with a recloseable aluminum pouch designed to store the cartridge between uses; we also sell replaceable cartridges separately.

Convenience and Efficiency

The Instant Power charger, with a three-year shelf life, allows cellphone and PDA users to keep talking and working even if their device's battery is dead. It is compact (about twice the size of a box of matches), easy to use and convenient. The Instant Power charger begins delivering power instantly, and contains a timer set to end its charging cycle within approximately two hours. After use, the user places the PowerCartridge in the airtight pouch (provided) to halt the chemical reaction and thereby preserve power for the next recharge. Moreover, the SmartCord, which is reusable, is intended to stay with the user for the life of the phone or PDA, so that after the initial purchase the user need only replace the PowerCartridge.

Safety and Environment

Zinc-air is a proven, safe chemistry used extensively in hearing aids and pagers, as well as other devices where a high-energy, lightweight battery is desired. Underwriters' Laboratories has tested our chargers and batteries and found them safe. Electric Fuel Instant Power chargers and batteries are designed to be environmentally benign and recyclable in the same manner as primary alkaline batteries. At present, we are not aware of any commercial recycling facilities available either in the United States or in Europe for primary alkaline or zinc-air batteries.

Advantages of Our Consumer Battery Products

Battery Performance - Increased Use Time

Our Instant Power batteries deliver a unique combination of high-energy density and high power density, which provides superior performance in cellphones, digital cameras and camcorders. Our Instant Power cellphone batteries provide 3 to 5 times more talk and standby time than comparable rechargeable batteries made for these products. Instant Power digital camera and camcorder batteries give 3 to 5 times as much use time as comparable rechargeable batteries made for these products, and provide up to 10 hours of continuous use (without LCD screen), allowing users of digital cameras to take thousands of digital photos.

Convenience

The Electric Fuel Instant Power battery offers two kinds of convenience for users:

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First, the battery is fully charged and ready to use right out of the package, and requires no initial charging, unlike new rechargeable batteries which are typically sold (or provided with new products) in an uncharged or partially charged state. This can be critical for users of digital cameras and camcorders, who would otherwise risk missing important moments.

Second, the battery frees the user from the inconvenience of charging his or her cellphone or camera battery. On business and vacation trips, the user of the Instant Power battery benefits both from not having to take along a charger and from not having to remember to charge the instrument every night.

Thus, the Instant Power battery, with a three-year shelf life, offers users convenience similar to the convenience disposable alkaline batteries provide for portable CD players or pagers.

Safety and Environment

Zinc-air is a proven, safe chemistry used extensively in hearing aids and pagers, as well as other devices where a high-energy, lightweight battery is desired. Underwriters' Laboratories has tested our batteries and found them safe. The Electric Fuel Instant Power battery is designed to be environmentally benign and recyclable.

As a disposable battery, the Instant Power battery avoids the complications and hazards associated with recharging such as overcharge and overdischarge. We designed Instant Power batteries to be recyclable in the same manner as primary alkaline batteries. At present, there are no commercial recycling facilities available either in the United States or in Europe for primary alkaline or zinc-air batteries.

Market, Marketing Strategies and Sales

Targeting Key Market Segments

We have identified key market segments that we believe are more likely to purchase disposable cellphone and PDA chargers and cellphone and digital camera/camcorder batteries because of their back-up capability, high capacity and added convenience. These market segments are:

- . Frequent travelers
- . Vacationers
- . Outdoors enthusiasts
- . As a backup and in an emergency
- . Business people and heavy users
- . Or just in case

Crafting Key Marketing Messages

We have developed certain marketing messages that we believe identify for consumers the advantages of disposable cellphone chargers and batteries. These marketing messages are:

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- . "The revolutionary ready-to-use Instant Power battery."
- . "Never let your cellphone or PDA go dead again."
- . "Emergency power that lasts."
- . "No electricity needed."
- . "Business o travel o backup."

With respect to digital cameras and camcorders, we stress somewhat different marketing messages that we believe identify for consumers of these products the unique advantages of our batteries. These marketing messages are:

- . "Ideal for family vacations or business use."
- . "High capacity for extended use time."
- . "Back-up power for immediate use."

Multi-Channel Sales Implementation Program

We are undertaking implementation of our marketing strategy for our products through the following channels:

- (1) Sales through retailers and distributors of cellphone accessories.
- (2) Participation in trade shows.
- (3) Direct sales via the Internet.
- (4) Retail sales at travel-oriented locations.
- (5) Strategic alliances with cellular phone carriers.
- (6) Strategic alliances with original equipment manufacturers.

Promotional Activities

We have developed trade advertisement "Point of Sales" materials and in-store posters to support our retail efforts. We are participating in co-op advertising with our distributors, running special offers (such as "buy two, get one free") and internet promotions. We have also conducted a limited advertising campaign in newspapers and magazines in the U.S., the U.K. and Israel.

Trade Shows

During 2001, we participated in the Consumer Electronics Show (Las Vegas, Nevada), the CTIA Wireless show (New Orleans, Louisiana), PC Expo, NACDS, Planet PDA, CeBIT (Germany), SIMO (Spain), the PCS 2001 show (Chicago, Illinois), SMAU (Italy), Incentives Show (UK), Systems and IFA (Germany) and Comdex (Las Vegas, Nevada). We participated or plan to participate in similar major trade shows scheduled for 2002 in the U.S., Europe and Asia.

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Competition

General

The market for cellphone, PDA, digital camera and camcorder batteries has been almost entirely dominated by rechargeable battery packs incorporating nickel-cadmium, nickel-metal hydride, lithium-ion and lithium-polymer cells. Typically, these batteries come in standard configuration of 800 to 1200 milliampere-hours (mAh) with new devices, and rechargeable batteries of up to 3000 mAh or more are also available as aftermarket accessories. Rechargeable batteries for cellphones are produced and/or packaged by the leading cellphone handset manufacturers, such as Nokia Corporation and Motorola, Inc., as well as by numerous aftermarket producers that sell private-label or off-brand models, and rechargeable batteries for digital cameras and camcorders are produced and/or packaged by third-party developers, such as Moby Power and Maha Energy Corporation.

Rechargeable batteries provide lower life-cycle costs than primary batteries when measured in terms of cost per total lifetime usage. Further, rechargeable batteries relieve the user of the need to continually purchase primary batteries. However, the per-cycle usage time of rechargeable batteries is generally limited, particularly in the case of standard configuration batteries in the range of 800 mAh to 1200 mAh. Use of rechargeable batteries also requires the user to have available a charger and transformer unit; a power socket (generally one with alternating current (AC) electricity if for indoor use, or with direct current (DC) electricity if for outdoor or in-vehicle use); and sufficient time to charge the battery after it is depleted.

Our market penetration strategy is to deliver a battery that offers the convenience of a longer use time and that does not require charging, and to cater to those consumers who prefer to continue to use rechargeable batteries by providing them with a product that can charge their rechargeable batteries even in situations where charging from a source of AC electricity is inconvenient or impossible.

Until now, rechargeable battery technology for cellphones has evolved in steps: The first transition, starting in the early to mid-1990s, was from nickel-cadmium packs to nickel-metal hydride (NiMH) packs, which offered moderate gains in energy density while eliminating the so-called "memory effect," which prevented nickel-cadmium batteries from being fully recharged if they were not first fully discharged. NiMH batteries typically offer practical energy densities of up to 70 watt-hours per kilogram (Wh/kg). The second transition has been to lithium-ion (Li-ion), which has offered moderate gains in energy density but at a higher cost than nickel-metal hydride. NiMH hydride batteries are still commonly sold alongside Li-ion packs. Li-ion packs typically offer practical energy densities in the range of 70-100 Wh/kg. A third transition, which industry experts anticipate will be underway shortly, is expected from lithium-ion to lithium-ion polymer. The latter promises further gains in energy density as well as greater flexibility in packaging. Figures promised by lithium-ion polymer battery manufacturers such as Valence Technologies range from 120 to 135 Wh/kg at the cell level. In comparison, our current commercial products offer 150 to 167 Wh/kg at the pack level and about

240 Wh/kg at the cell level. Electrovaya Inc. (formerly ElectroFuel, Inc.) claims to have a lithium-ion polymer battery pack suitable for notebook computers that delivers 190 Wh/kg.

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Other Primary Batteries

A huge array of consumer products are designed for and use primary alkaline batteries. These include toys, flashlights and small electronic products such as portable radios and compact disc players. Some information and communication accessories also fit into this category, such as pagers and many personal digital assistants (PDAs). Even though rechargeable batteries (such as, for example, "AA"-size nickel-metal hydride batteries) are widely available to run these devices, most consumers are currently choosing to purchase primary batteries rather than rechargeables, despite potential savings in life-cycle costs that can be derived from using rechargeables.

The primary distinguishing factor between devices that use primary alkaline batteries and those that use rechargeables is the power consumption of the device. Cellphones, notebook computers, camcorders and cordless power tools, which typically use rechargeables, have a higher power consumption than most devices that use primary alkaline batteries. The use of alkaline batteries in the higher power devices is either impossible or impractical because of prohibitively limited use time and high replacement cost, and therefore they have traditionally been designed to use rechargeable batteries.

An example of differentiation in battery selection along the lines of power consumption can be seen in new PDAs that incorporate wireless communications. Older PDAs from companies such as 3Com and Psion were designed to use primary alkaline batteries, while newer models from these manufacturers, which now incorporate high-current wireless connectivity options, are being designed to use rechargeable battery packs.

Until now, primary battery packs for portable electronic devices have not been widely available. We believe that such solutions have not been successful because the talk and standby times achievable with primary alkaline batteries are often even less than what is attainable with a rechargeable battery. Such solutions offer convenience similar to our products in terms of immediate availability in an emergency situation, but do not offer the convenience of much greater talk and standby times that our products offer.

We believe that primary batteries other than zinc-air, such as primary alkaline batteries, will not in the next few years be able to offer an adequate combination of power and energy capabilities that would make them acceptable to consumers for use with cellphones in non-emergency situations. However, there can be no assurance that primary batteries using technology other than zinc-air and having adequate power and energy capabilities will not be developed and become available in the near future.

Other Zinc-Air Batteries

Many companies manufacture primary zinc-air batteries for use in hearing aids and similar devices. Such batteries are produced in the U.S. by major battery companies such as Rayovac, Duracell and Energizer, and outside the U.S. by major battery manufacturers such as Sony and Matsushita (Panasonic). The design of these batteries does not currently provide sufficient power for high-current digital cellphone applications. Additionally, most of these zinc-air batteries contain mercury.

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To date, we are not aware of any major battery manufacturer producing or announcing an intention to produce zinc-air batteries for cellphones, PDAs, digital cameras or camcorders. The entry into the market of a major battery manufacturer with a zinc-air pack similar to our would most likely impact our ability to market our products.

Over the last decade, several development companies have announced intentions to produce zinc-air battery packs for cellphones, notebook computers and similar devices. MATSI, Inc., a Georgia company, announced such intentions but apparently has ceased operations. AER Energy, a publicly-traded Georgia company, was formerly involved in the development and marketing of rechargeable zinc-air batteries for notebook computers, but in recent years has announced that it is working instead to bring primary zinc-air batteries for electronic devices to the market. To date it has not announced the availability of any such products beyond the prototype stage. AER Energy holds numerous patents related to zinc-air batteries, including several for an air manager system which they have licensed to Duracell.

Other Technologies

Motorola, Inc., among others, has in recent years announced and published research concerning the use of micro-fuel cells in cellphones. Such devices produce electricity from a controlled chemical reaction of hydrogen with oxygen. Should such devices become economical and available, they would most likely impact our ability to market our products. However, we do not believe that such devices will be made feasible or available in the next ten years, if ever.

Recently, some other companies have begun to market alkaline chargers that target the emergency market. In general, we believe that these competing chargers are inferior to our Instant Power charger in that they are either much

heavier and larger, or they deliver a much lower capacity. The smallest of these products is based on three AAA alkaline batteries. This product cannot operate a phone with an empty battery, and even after a number of hours of charging can only deliver half of a single charge for the embedded OEM battery. Products based on 9V alkaline batteries can operate a phone with an empty battery for approximately fifteen minutes, but over an extended charge can deliver only approximately one-third of a single charge. There is also a product based on four AA alkaline batteries; compared to our Instant Power charger, it is 40% heavier, 30% bigger and delivers approximately one charge of the OEM battery. By contrast, our Instant Power charger can operate an empty phone for over five hours and can deliver up to three full charges. We believe that our product therefore offers consumers substantial advantages over these competing products, in that users who may not have access to outlet electricity for extended periods (for example, business travelers, vacationers, etc.) can have complete freedom from a wall socket. Our charger also offers the convenience of a battery that is ready to use immediately out of the package, whereas competing products require the user to purchase alkaline batteries separately and insert them into the plastic casing.

Electric Vehicle Division

We believe that environmental concerns and current and proposed legislation create incentives for fleet operators to use zero emission electric vehicles, and that the Electric Fuel Zinc-Air Energy System for electric vehicles is particularly suitable for use by such fleet operations. For example, the California Air Resources Board (CARB) has adopted a regulation under which transit agencies with fleets of 200 or more will be required to purchase at least three zero emissions

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buses by 2003. We believe the U.S. government will continue to use us as a subcontractor to develop electric vehicles, and we hope this support will create incentives for fleet operators (primarily bus and mass transit operators) to introduce electric vehicles into their fleets.

The Electric Fuel Zinc-Air Energy System for Electric Vehicles

The Electric Fuel Zinc-Air Energy System consists of:

- . an in-vehicle, zinc-air fuel cell unit consisting of a series of zinc-air cells and refuelable zinc-fuel anode cassettes;
- . a battery exchange unit for fast vehicle turn-around;
- . an automated battery refueling system for mechanically replacing depleted zinc-fuel cassettes with charged cassettes; and
- . a regeneration system for electrochemical recycling and mechanical repacking of the discharged fuel cassettes.

With its proprietary high-power air cathode and zinc anode technologies, our zinc-air fuel cell delivers a unique combination of high-energy density and high-power density, which together power electric vehicles with speed, acceleration, driving range and driver convenience similar to that of conventionally powered vehicles.

We believe that our zinc-air fuel cell system for powering electric vehicles offers numerous advantages over other electric vehicle batteries that make 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, could fulfill the needs of transit operators in all weather conditions, with fast, cost-effective refueling. An all-electric, full-size bus powered by the Electric Fuel system can provide to transit authorities a full day's operating range for both heavy duty city and suburban routes in all weather conditions.

In field trials with major European entities, we have demonstrated the commercial viability of our battery system by regularly driving 300 to 400 km in actual drive cycles. In 1996, a Mercedes-Benz MB410 van powered by our zinc-air fuel cell crossed the Alps, traveled from Chambray, France over the Moncenisio Pass, and continued to the zinc-air regeneration plant operated by Electric Fuel's Italian licensee, Edison Termoelettrica, SpA, 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 drove from central London to Central Paris on a single charge - a distance of 272 miles (439 km), not including the rail transport through the English Channel Tunnel.

During 2001, we successfully completed performance testing of our zinc-air electric transit bus, as part of Phase II of our program with the U.S. Department of Transportation's Federal Transit Administration (described below). During this performance testing, our bus was driven a

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record-breaking 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 with a 50% passenger load. Subsequent to this test, we demonstrated our bus in a public demonstration in Las Vegas, Nevada (in November

2001) and in Washington, D.C., on Capitol Hill, with the participation of certain members of the United States Senate (in March 2002).

Major Programs

We have formed several strategic partnerships and are engaged in demonstration programs involving the Electric Fuel Zinc-Air Energy System for electric vehicles in various locations in the U.S. and Europe.

The Department of Transportation-Federal Transit Administration Zinc-Air All Electric Transit Bus Program

In the United States, our zinc-air technology is the focus of a Zinc-Air All Electric Bus demonstration program the costs and expenditures of which are 50% offset by subcontracting fees paid by the U.S. Department of Transportation's Federal Transit Administration. Phase I of the project, which was for \$4 million, was completed in July 2000. Phase II of the project, which is for \$2.7 million, was approved in the fourth quarter of 2000.

The program provides that the bus will utilize the new all-electric, battery/battery/ultracapacitor-hybrid propulsion system that we are jointly developing with General Electric's research and development center, with funding from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation (described below). The bus used in the program is a standard 40-foot (12.2 meter) transit bus manufactured by NovaBus Corporation. It has a capacity of 40 seated and 37 standing passengers and a gross vehicle weight of 39,500 lbs. (17,955 kg.). The all-electric hybrid system consists of an Electric Fuel zinc-air fuel cell as the primary energy source, an auxiliary battery to provide supplementary power and recuperation of energy when braking. Ultracapacitors enhance this supplementary power, providing faster throughput and higher current in both directions than the auxiliary battery can supply on its own. The vehicle draws cruising energy from the zinc-air fuel cell, and supplementary power for acceleration, merging into traffic and hill climbing, from the auxiliary battery and ultracapacitors.

The program, which includes General Electric, Nova Bus Corporation, and the Regional Transportation Commission of Southern Nevada (RTC) as project partners, seeks 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. In November 1998, a consortium consisting of Electric Fuel, the Center for Sustainable Technology, L.L.C. and RTC received approval for \$2 million in federal subcontracting fees for the \$4 million Zinc-Air Electric Transit Bus Program (Phase I). Additional project partners included the Community College of Southern Nevada and the Desert Research Institute. We successfully completed this phase in July 2000. Phase II, 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 fuel cell system, received approval in the fourth quarter of 2000.

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We believe that electric buses represent a particularly important market for electric vehicles in the United States. Transit buses powered by diesel engines 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. Moreover, the U.S. Environmental Protection Agency has identified particulate emissions from diesel engine emissions as a carcinogen.

Our zinc-air energy system is particularly suitable for transit buses because transit buses must operate for up to 12 hours a day on a single battery charge. Furthermore, transit buses require a large energy storage battery to power the vehicle while attending to passenger needs such as air-conditioning and handicapped access. 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 requirements relating to performance, speed, acceleration and hill climbing.

All-Electric Hybrid Propulsion System for Transit Buses and Heavy Duty Vehicles - the BIRD Program

We and General Electric are also jointly developing an all-electric, battery/battery-hybrid propulsion system for powering electric buses and heavy-duty trucks. In July 1998 the BIRD Foundation awarded the two companies funding for the joint development of the electric propulsion system. The first application for the system will be an all-electric, zero-emission, full-size transit bus, in the program subcontracted to us by the Federal Transit Administration of the U.S. Department of Transportation referred to above. Our portion of the project was to develop a mobile refueling system for the transit bus. The refueling system, build in two standard 40" containers, was commissioned and successfully demonstrated in the All Electric Bus project. General Electric's portion of the project was to develop the EMS Energy Management System, which manages and controls all the various energy suppliers and consumers of the bus. The EMS was tested successfully as part of the integration drives completed under phase I of the FTA project.

Germany - Consortium Project

In January 2000, we agreed to participate in a new cooperative, all-electric hybrid vehicle development and demonstration program in Germany. A

consortium consisting of major German industrial firms such as DaimlerChrysler AG and Varta Batterie AG will implement the program. The German Post, which sponsored an extensive field test of our zinc-air fuel cell system for electric vehicles from 1995 through 1998, has also joined the consortium as an Advisory Partner. In January 2001, we received a DM 1 million (\$469,000) order for zinc-air fuel-cells and zinc anodes that we delivered during 2001.

During the course of the 4-year, DM 24 million (\$11.5 million) program, the German firms and certain academic institutions will develop and demonstrate a hybrid vehicle based on a DaimlerChrysler cargo van, using our refuelable zinc-air batteries (to provide the main energy storage), high-power booster batteries provided by Varta, and ultracapacitors under development by Dornier GmbH (a division of DaimlerChrysler Aerospace) and by a Siemens-Matsushita subsidiary. Consortium organizers hope that the program will eventually lead to commercialization

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of clean electric transportation based on these technologies. We will be paid by the project for providing battery modules and battery zinc anodes for refueling.

The consortium's organizers include the Bremen Institute for Drive Technology and Ergonomics at the University of Bremen (BIBA) and funding is being made available by the German Federal Science Ministry is making the funding available. According to BIBA's press announcement, the Ministry selected the project, called "Electrical Power Supply for Vehicles with Long Range and High Acceleration" (abbreviated in German as "EFRB"), along with five other energy-related projects, from 68 applicants for financing under the ministry's major scientific energy initiative called "Energy Production and Storage for Peripheral and Mobile Applications."

Competition

We believe that our 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 hydrogen fuel cells, "hybrid systems" that combine an internal combustion engine and battery technologies, and use of 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 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 Zinc-Air Energy System for electric vehicles. In addition, the California Air Resource Board has expressed to us concerns about the costs associated with the zinc-air regeneration infrastructure as compared to battery technologies that use electrical recharging.

The competition to develop electric vehicle battery systems and hydrogen fuel cells and to obtain funding for the development of electric vehicle battery systems is, and is expected to remain, intense. Our 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 ours.

An area of increased development has been that of hydrogen fuel cell powered vehicles, spearheaded by the Ballard Corporation's solid polymer electrolyte hydrogen-air fuel cell program. Major automobile companies have made significant investments in this technology. However, we believe that our zinc-air fuel cell technology is more likely to be commercially viable, and more likely to be ready for commercialization earlier, than the hydrogen fuel cell systems, with a lower system cost and with more advantageous performance characteristics.

We believe that vehicles based on hydrogen fuel cells are many years away from commercialization, with significant issues of hydrogen production and storage. We feel that storing hydrogen in containers on board vehicles may be risky and involves major investments in infrastructure for highly-pressurized hydrogen, and that using methanol for making hydrogen on board vehicles is highly complex, costly and risky.

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We believe that competing zinc-air 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. We are not aware of a competing zinc-air development effort that could yield a product that is superior to ours in terms of vehicle performance or life-cycle cost.

Marketing

We plan to seek to expand our existing strategic alliances in Europe, the United States and the Far East, benefiting from experience gained in connection with the DOT/FTA and our alliances with GE, Nova and Vattenfall. We also intend to seek support of government agencies, electric utilities and zinc manufacturers.

Defense and Security Products Division

The Defense and Security Products Division (formerly 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 fuel cell for the U.S. Army. This division also oversees our water-activated lifejacket lights for commercial aviation and marine applications, and will pursue further development of the safety products business.

Defense Products

Since 1998 we have received and performed a series of contracts from the U.S. Army's Communications-Electronics Command (CECOM) to develop and evaluate advanced primary zinc-air fuel cell packs. The terms of the current extension of a contract initially issued in 2001 call for us to deliver 500 prototype battery packs, and procure and install certain production equipment, for which we are to be paid \$429,000. The 12/24 volt, 800 watt-hour battery pack for battlefield power, which is based on our zinc-air fuel cell technology, weighs only about five pounds and has approximately twice the energy capacity per pound of the U.S. Army's standard lithium-sulfur dioxide battery packs.

Our military battery packs, which are produced at our facility in Auburn, Alabama, are configured for use with a variety of portable military communications equipment, including tactical radios and satellite-based communications units.

The primary zinc-air fuel cell under development for the Armed Forces represents some technological advancements over the cell we are currently producing for consumer battery applications, and could be the basis for a new generation of zinc-air cells for consumer batteries. We intend to continue to pursue additional military and security-related contracts and sales opportunities for our primary zinc-air fuel cell.

Marketing

In June 2001, we participated in the Tri-Services Power Expo conference and exhibition in San Diego, California, and in June 2002, we will again participate in CECOM's Power Sources Conference and Exhibition in Cherry Hill, New Jersey.

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Safety Products

In 1996, we began to produce and market lifejacket lights built with our patented magnesium-cuprous chloride batteries, which are activated by immersion in water (water-activated batteries), for the aviation and marine safety and emergency markets. At present we have a product line consisting of four lifejacket light models, all of which work in both freshwater and seawater. Each of our lifejacket lights is certified for use by relevant governmental agencies under various U.S. and international regulations. We manufacture, assemble and package all our lifejacket lights in our factory in Beit Shemesh, Israel.

Market and Marketing Strategies

The market for aviation lifejacket lights has been declining because of extended maintenance cycles in the industry, and the events of September 11, 2001, exacerbated this trend. We market our lights to the commercial aviation industry in the United States exclusively through The Burkett Company of Houston, Texas, which receives a commission on sales.

The annual market for marine lifejacket lights is estimated at one to two million units worldwide, of which about 50% is in Europe and less than 25% is in the United States. We market our marine safety products through our own network of distributors in Europe, the United States, Asia and Oceania.

Competition

Two of the largest manufacturers of aviation and marine safety products, including TSO and SOLAS-approved lifejacket lights, are ACR Electronics Inc. of Hollywood, Florida, and Pains Wessex McMurdo Ltd. of England. Other significant competitors in the marine market include Daniamant Aps of Denmark, and SIC of Italy.

Regulatory and Environmental Matters

We believe that our 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 our zinc-air fuel cell, including zinc and potassium hydroxide. We have obtained the necessary permits under the Israel Dangerous Substances Law, 5753-1993, required for the use of zinc metal, potassium hydroxide and certain other substances in our facilities in Israel.

Our disposable zinc-air chargers and batteries for various consumer electronic devices are similar in chemical makeup to primary alkaline batteries. Accordingly, our batteries and chargers, like those products, are not expected to be regulated as to transport and are expected to be exempt from dangerous goods regulations. Furthermore, like state-of-the-art zinc alkaline cells, which must be mercury and cadmium free, our products are also completely free of toxic mercury and cadmium additives.

The presence of potassium hydroxide as an electrolyte in our 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. Our electric vehicle battery technology uses relatively small

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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 spillable potassium hydroxide in the United States would 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 our 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 our products.

Patents and Trade Secrets

We rely on certain proprietary technology and seek to protect our interests through a combination of patents, know-how, trade secrets and security measures, including confidentiality agreements. Our policy generally is to secure protection for significant innovations to the fullest extent practicable. Further, we continuously seek to expand and improve the technological base and individual features of our batteries through ongoing research and development programs.

We have been filing patents on our zinc-air fuel cell system for electric vehicles since 1990. These applications have resulted in 33 unexpired U.S. patents and 15 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.

We also hold two unexpired U.S. patents covering our high-power zinc-oxygen battery for torpedoes, two more covering the use of our zinc in other alkaline batteries, and one covering our 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, we have filed more than 50 such applications in the U.S., and numerous corresponding PCT applications have been filed for appropriate worldwide coverage. We expect to file additional applications in 2002 and succeeding years. 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. The first of these patents, covering certain aspects of the cells used in our Instant Power batteries and chargers, was granted in 2001.

In addition to patent protection, we rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and through other security measures. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

Research and Development

During the years ended December 31, 1999, 2000, and 2001, our gross research and product development expenditures, including costs of revenues, of prototype batteries and

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components of the Electric Fuel System, were \$7.8 million, \$9.7 million and \$11.3 million, respectively. In 1999, we believed that, given our stage of development, it was not yet meaningful to distinguish between research and development expenses and cost of revenues. We did distinguish between research and development expenses and cost of revenues in 2000. During the years ended December 31, 2000 and 2001, our gross research and product development expenditures, not including costs of revenues, of prototype batteries and components of the Electric Fuel System, were \$5.1 million and \$4.2 million, respectively. During these periods, the Office of the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist") participated in our research and development efforts, thereby reducing our gross research and product development expenditures in the amounts of \$926,000, \$763,000 and \$705,000, for the years 1999, 2000 and 2001, respectively. During 1998 the Israel-U.S. Binational Industrial Research and Development Foundation (BIRD) also began participating in our research and development efforts by sponsoring a joint project to develop a hybrid propulsion system for transit buses with General Electric Corporate Research and Development. We received grants from BIRD totaling \$277,000, \$195,000 and \$0 during the years ended December 31, 1999, 2000 and 2001, respectively.

Under the terms of the grants from the Chief Scientist and current Chief Scientist regulations, we are 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 3.5%. We currently

pay royalties at the rates of 3.5% and 3% of Electric Vehicle and cellphone battery revenues, respectively. The obligation to make such royalty payments ends when 100% of the amount granted (in New Israeli Shekels (NIS) linked to the U.S. dollar, plus interest (with respect to grants after January 1, 1999, at the LIBOR rate)) is repaid. The Government of Israel does not acquire 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 to transfer 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 between 120% and 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, we are 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, at which point the repayment rate decreases to 2 1/2% of 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 we sell any portion of the technology developed outright to a third party, one-half of all proceeds of the sale are 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 28, 2002, we had 112 full-time employees in our Israeli subsidiary. Of these employees, four hold doctoral degrees and 34 hold other advanced degrees. Of the total, 31 employees were engaged in product research and development, 60 were engaged in production

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and operations, and the remainder in general and administrative functions. We also had five employees at our Auburn, Alabama research facility, one employee at our Georgia research facility and nine employees in our New York office. Our success will depend in large part on our ability to attract and retain skilled and experienced employees.

We and the employees are not parties to any collective bargaining agreements. However, as substantially all of our 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; additionally, some of our senior employees have special severance arrangements, certain of which are described under "Item 11. Executive Compensation - Employment Contracts," below. 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%. 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. We contribute 14.33% to 15.83% (depending on the employee) of base wages to such plans and the permanent employees contribute 5% of their 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., a pension fund managed by the Histadrut. We subsequently reached an agreement with Mivtachim with respect to providing coverage to certain production employees and bringing ourselves into conformity with the court decision. The agreement does not materially increase our 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, we believe 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 us.

ITEM 2. PROPERTIES

Our corporate headquarters, constituting approximately 3,200 square feet, are located in New York City and leased for a term of five years expiring in November 2005. The Auburn,

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Alabama research facility, constituting approximately 2,000 square feet, is leased on a monthly basis. Our administrative facilities and research, development and production facilities for the manufacture and assembly of our chargers and batteries, related Electric Fuel System components, and Survivor Locator Lights, constituting approximately 43,000 square feet, are located in Beit Shemesh, Israel, located between Jerusalem and Tel-Aviv (within Israel's pre-1967 borders). The lease for these facilities in Israel expires on December 31, 2007; we have the ability to terminate the lease every two years upon three months' written notice. Moreover, we may terminate the lease at any time upon twelve months written notice. In addition, we lease additional space in Beit Shemesh of approximately an additional 34,000 square feet. As more fully described below, we intend to transfer the production facilities currently located in Beit Shemesh to a new facility in Jerusalem once the facilities are constructed.

We have been looking for additional land to construct larger premises near our Jerusalem facilities. In January 1999, we received a letter from the Israel Ministry of Industry and Trade authorizing the allocation to us of approximately 5.9 dunam (approximately 1.5 acres) with rights to construct facilities of up to approximately 95,000 square feet in Jerusalem. We have paid the Jerusalem Land Development Authority approximately \$157,000 in development fees related to this site to complete our obligations in this regard. We have yet to enter into a formal lease agreement for the site with the Israel Land Authority. When such a lease agreement is entered into, 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 us.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, there were no material pending legal proceedings against us.

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

We held our 2001 Annual Meeting of Stockholders on July 9, 2001. At that meeting, the stockholders voted on the following matters with the following results:

- Fixing the number of Class I Directors at three:

<TABLE>
<CAPTION>

	Votes For	Votes Against	Abstentions	Shares Not Voting
<S>	<C>	<C>	<C>	<C>
	18,821,885	113,654	100	0

</TABLE>

- Election of Class I Directors:

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	Votes For	Votes Against	Abstentions	Shares Not Voting
<S>	<C>	<C>	<C>	<C>
Yehuda Harats	18,821,885	113,654	0	0
Dr. Jay M. Eastman	18,821,885	113,754	0	0
Leon S. Gross	18,821,885	113,654	0	0

</TABLE>

(Directors whose terms of office continued after the meeting were Robert S. Ehrlich, Jack E. Rosenfeld, Lawrence M. Miller and Jeff Kahn)

- Ratifying the appointment of Kost Forer & Gabbay, independent certified public accountants in Israel and a member firm of Ernst & Young International, as our independent accountants for the fiscal year ending December 31, 2001:

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	Votes For	Votes Against	Abstentions	Shares Not Voting
<S>	<C>	<C>	<C>	<C>
	18,843,465	41,422	50,652	0

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PART II

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

Since February 1994, our common stock has been traded under the symbol EFCX on the Nasdaq National Market. The following table sets forth, for the periods indicated, the range of high and low closing prices of our common stock on the Nasdaq National Market System:

Year Ended December 31, 2001	High	Low
Fourth Quarter	\$ 2.4300	\$1.3000
Third Quarter	\$ 2.7500	\$1.3000
Second Quarter	\$ 3.9500	\$2.3000

First Quarter	\$ 8.0000	\$3.5000
Year Ended December 31, 2000		
Fourth Quarter	\$11.1875	\$3.7500
Third Quarter	\$15.0000	\$6.8750
Second Quarter	\$16.1250	\$4.5000
First Quarter	\$23.8750	\$3.0625

As of February 28, 2002 we had approximately 266 holders of record of our common stock.

Dividends

We have never paid any cash dividends on our common stock. The Board of Directors presently intends to retain all earnings for use in our business. Any future determination as to payment of dividends will depend upon our financial condition and results of operations and such other factors as the Board of Directors deems relevant.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below with respect to the statements of loss for each of the three fiscal years in the period ended December 31, 2001, and with respect to the balance sheets at the end of each such fiscal year has been derived from our consolidated financial statements audited by Kost Forer & Gabbay, independent certified public accountants in Israel and a member firm of Ernst & Young International.

The selected financial information set forth below with respect to the statements of loss for each of the two fiscal years in the period ended December 31, 1998 and with respect to the balance sheet at the end of such fiscal year has been derived from our financial statements 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 Consolidated Financial Statements contained in Item 8 of this Report and the notes

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thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," below.

<TABLE>
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	Year Ended December 31,				
	1997	1998	1999	2000	2001
	(dollars in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Revenues	\$ 4,526	\$ 4,013	\$ 2,694	\$ 4,054	\$ 4,033
Research and development expenses and costs of revenues	9,953	9,680	6,631	8,777	10,566
Selling, general and administrative expenses..	4,333	3,561	3,163	7,802	11,017
Operating (loss)	\$ (9,760)	\$ (9,228)	\$ (7,100)	\$ (12,525)	\$ (17,550)
Financial income, net	775	652	190	544	263
Loss before taxes on income	\$ (8,985)	\$ (8,576)	\$ (6,910)	\$ (11,981)	\$ (17,287)
Taxes on income	144	(43)	6	0	0
Net loss	\$ (9,129)	\$ (8,533)	\$ (6,916)	\$ (11,981)	\$ (17,287)
Net loss per share	\$ (0.73)	\$ (0.61)	\$ (0.48)	\$ (0.62)	\$ (0.71)
Weighted average number of common shares used in computing basic and diluted net loss per share (in thousands)	12,502	14,013	14,334	19,243	24,200

<TABLE>
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	As At December 31,				
	1997	1998	1999	2000	2001
<S>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:					
Cash, cash equivalents and investments in marketable debt securities	\$16,717	\$ 8,943	\$ 2,556	\$11,596	\$12,672
Receivables and other assets	3,985	3,021	3,307	9,614	6,996
Property and equipment, net of depreciation	4,754	3,435	4,166	6,446	6,740
Total Assets	\$25,456	\$15,399	\$10,029	\$27,656	\$26,408
Liabilities	\$ 6,697	\$ 4,818	\$ 5,787	\$ 7,578	\$ 7,000
Stockholders' equity	18,759	10,581	4,242	20,078	19,408

Total liabilities and stockholders equity..	\$25,456	\$15,399	\$10,029	\$27,656	\$26,408
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ITEM 7. 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," below.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements contained in Item 8 of this report, and the notes thereto. 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.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to arrangements with extended payment terms, product returns, bad debts, income tax provisions and legal contingencies. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Under different assumptions or conditions, actual results may differ from these estimates.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition and Bad Debt

We recognize revenues from long-term research and development agreements subcontracted for the U.S. government when services are rendered. We recognize revenues in respect of products when, among other things, we have delivered the goods being purchased and we believe collectibility to be reasonably assured. Our provision for returns is based on our past experience. We perform ongoing credit evaluations of our customers' financial condition and we require collateral as deemed necessary. An allowance for doubtful accounts is determined with respect to those accounts that we have determined to be doubtful of collection. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required, and this might cause a revision of recognized revenues.

Inventories

We state our inventories at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence. Our reserves for excess and obsolete inventory are primarily based upon forecasted demand for our products, and any change to the reserves arising from forecast revisions would be reflected in cost of sales in the period the revision is made.

Subsequent Developments

On January 18, 2002 we issued and sold to Grenville Finance Ltd., for an aggregate purchase price of \$750,000, an aggregate of 441,176 shares of common stock. On January 24, 2002 we issued and sold to Special Situations Private Equity Fund, L.P., Special Situations Fund III, L.P., Special Situations Technology Fund, L.P. and Special Situations Cayman Fund, L.P., for an aggregate purchase price of \$2,480,000, an aggregate of 1,600,000 shares of common stock. Our total cash on hand immediately subsequent to these offerings was approximately \$15 million.

In March 2002, we demonstrated our zinc-air electric bus in a public demonstration in Washington, D.C., on Capitol Hill, with the participation of certain members of the United States Senate.

General

During 2001, we accelerated our efforts to further develop, commercialize and market our disposable Instant Power Zinc-Air chargers and batteries for cellular phones and PDAs. We also introduced several new devices, including a line of disposable, ready-to-use back-up batteries for popular models of camcorders and digital cameras under our Instant Power brand. These products use the proprietary high-rate primary zinc-air technology that we developed for use in portable electronic devices. We also focused during the past year 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, and chargers with SmartCords for various series and models of Nokia, Motorola, Ericsson, Panasonic, Siemens, Samsung, Audiovox, Nextel, Mitsubishi, Sagem and Philips cellphones, models of PocketPC, Palm, Handspring, Sony, HP, Casio and Compaq PDAs and Novatel wireless modems.

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During 2001, we continued to increase our marketing development with respect to our Instant Power line, particularly in the United States, where we received orders from 7-Eleven and RadioShack; Canada, where we received orders from RadioShack Canada; Germany, where we signed an exclusive distribution agreement with respect to our chargers with DNT GmbH; and the U.K., where we received initial orders from Orange UK. As of the end of 2001, our products were being carried by retailers in the U.S., the U.K., Australia, Canada, Germany, Italy, Spain and Israel.

While we have successfully marketed our products to retailers, certain of our customers have indicated to us in response to a dramatic slowdown in sales of cellular phone accessories (particularly aggravated since September 11th), as well as in retail in general, that we would benefit from educating consumers and retail sales personnel as to the advantages of disposable chargers and batteries for cellphones and PDAs. We have begun addressing this need, both on our own and in cooperative programs with certain of our retailers, through a merchandizing campaign, as well as through in-store merchandizing and training programs.

Our Zinc-Air cells are produced using a custom-designed, high-capacity automatic line designed, engineered and custom-built for our needs.

During 2001, we continued to invest in strengthening our intellectual property position. We have 33 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 chargers and batteries for consumer electronic devices and cellphones.

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 fuel cell system.

In August 2001, we announced that we had successfully completed the performance testing of our zinc-air electric 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 150% of the passenger payload for which the bus was designed. 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 tests. We conducted the first public on-road demonstration drives of our zinc-air electric bus on the streets of Las Vegas, Nevada on November 27, 2001 to conclude the first milestone of our Phase 2 agreement with the FTA to demonstrate and evaluate the all-electric zinc-air transit bus.

Our Defense and Security Products Division is continuing with the production of zinc-air fuel cell packs for the U.S. Army's Communications Electronics Command (CECOM). The

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12/24 volt, 800 watt-hour battery pack for battlefield power, which is based on our zinc-air fuel cell technology, is approximately the size and weight of a notebook computer. The battery is based on a new generation of lightweight, 30 ampere-hours cells developed by us for both military and future commercial products with high energy requirements. Additionally, the Defense and Security Products Division is continuing with the introduction of the new emergency lights for the marine life jackets market.

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, 2001, 2000 and 1999. While we expect to continue to derive revenues from the sale of chargers and 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 our technology to third parties, there can be no assurance that we will ever derive such revenues or achieve profitability.

Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which we and EFL operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Further, we believe that the operations of EFL's subsidiaries are an integral part of the Israeli operations. 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

Fiscal Year 2001 compared to Fiscal Year 2000

Revenues. Revenues for the year ended December 31, 2001 totaled \$4.0 million, compared to \$4.1 million for 2000, a decrease of \$21,000.

During 2001, we recognized revenues from the sale of consumer batteries, lifejacket lights and portable high-power zinc-air fuel cell packs for military use. We also recognized

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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. We also received electric vehicle revenues during 2001 from our German consortium (EFRB) project. 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.

In 2001, revenues were \$1.9 million for the Instant Power Division (compared to \$2.6 million in 2000, a decrease of \$625,000, or 27%), \$894,000 for the Electric Vehicle Division (compared to \$310,000 in 2000, an increase of \$584,000, or 188%) and \$1.2 million for the Defense and Security Products Division (formerly known as the Defense and Safety Products Division) (compared to \$809,000 in 2000, an increase of \$391,000, or 48%).

Cost of revenues and gross loss. Cost of revenues totaled \$7.1 million during 2001, compared to \$4.2 million in 2000, an increase of \$2.9 million, or 69%. This increase was the result of increased number of units produced in 2001, as well as a mark-down and write-off of certain inventory as a result of price reductions. Gross loss was \$3.0 million during 2001, compared to \$135,000 during 2000, an increase of \$2.9 million.

Research and development expenses, net. Research and development expenses less royalty-bearing grants for 2001 were \$3.5 million, compared to \$4.6 million in 2000, a decrease of \$1.1 million, or 24%.

Research and development expenses were reduced by \$705,000 during 2001 as a result of recognition of grants from the Office of the Chief Scientist of the Ministry of Industry and Trade. Our 2001 research and development 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 \$705,000 from the Chief Scientist were recognized during 2001 (compared to \$763,000 in 2000, a decrease of \$58,000, or 8%) to offset research and development expenses. In addition, \$0 of royalty bearing grants from the BIRD Foundation were recognized during 2001 (compared to \$195,000 in 2000). Research and development expenses and cost of operations related to Instant Power and Security applications are expected to continue to increase for 2002, as we intensify our efforts in these new areas.

Direct expenses for our three divisions for the fiscal year ended December 31, 2001 were \$13.8 million for the Instant Power Division (\$10.2 million in 2000, an increase of \$3.6 million, or 35%), \$907,000 for the Electric Vehicle Division (\$473,000 in 2000, an increase of \$434,000, or 92%), and \$1.4 million

for the Defense and Security Products Division (\$1.1 million in 2000, an increase of \$268,000, or 24%). The increase of expenses in the Electric Vehicle Division and the Instant Power Division was the result of progress that was made in phase II of the FTA program and the German program, and an increased number of units produced in our Instant Power Division.

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Net costs of fixed assets (net of accumulated depreciation) at December 31, 2001 in the Instant Power, Electric Vehicle and Defense and Security Products Divisions were \$5.0 million, \$666,000 and \$322,000, respectively.

Selling expenses. Selling expenses for the year ended December 31, 2001 were \$6.3 million, compared to \$4.2 million in 2000, an increase of \$2.1 million, or 50%, 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 2001 were \$4.8 million compared to \$3.6 million in 2000, an increase of \$1.2 million, or 31%.

Financial income. Financial income, net of interest expenses and exchange differentials, totaled approximately \$263,000 in 2001 compared to \$544,000 in 2000, a decrease of \$281,000, or 52%, due primarily to lower interest rates and lower balances of invested funds as a result of our use of the proceeds of private placements of our securities conducted in May and November 2000, which was only partially offset by income from the proceeds of private placements of our securities conducted in May, November and December 2001, as well as a decrease in interest income from certain shareholder loans.

Income taxes. We and our Israeli subsidiary EFL incurred net operating losses or had earnings arising from tax-exempt income during 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 \$17.3 million in 2001, compared to a net loss of \$12.0 million in 2000, an increase of \$5.3 million, or 44%.

Fiscal Year 2000 compared to Fiscal Year 1999

Revenues. Revenues for the year ended December 31, 2000 totaled \$4.1 million, compared to \$2.7 million for 1999, an increase of \$1.4 million, or 52%. This increase was the result of an increase in revenues from the Instant Power Division that resulted from increased marketing of our Instant Power batteries for cellular phones, an increase that was only partly offset by the completion of phase I of the FTA program and the concomitant drop-off in revenues in the Electric Vehicle Division attributable to that program.

During 2000, 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 2001. 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 1999, 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.

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In 2000, revenues were \$2.6 million for the Instant Power Division (compared to \$0.3 million in 1999, an increase of \$2.3 million, or 905%), \$0.3 million for the Electric Vehicle Division (compared to \$1.2 million in 1999, a decrease of \$0.9 million, or 75%), and \$1.2 million for the Defense and Safety Division (compared to \$1.0 million in 1999, an increase of \$0.2 million, or 19%).

Research and development expenses and cost of revenues. Research and development expenses and cost of revenues totaled \$8.8 million during 2000, compared with \$6.6 million during 1999 an increase of \$2.2 million, or 33%. This increase was primarily the result of an increase in operations and engineering costs related to new product development, and the ramping up of our automated production line. In 1999, we believed that, given our stage of development, it was not yet meaningful to distinguish between research and development expenses and cost of revenues. We did distinguish between research and development expenses and cost of revenues in 2000. In addition to the increase in the overall research and development expenses in 2000, the internal division of expenses also changed between 1999 and 2000. This was principally attributable to a reduction of expenses related to Electric Vehicle battery development. This overall reduction was partially offset by significant increases in the costs associated with consumer product development and the production of increased quantities of lifejacket lights in the Defense and Safety Division.

Research and development expenses were reduced by \$1.0 million during 2000

as a result of recognition of grants from the Office of the Chief Scientist of the Ministry of Industry and Trade and the BIRD Foundation. Our 2000 research and development 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 \$763,000 from the Chief Scientist were recognized during 2000 (compared to \$926,000 in 1999, a decrease of \$233,000, or 18%) to offset research and development expenses. In addition, \$195,000 of royalty bearing grants from the BIRD Foundation were recognized during 2000 (compared to \$277,000 in 1999, a decrease of \$82,000, or 30%). Research and development expenses and cost of operations related to Instant Power and Defense and Safety applications are expected to continue to increase for 2001, as we intensify our efforts in these new areas.

Direct expenses for our three divisions for the fiscal year ended 2000 were \$10.2 million for the Instant Power Division (\$3.0 million in 1999, an increase of \$7.2 million, or 240%), \$0.5 million for the Electric Vehicle Division (\$2.7 million in 1999, a decrease of \$2.2 million, or 81%), and \$1.1 million for the Defense and Safety Division (\$1.2 million in 1999, a decrease of \$0.1 million, or 8%). The shift in expenses from the Electric Vehicle Division to the Instant Power Division was the result of the completion of phase I of the FTA program and the increased marketing of our Instant Power batteries for cellular phones, as discussed above.

Net costs of fixed assets (net of accumulated depreciation) at December 31, 2000 in the Instant Power, Electric Vehicle and Defense and Safety Divisions were \$4.5 million, \$0.9 million and \$0.4 million, respectively.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2000 were \$7.8 million, compared to \$3.2 million in 1999, an increase of \$4.6 million, or 144%. This increase was primarily attributable to increased

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sales and marketing expenses in the Instant Power Division during 2000. We expect additional increases in selling, general and administrative expenses during 2001, particularly relating to marketing expenses in consumer battery applications, as we continue to expand the applications for our technology.

Financial income. Financial income, net of interest expense, exchange differentials, bank charges, and other fees, totaled approximately \$544,000 in 2000, compared to \$190,000 in 1999, an increase of \$354,000, or 186%, 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 2000.

Income taxes. We and our Israeli subsidiary EFL incurred net operating losses or had earnings arising from tax-exempt income during the years ended December 31, 2000 and 1999 and, accordingly, we were not required to make any provision for income taxes. Taxes in these entities incurred in 2000 and 1999 are primarily composed of United States federal alternative minimum taxes.

Net losses. Due to the factors cited above, we reported a net loss of \$12.0 million in 2000, compared with a net loss of \$6.9 million in 1999, an increase of \$5.1 million, or 74%.

Liquidity and Capital Resources

As of December 31, 2001, we had cash and cash equivalents of approximately \$12.7 million, compared with \$11.6 million as of December 31, 2000, an increase of \$1.1 million, or 9%. The increase in cash was primarily the result of the private placements of our securities described below.

We used available funds in 2001 primarily for continued research and development expenditures, and other working capital needs. We increased our investment in fixed assets by \$1.3 million during the year ended December 31, 2001, primarily in the Instant Power Division. Our fixed assets amounted to \$6.7 million as at year end.

Our Israeli subsidiary EFL presently has a line of credit with the First International Bank of Israel Ltd. (FIBI) of up to \$750,000, secured by such security as we and the bank shall agree upon from time to time. This credit facility imposes financial and other covenants on EFC and EFL. As of December 31, 2001, the bank had issued letters of credit and bank guarantees totaling approximately \$36,000.

During 2001, certain of our employees exercised options under our registered employee stock option plan. The proceeds to us from the exercised options are approximately \$206,000.

On November 21, 2001 we issued and sold to Orsay Services Inc., for an aggregate purchase price of \$2,000,000, an aggregate of 1,503,759 shares of common stock.

On December 5, 2001 we issued and sold to Vertical Ventures International, for an aggregate purchase price of \$2,000,000, an aggregate of 1,190,476 shares of common stock.

We have no long term debt outstanding, and we are using our cash reserves and revenues from operations primarily to continue development of chargers and batteries for consumer

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electronic devices, as well as to participate in the FTA Electric Vehicle program. Furthermore, in the third quarter of 2000, we established a commercial production line and we are preparing for market penetration of our new Instant Power zinc-air chargers and batteries for several models of cellular telephones and PDAs.

Approximately 28.3% of the stock of our Israeli-based subsidiary EFL is now owned (directly, indirectly or by application of certain attribution rules) by four United States citizens. If at any time in the future, more than 50% of either (i) the voting power of our stock, or (ii) the total value of our stock, is held or deemed to be held by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 28.3% of our stock) who are United States citizens or residents, EFL would satisfy the foreign personal holding company stock ownership test under the Internal Revenue Code and we could be subject to additional U.S. taxes on any undistributed foreign personal holding company income of EFL. For 2001, EFL had no income which would qualify as undistributed foreign personal holding company income. However, no assurance can be given that in the future EFL will not have income that qualifies as undistributed foreign personal holding company income.

We believe that our present cash position and cash flows from operations will be sufficient to satisfy our estimated cash requirements through the next year. We are seeking additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that we will obtain any such additional funding. If additional funding is not secured, we intend to further modify, reduce, defer or eliminate certain of our anticipated future commitments and/or programs, in order to continue future operations.

Impact of Inflation and Currency Fluctuations

Historically, the majority of our revenues have been in U.S. dollars. The United States dollar cost of our 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 our NIS expenses has decreased. Even if the recent trend is reversed (as was the case in previous years), we do not believe that continuing inflation in Israel or delays in the devaluation of the NIS are likely to have a material adverse effect on us, except to the extent that such circumstances have an impact on Israel's economy as a whole. In the years ended December 31, 2001, 2000 and 1999, the annual rates of inflation in Israel were 1.4%, 0.0% and 1.3%, respectively, compared to the devaluation of the NIS against the dollar during such periods of 9.3%, (2.7)% and 0.0%, respectively.

Effective Corporate Tax Rate

Our production facilities in Israel have been granted "Approved Enterprise" status under the Israel Law for Encouragement of Capital Investments, 5719-1959, 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 law has not elapsed). We have 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

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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 we distribute to our 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, 2001, 2000 and 1999 and accordingly no provision for income taxes was required. Taxes in these entities paid in 2001, 2000 and 1999 are primarily composed of United States federal alternative minimum taxes.

As of December 31, 2001, we had U.S. net operating loss carry forwards of approximately \$7.0 million that are available to offset future taxable income, expiring primarily in 2015, and foreign net operating loss carry forwards of approximately \$75.0 million, which are available indefinitely to offset future taxable income.

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.

We have had a history of losses and may incur future losses.

We were incorporated in 1990 and began our operations in 1991. We have funded our operations principally from funds raised in each of the initial public offering of our common stock in February 1994, the offering of our common stock in February 1996, a private placement of our common stock in October 1996, and placements of our common stock in December 1999, January, May and November 2000, May, October and December 2001, and January 2002; funds from licensing

arrangements; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of Instant Power batteries, Instant Power chargers, and lifejacket lights. We incurred significant operating losses for the years ended December 31, 1997, 1998, 1999, 2000 and 2001, and expect to continue to incur significant operating losses in 2002. These losses may increase as we expand our research and development activities and establish production facilities, and these losses may fluctuate from quarter to quarter. There can be no assurance that we will ever achieve profitability or that our business will continue to exist. Additionally, because we do not presently meet the transaction requirements for filing registration statements for primary offerings of our securities on the simpler Form S-3 registration statement, raising capital through sales of our securities may be more difficult in the future than it has been in the past.

We need significant amounts of capital to operate and grow our business.

We require substantial funds to conduct the necessary research, development and testing of our products; to establish commercial scale manufacturing facilities; and to market our products. In order to satisfy existing orders of batteries in commercial quantities, we need to implement our automated production line and, in the future, may need to upgrade or expand our

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automated production line to satisfy future orders. We plan to expand both sales and production activities, which will require additional funding. We continue to seek additional funding, including through the issuance of equity or debt securities. However, there can be no assurance that we will obtain any such additional financing in a timely manner and on acceptable terms. If additional funds are raised by issuing equity securities, stockholders may incur further dilution. If additional funding is not secured, we will have to modify, reduce, defer or eliminate parts of our anticipated future commitments and/or programs.

We cannot assure you of market acceptance of our products.

In 2000, we began commercial deliveries of our cellphone battery and charger products, and in 2001 we expanded our product line to include chargers for PDAs and batteries for digital cameras and camcorders. However, our products have not yet been widely accepted by the consumer products market for this application. Furthermore, while we have developed chargers for several models of cellphones and PDAs and batteries for several models, we do not have such products for many models. We cannot assure you that the Electric Fuel battery or charger will be competitive either in terms of price or performance or that we will be able to sell our batteries or chargers in commercial quantities. While we have successfully marketed our products to retailers, certain of our customers have indicated to us in response to a dramatic slowdown in sales of cellular phone accessories (particularly aggravated since September 11th), as well as in retail in general, that we would benefit from educating consumers and retail sales personnel as to the advantages of disposable chargers and batteries for cellphones and PDAs.

Our cellphone and PDA chargers, our batteries for cellphones, digital cameras and camcorders, and a signal light powered by water-activated batteries for use in life jackets and other rescue apparatus are the only commercial products we currently have available for sale. Significant resources will be required to develop and produce additional consumer products on a commercial scale. Additional development will also be necessary in order to commercialize our technology and each of the components of the Electric Fuel System for electric vehicles and defense products. We cannot assure you that we will be able to successfully develop, engineer or commercialize our products, technology or system components, or that we 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 our 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 with development activities generally.

We believe that public pressure and government initiatives are important factors in creating an electric vehicle market. However, there can be no assurance that there will be sufficient public pressure 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. In addition, we are subject to the risk that even if an electric fuel vehicle market develops, a different form of zero emission or low emission vehicle will dominate the market. In addition, we cannot assure you that other solutions to the problem of containing emissions created by internal combustion engines will not be invented, developed and produced. Any other solution could achieve greater market acceptance than electric vehicles. The failure of a significant market for electric vehicles to develop would have a material adverse effect on our ability to commercialize this aspect

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of our technology. Even if a significant market for electric vehicles develops, there can be no assurance that our technology will be commercially competitive within that market.

We will need to develop the experience to manufacture our products in commercial quantities and at competitive prices.

We currently have limited experience in manufacturing in commercial quantities and have, to date, produced only limited quantities of components of

the batteries for electric vehicles. In order for us to be successful in the commercial market, our products must be manufactured to meet high quality standards in commercial quantities at competitive prices. The development of the necessary manufacturing technology and processes will require extensive lead times and the commitment of significant amounts of financial and engineering resources, which may not be available to us. We cannot assure you that we will successfully develop this technology or these processes. Moreover, we cannot assure you that we will be able to successfully implement the quality control measures necessary for commercial manufacturing.

The price of our common stock is volatile.

The market price of our common stock has been volatile in the past and may change rapidly in the future. The following factors, among others, may cause significant volatility in our stock price:

- . Announcements by us, our competitors or our customers;
- . The introduction of new or enhanced products and services by us or our competitors;
- . Changes in the perceived ability to commercialize our technology compared to that of our competitors;
- . Rumors relating to our competitors or us;
- . Actual or anticipated fluctuations in our operating results; and
- . General market or economic conditions.

If our shares were to be delisted, our stock price might decline further and we might be unable to raise additional capital.

One of the continued listing standards for our stock on the Nasdaq National Market is the maintenance of a \$1.00 bid price. While our stock price has never gone below \$1.00 per share, it has recently closed as low as \$1.30 per share, and traded as low as \$1.10 per share. If our bid price were to go and remain below \$1.00 for 30 consecutive business days, Nasdaq could notify us of our failure to meet the continued listing standards, after which we would have 90 calendar days to correct such failure or be delisted from the Nasdaq National Market. We would also have the opportunity to appeal this notification, although there can be no assurances that this appeal would be resolved favorably.

There can be no assurance that our common stock will remain listed on the Nasdaq National Market. If our common stock were to be delisted from the Nasdaq National Market, we might apply to be listed on the Nasdaq SmallCap market; however, there can be no assurance

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that we would be approved for listing on the Nasdaq SmallCap market, which has the same \$1.00 minimum bid requirement as the Nasdaq National Market. While our stock would continue to trade on the over-the-counter bulletin board following any delisting from the Nasdaq, any such delisting of our common stock could have an adverse effect on the market price of, and the efficiency of the trading market for, our common stock. Also, if in the future we were to determine that we need to seek additional equity capital, it could have an adverse effect on our ability to raise capital in the public equity markets.

Our field of business is highly competitive.

The competition to develop consumer batteries, defense and safety products and electric vehicle battery systems, and to obtain funding for the development of these products is, and is expected to remain, intense. Our 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 ours.

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-zinc, nickel-metal hydride, sodium-sulfur, sodium-nickel chloride, zinc-bromine, lithium-ion, lithium-polymer, lithium-iron sulfide, primary lithium, rechargeable alkaline and zinc-air. Additionally, some manufacturers of primary alkaline batteries offer alkaline battery packs for cellphone users.

Some of the components of our technology and our products pose potential safety risks which could create potential liability exposure for us.

Some of the components of our technology contain elements that 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 these risks, and although we incorporate safety procedures in our research, development and manufacturing processes, there can be no assurance that accidents in our facilities will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our manufacturing operations, could adversely affect commercial acceptance of our products and could result in significant production delays or claims for damages resulting from injuries. Any of these occurrences would materially

adversely affect our operations and financial condition.

Failure to receive required permits from or to comply with the various regulatory regimes we are subject to could adversely affect our business.

Regulations in Europe, Israel, the United States and other countries impose various controls and requirements relating to various components of our technology. While we believe that our current and contemplated operations conform to those regulations we cannot assure you that we will not be found to be in non-compliance. We have applied for, and received, the necessary permits under the Israel Dangerous Substances Law, 5753-1993, required for the use of potassium hydroxide and zinc metal. However, there can be no assurance that changes in regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities.

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Our business is dependent on patents and proprietary rights that may be difficult to protect and could affect our ability to compete effectively.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements. We hold patents, or patent applications, covering elements of our technology in the United States and in Europe. In addition, we have patent applications pending in the United States and in foreign countries, including the European Community, Israel and Japan. We intend to continue to file patent applications covering important features of our technology. We cannot assure you, 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 our technology. In addition, we cannot assure you that any of our patents will not be challenged or invalidated or that any of our issued patents will afford protection against a competitor.

Litigation, or participation in administrative proceedings, may be necessary to protect our patent position. This type of litigation can be costly and time consuming, and this could harm us even if we were to be successful in the litigation. The invalidation of patents owned by or licensed to us could have a material adverse effect on our business. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States. Therefore, 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 than the United States. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could require a license under such patents to develop and market our patents.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. Moreover, in the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, strategic partners and potential strategic partners. We cannot assure you that these agree-

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ments will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

We are dependent on key personnel and our business would suffer if we fail to retain them.

We are highly dependent on certain members of our management and engineering staff, and the loss of the services of one or more of these persons could adversely affect us. We are especially dependent on the services of our President and Chief Executive Officer, Yehuda Harats, and our Chairman of the Board of Directors and Chief Financial Officer, Robert S. Ehrlich. The loss of either of these persons could have a material adverse effect on us. We are party to employment agreements with Messrs. Harats and Ehrlich, each of which agreements expires in 2002, with an option on our part to extend to 2003. We do not have key-man life insurance.

We are subject to significant influence by some stockholders that may have the effect of delaying or preventing a change in control.

As of March 15, 2002, our directors, executive officers and principal stockholders and their affiliates collectively owned approximately 23% of the outstanding shares of our common stock. As a result, these stockholders are able to exercise significant influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or prevent a change in control.

If we are unable to manage our growth, our operating results will be impaired.

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

We may be subject to increased United States taxation.

We believe 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. We believe that EFC and EFL have not had 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 28.3% of the stock of EFL was owned (directly or indirectly by application of certain attribution rules) as of March 15, 2002 by four United States citizens. If more than 50% of either (i) the voting power of our stock, or (ii) the total value of our stock, is ever acquired or deemed to be acquired by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 28.3% of our shares) 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 we could be subject to additional U.S. taxes (including PHC tax) on any "undistributed FPHC income" of EFL. We believe

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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.

A significant portion of our operations takes place in Israel.

The offices and facilities of our principal subsidiary are located in Israel. Although we expect that most of our sales will be made to customers outside Israel, we are 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 our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

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, the Palestine Liberation Organization and the Palestinian Authority, Israel has not entered into any peace arrangement with Syria or Lebanon. Moreover, since September 2000, there has been a significant deterioration in Israel's relationship with the Palestinian Authority, and a significant increase in terror and violence. Efforts to resolve the problem have failed to result in an agreeable solution. Continued hostilities between the Palestinian community and Israel and any failure to settle the conflict may have a material adverse effect on our business and us. Moreover, the current political and security situation in the region has already had an adverse effect on the economy of Israel, which in turn may have an adverse effect on us.

Many of our 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 us 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. However, further deterioration of hostilities with the Palestinian community into a full-scale conflict might require more widespread military reserve service by some of our employees, which could have a material adverse effect on our business.

Any failure to obtain the tax benefits from the State of Israel that we expect to receive could negatively impact our plans and prospects.

We benefit from various Israeli government programs, grants and tax benefits, particularly as a result of the "approved enterprise" status of a substantial portion of our existing facilities and the receipt of grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade. To be eligible for some of these programs, grants and tax benefits, we must continue to meet certain conditions, including producing in Israel and making specified investments in fixed assets. If we fail to meet such conditions in the future, we could be required to refund grants already received, adjusted for inflation and interest. From time to time, the government of Israel has discussed reducing or eliminating the benefits available under approved

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enterprise programs. We cannot assure you that these programs and tax benefits will be continued in the future at their current levels or at all. 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 us as a result of the approved enterprise status of a substantial portion of our existing facilities and approved programs and as a recipient of grants from the office of the Chief Scientist) could have a material adverse effect on our business, results of operations and financial condition. In addition, our Israeli subsidiary has granted a floating charge (lien) over all of its assets as a security to the State of Israel to secure its obligations under the approved enterprise programs.

Exchange rate fluctuations between the dollar and the NIS may negatively affect our earnings.

Although a substantial majority of our revenues and a substantial portion of our expenses are denominated in U.S. dollars, a significant portion of our costs, including personnel and facilities-related expenses, is incurred in New Israeli Shekels (NIS). Inflation in Israel will have the effect of increasing the dollar cost of our operations in Israel, unless it is offset on a timely basis by a devaluation of the NIS relative to the dollar.

ITEM 7A. 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 Israeli subsidiary, EFL, at its facility in Beit Shemesh, and 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. Therefore, our functional currency is the U.S. dollar. Please see "Impact of Inflation and Currency Fluctuations," above and Note 2b to the Notes to the Consolidated Financial Statements.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Effective as of January 12, 2000, Kost Forer & Gabbay, a member of Ernst &

Young International, replaced Kesselman & Kesselman as our independent accountants. This change was reported in a Current Report on Form 8-K, filed on January 18, 2000 (as amended on January 21, 2000). There have been no disagreements with accountants on any matter of accounting principles or financial disclosure required to be reported under this Item.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers, Directors and Significant Employees

Executive Officers and Directors

Our executive officers and directors and their ages as of February 28, 2002 were as follows:

Name	Age	Position
Robert S. Ehrlich.....	63	Chairman of the Board of Directors and Chief Financial Officer
Yehuda Harats.....	51	President, Chief Executive Officer and Director
Avihai Shen.....	34	Vice President - Finance
Dr. Jay M. Eastman.....	55	Director
Jack E. Rosenfeld.....	62	Director
Lawrence M. Miller.....	55	Director
Leon S. Gross.....	95	Director

Our by-laws provide for a board of directors of one or more directors. There are currently six directors. Under the terms of our 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 2004 and until their successors are elected and qualified; Messrs. Rosenfeld and Miller are designated Class II directors elected for a term expiring in 2002 and until their successors are elected and qualified; and Mr. Ehrlich is designated Class III directors elected for a term which expires in 2003 and until his successor is elected and qualified. Mr. Jeff Kahn, who had been elected as a Class III director along with Mr. Ehrlich, resigned from the Board of Directors for personal reasons, effective December 31, 2001.

Robert S. Ehrlich has been our Chairman of the Board since January 1993 and our Chief Financial Officer since May 1991. From May 1991 until January 1993, Mr. Ehrlich was our Vice Chairman of the Board. Mr. Ehrlich has been a director of Eldat, Ltd., an Israeli manufacturer of electronic shelf labels, since June 1999. Since 1987, Mr. Ehrlich has served as a director of PSC Inc. ("PSCX"), a manufacturer and marketer of laser diode bar code scanners, and, since April 1997, Mr. Ehrlich has been the chairman of the board of PSCX. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

Yehuda Harats has been our President, Chief Executive Officer and a director 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. 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 Luz. Mr. Harats received a B.Sc. in Mechanical Engineering from the Israel Institute of Technology (the Technion) in Haifa, Israel.

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Avihai Shen has been our Vice President - Finance since September 1999, and served as our corporate Secretary from September 1999 to December 2000. Mr. Shen was the CFO of Commtouch Software Ltd., an internet company based in California that develops e-mail solutions, from 1996 to early 1999, and worked previously at Ernst and Young in Israel. Mr. Shen is a certified Public Accountant and has a B.A. in Economics from Bar Ilan University in Israel.

Dr. Jay M. Eastman has been one of our directors since October 1993. Since November 1991, Dr. Eastman has served as President and Chief Executive Officer of Lucid, Inc., which is developing laser technology applications for medical diagnosis and treatment. Dr. Eastman has served as a director of PSCX 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 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. Dr. Eastman holds a B.S. and a Ph.D. in Optics from the University of Rochester in New York.

Jack E. Rosenfeld has been one of our directors since October 1993. Mr. Rosenfeld is also a director of Maurice Corporation and a director of PSCX. Since April 1998, Mr. Rosenfeld has been 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., 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. Mr. Rosenfeld holds a B.A. from Cornell University in Ithaca, New York and an LL.B. from Harvard University in Cambridge, Massachusetts.

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. Mr. Miller holds a B.A. from Dickinson College in Carlisle, Pennsylvania and a J.D. with honors from George Washington University in Washington, D.C. He is a member of the District of Columbia bar.

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 Electric Fuel.

Committees of the Board of Directors

Our board of directors has an Audit Committee and a Compensation Committee consisting of Messrs. Rosenfeld and Miller and Dr. Eastman.

Created in December 1993, the purpose of the Audit Committee is to review with management and our independent auditors the scope and results of the annual audit, the nature of any other services provided by the independent auditors, changes in the accounting principles applied to the presentation of our financial statements, and any comments by the independent auditors on

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our policies and procedures with respect to internal accounting, auditing and financial controls. In addition, the Audit Committee is charged with the responsibility for making recommendations to the Board on the engagement of independent auditors. All Committee members are "independent," as independence is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. As required by law, the Audit Committee operates pursuant to a charter.

The Compensation Committee, also created in December 1993, recommends annual compensation arrangements for the Chief Executive Officer and Chief Financial Officer and reviews annual compensation arrangements for all officers and significant employees. All Committee members are "disinterested persons" as that term is used in Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Voting Agreements

Messrs. Ehrlich and Harats are parties to a Voting Agreement pursuant to which each of the parties agrees to vote the shares of our common stock held by that person in favor of the election of Messrs. Ehrlich and Harats (or their designees) as directors. Messrs. Gross, Ehrlich and Harats are parties to a Voting Rights Agreement dated September 30, 1996, as amended, pursuant to which each of the parties agrees to vote the shares of our common stock held by that person in favor of the election of Messrs. Ehrlich, Harats and Miller until the later of December 28, 2004 or our fifth annual meeting of stockholders after December 28, 1999.

Director Compensation

Non-employee members of our board of directors 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, we have adopted a Non-Employee Director Stock Option Plan pursuant to which non-employee directors receive an initial grant of options to purchase 25,000 shares of our 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 10,000 shares of our common stock for each year of service on the board. All such options are granted at fair market value and vest ratably over three years from the date of the grant.

Significant Employees

Our significant employees as of February 28, 2002, and their ages as of December 31, 2001, are as follows:

<TABLE>
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Name	Age	Position
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<S>	<C>	
Jonathan Whartman.....	47	Senior Vice President - Europe and Asia
Dr. Neal Naimer.....	43	Vice President - Battery Technology

Binyamin Koretz.....	44	Vice President - Strategic Planning
Menashe Ben Haim.....	40	Vice President - Operations
Mitchell L. Horwitz.....	46	Vice President - Sales and Marketing, North America
Yoel Gilon.....	49	Vice President - Electric Vehicle Technologies

</TABLE>

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<TABLE>
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Name	Age	Position
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<S>	<C>	<C>
Yaakov Har-Oz.....	44	Vice President, General Counsel and Secretary
Menachem Givon.....	54	Application Manager
Michelle Berkley.....	35	European Sales Manager
Robert Dopp.....	55	Director of Research, New Products
Ron Putt.....	54	Director of Technology, New Products
Conrad F. Mir.....	33	Director of Investor Relations

</TABLE>

Jonathan Whartman has been Senior Vice President - Europe and Asia since December 2000, and Vice President of Marketing from 1994 to December 2000. From 1991 until 1994, Mr. Whartman was our Director of Special Projects. 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 Luz, Program Manager for desk-top publishing at ITT Qume in San Jose, California from 1986 to 1987, and Marketing Director at Kidron Digital Systems, an Israeli computer developer, from 1982 to 1986. Mr. Whartman holds a B.A. in Economics and an M.B.A. from the Hebrew University, Jerusalem, Israel.

Dr. Neal Naimer has been Vice President of Battery Technology since June 1997. Dr. Naimer was previously Director of Electrode Engineering of our Air Electrode development program. From 1987 to 1989, he was the Manager of the Chemical Vapor Deposition (Thin Films) Group at Intel Electronics in 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.

Binyamin Koretz has been our Vice President of Strategic Planning since January 1998, responsible for new business development, economic modeling, intellectual property protection, and other planning activities. Mr. Koretz has also been responsible for our defense and safety applications since January 1998. Mr. Koretz was our Treasurer from 1993 until December 1994, and again from February 1999 until November 1999. 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 M.B.A. from the University of California at Berkeley.

Menashe Ben Haim has been Vice President - Operations since January 2000. Mr. Ben Haim has over twelve years of industrial and engineering experience. He spent seven years in the paper converting industry as General Manager and Vice President of Operations. He previously worked in the Israeli Aircraft industry in the MLM division. Mr. Ben Haim holds a Mechanical Engineering degree from Tel Aviv University and a B.A. in Business Management from Haifa University.

Mitchell L. Horwitz has been Vice President of Sales and Marketing, North America, since January 2000. Mr. Horwitz has been involved in the wireless industry since 1986 as President and Founder of Eastern Marketing Associates Inc. ("EMA"), the exclusive sales and marketing company to Novatel/Carcom Inc. Since EMA's acquisition by Novatel Communications

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in 1994, Mr. Horwitz has held several senior level sales position in the wireless industry, most recently as Vice President, Worldwide Sales and Marketing, for Globewave, Inc., a manufacturer of wireless modem devices based in New Jersey. Prior to that he was Executive Vice President of Formosa Electronics, a cellphone battery manufacturer with headquarters in New York and Taiwan. Mr. Horwitz holds a B.S. from Ohio University, with a major in Business Administration and a minor in Communications.

Yoel Gilon has been our Vice President - Electric Vehicle Technologies since 2001; prior to that, he served as Director of Electric Vehicle Technologies at our Beit Shemesh facility since joining us in 1994. From 1991 to 1994, Mr. Gilon was Project Development Manager at Ormat Industries. Previously, 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 B.A. in Fine Arts from the Bezalel Academy in Jerusalem.

Yaakov Har-Oz has served as our Vice President and General Counsel since October 2000 and as our corporate Secretary since December 2000. From 1994 until October 2000, Mr. Har-Oz was a partner in the Jerusalem law firm of Ben-Ze'ev, Hachohen & Co. Prior to moving to Israel in 1993, he was an administrative law judge and in private law practice in New York. Mr. Har-Oz holds a B.A. from Brandeis University in Waltham, Massachusetts and a J.D. from Vanderbilt Law School (where he was an editor of the law review) in Nashville, Tennessee. He is a member of the New York bar and the Israel Chamber of Advocates.

Menachem Givon has been Application Manager since January 1999. From 1978 to 1990, he specialized in the development of production and quality control systems at Shoval Metal Industries in the Negev. Mr. Givon earned his B.S. and M.S. in Physics at Ben-Gurion University. He has also taken considerable coursework in Electrical Engineering.

Michelle Berkley has been our European Sales Manager since she joined us in 1998. Prior to that, she worked in linguistics in London, England. She studied Business/Finance with Linguistics at Salford University, Manchester, England.

Robert Dopp has been Director of Research, New Products at our Auburn Laboratory since joining us in December 1997. From February 1997 until November 1997, Mr. Dopp was Manager of Advanced Components Development at AER Energy Resources. From December 1979 to February 1997, he was Principal Engineer, Zinc-Air Development at Rayovac Corporation. Mr. Dopp holds a B.S. in Biology from the University of Wisconsin.

Ron Putt has been Director of Technology, New Products at our Auburn research and development facility since April 1997. From October 1995 until April 1997, Mr. Putt worked as a consultant for Auburn University and Electro-Energy Inc. From April 1990 to October 1995, Mr. Putt was Vice President at MATSI, Inc. Mr. Putt holds bachelor's and master's degrees in Chemical Engineering from the University of Delaware and University of California at Berkeley.

Conrad F. Mir was hired as the Company's Director of Investor Relations in February 2002. From April 1999 until February 2002, Mr. Mir was a Senior Vice President of the Anne McBride Company, an investor communications firm based in New York. From February 1997

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until March 1999, Mr. Mir was the Director of Small Cap and a corporate strategist with D.F. King & Co., a shareholder relations and proxy solicitation firm based in New York. Prior to that, Mr. Mir was a Senior Partner of the Mirad Group, a strategic consulting firm based in New Jersey. Mr. Mir holds a bachelor's degree in Economics and English from New York University.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the securities laws of the United States, our directors, certain of our officers and any persons holding more than ten percent of our common stock are required to report their ownership of our common stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to report any failure to file by these dates during 2001. We are not aware of any instances during 2001 where such "reporting persons" failed to file the required reports on or before the specified dates, except as follows:

- (i) A Form 4 that Mr. Harats was required to file on or before February 10, 2001 was filed by him on February 21, 2001.
- (ii) A Form 4 that Dr. Joshua Degani, who served as our Executive Vice President of Technical Operations and Chief Operating Officer until September 4, 2001, was required to file on or before August 10, 2001 was filed by him on August 13, 2001. Additionally, a Form 5 that Dr. Degani was required to file on or before February 14, 2002 was filed by him on February 19, 2002.
- (iii) A Form 5 that Mr. Rosenfeld was required to file on or before February 14, 2002 was filed by him on February 15, 2002.
- (iv) A Form 5 that Mr. Kahn was required to file on or before February 14, 2002 was filed by him on February 19, 2002.

ITEM 11. EXECUTIVE COMPENSATION

The Compensation Committee of our Board of Directors for 2001 consisted of Dr. Eastman, Mr. Rosenfeld and Mr. Miller. The Committee's responsibilities include recommending the annual compensation arrangements for our Chief Executive Officer and our Chief Financial Officer and reviewing the annual compensation arrangements for principal officers and significant employees, all by reference to the parameters set by any agreements we may have with such persons. No member of this Committee was an officer or employee of ours during 2001. The members of the Committee are familiar with various forms and types of remuneration from reports of other public corporations and their own business experience. All Committee members are "disinterested persons" as that term is used in Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

REPORT OF THE COMPENSATION COMMITTEE

Objectives and Philosophy

We maintain compensation and incentive programs designed to motivate, retain and attract management and utilize various combinations of base salary,

bonuses payable upon the achievement of specified goals, discretionary bonuses and stock options. It is our current policy to

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establish, structure and administer compensation plans and arrangements so that the deductibility of such compensation will not be limited under Section 162(m) of the Internal Revenue Code. Our Chief Executive Officer, Yehuda Harats, and our Chief Financial Officer, Robert S. Ehrlich, are parties to employment agreements with us. Our former Executive Vice President of Technical Operations, Dr. Joshua Degani, who left our employ on September 4, 2001, was also party to an employment agreement.

Executive Officer Compensation

Each of the employment agreements with Messrs. Harats and Ehrlich provides that if the results we actually attain in a given year are at least 80% of the amount we budgeted at the beginning of the year, we will pay a bonus to each of Messrs. Ehrlich and Harats, on a sliding scale, in an amount equal to a minimum of 35% of their annual base salaries then in effect, up to a maximum of 90% of their annual base salaries then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year. For the year ended December 31, 2001, we accrued, but did not pay, a bonus for Messrs. Ehrlich and Harats for 2001 at the 35% level. During 2001, we paid each of Messrs. Harats and Ehrlich \$50,000 on account of their 2000 bonuses. The remainder of their 2000 bonuses was paid in the beginning of 2002.

Beginning in May 2001, we instituted a options-for-salary program designed to conserve our cash and to offer incentives to employees to remain with us despite lowered cash compensation. Under this program, certain of our more senior employees agreed to permanently waive a portion of their salaries in exchange for options to purchase shares of our common stock. These options were granted in October 2001 at a ratio of options to purchase 2.5 shares of our stock for each dollar in salary waived. Social benefits (such as pension) and contractual bonuses continued to be calculated based on salary prior to reduction.

Mr. Harats participated in this options-for-salary program throughout 2001 to the extent of approximately 21% of his monthly salary, and hence received 12,500 options per month, or a total of 100,000 options. Mr. Ehrlich participated in this program to the extent of 20% of his monthly salary throughout 2001 (which he raised to approximately 37% of his monthly salary in 2002), and hence received 10,000 options per month, or a total of 80,000 options. Dr. Degani participated in this program for a period of two months to the extent of 15% of his monthly salary, and hence received 10,000 options per month, or a total of 9,000 options.

As of December 31, 2001, Messrs. Harats's and Ehrlich's total options, including the options referred to in the immediately preceding paragraph, represented approximately 4.0% and 4.0%, respectively, of our outstanding stock, which the Compensation Committee believes are appropriate levels of options for them in view of their equity position (including options exercisable within 60 days) in Electric Fuel which, as of December 31, 2001, represented approximately 6.7% and 4.5%, respectively, of our outstanding stock. As of when Dr. Degani's employment with us terminated on September 4, 2001, Dr. Degani's total options, including the options referred to in the immediately preceding paragraph, represented less than 1% of our fully-diluted outstanding stock, which the Compensation Committee believes was an appropriate level of options considering his position with us.

Dr. Degani was not awarded a cash bonus for 2001. Upon Dr. Degani's leaving our employ in September 2001, we paid him, in addition to the severance pay to which he was entitled

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under Israeli law, a severance payment of \$36,000 that we were obligated to pay him under the terms of his employment agreement with us.

Compensation of Other Employees

With respect to employees other than the Named Executive Officers, compensation is determined not by formula, but based on the achievement of qualitative and/or quantitative objectives established in advance of each year by the Chief Executive Officer and Chief Financial Officer, who then, pursuant to authority delegated by the Compensation Committee, determine remuneration of our employees based on such objectives.

We seek to promote, including through our compensation plans, an environment that encourages employees to focus on our continuing long-term growth. Employee compensation is generally comprised of a combination of cash compensation and grants of options under our stock option plans. Stock options are awarded annually in connection with annual bonuses and, occasionally, during the year on a discretionary basis. Stock options are intended to offer an incentive for superior performance while basing employee compensation on the achievement of higher share value, and to foster the retention of key personnel through the use of schedules which vest options over time if the person remains employed by us. There is no set formula for the award of options to individual employees. Factors considered in making option awards to the employees other than the Named Executive Officers in 2001 included prior grants to the employees, the importance of retaining the employees services, the amount of cash bonuses received by the employees, the employees potential to contribute to

our success and the employees' past contributions to us. Additionally, almost all of our more senior employees participated in our options-for-salary program (described above) of agreeing to permanently waive a portion of their salaries in exchange for options to purchase shares of our common stock. Most of these employees participated in this program to the extent of 15% of their monthly salaries.

Submitted by the Compensation Committee

Dr. Jay M. Eastman
Lawrence M. Miller
Jack E. Rosenfeld

Cash and Other Compensation

The following table shows the compensation that we paid (or accrued), in connection with services rendered for 2001, 2000 and 1999, to our Chief Executive Officer and the other highest paid executive officers (of which there were two) who were compensated at a rate of more than \$100,000 in salary and bonuses during the year ended December 31, 2001 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE/(1)/

<TABLE>
<CAPTION>

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options	All Other Compensation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Yehuda Harats President, Chief Executive Officer and director	2001	\$248,681	\$99,750/(2)/	\$19,145/(3)/	616,000/(4)/	\$580,911/(5)/
	2000	\$245,560	\$82,380	\$ 8,083	400,000	\$170,804
	1999	\$141,710	\$80,011	\$ 8,055	100,000	\$ 78,060

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<TABLE>
<CAPTION>

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options	All Other Compensation
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Robert S. Ehrlich Chairman of the Board and Chief Financial Officer	2001	\$211,644	\$84,000/(2)/	\$17,201/(3)/	521,000/(6)/	\$369,754/(7)/
	2000	\$245,574	\$82,380	\$ 7,146	400,000	\$247,185
	1999	\$137,466	\$80,011	\$ 6,094	47,500	\$173,384
Dr. Joshua Degani* Executive Vice President and Chief Operating Officer	2001	\$ 99,183	\$ 0/(2)/	\$ 4,400/(3)/	9,000/(8)/	\$ 74,050/(9)/
	2000	\$130,417	\$25,000	\$ 6,120	35,000	\$ 31,214
	1999	\$110,259	\$17,500	\$ 5,063	35,000	\$ 34,825

* Dr. Degani's employment with us terminated on September 4, 2001.

- (1) We paid the amounts reported for each named executive officer in U.S. dollars and/or New Israeli Shekels (NIS). We have translated amounts paid in NIS into U.S. dollars at the exchange rate of NIS into U.S. dollars at the time of payment or accrual.
- (2) We did not pay any cash bonuses for fiscal year 2001 that were paid out in 2001. However, we accrued for Messrs. Ehrlich and Harats \$84,000 and \$99,750, respectively, in satisfaction of the bonuses they were entitled to according to their contracts. During 2001, we paid each of Messrs. Harats and Ehrlich \$50,000 of their respective bonuses for 2000 and we paid the balance in 2002. Additionally, during 2001 we paid Dr. Degani the remaining \$12,500 of his bonus for 2000.
- (3) Represents the costs of taxes paid by the Named Executive Officer and reimbursed by us in accordance with Israeli tax regulations.
- (4) Of this amount, 100,000 options were in exchange for a total of \$40,000 in salary waived by Mr. Harats pursuant to the options-for-salary program instituted by us beginning in May 2001.
- (5) Of this amount, \$263,994 represents our accrual for severance pay that would be payable to Mr. Harats upon a "change of control" of EFC or upon the occurrence of certain other events; \$67,074 represents our accrual for sick leave and vacation redeemable by Mr. Harats; \$44,307 represents the increase of the accrual for severance pay that would be payable to Mr. Harats under the laws of the State of Israel if we were to terminate his employment; \$62,617 consists of our payments and accruals to a pension fund that provides a savings plan, insurance and severance pay benefits and an education fund (as is customary in Israel); and \$142,240 represents benefit imputed to Mr. Harats upon the purchase by us of

certain of his shares for treasury. Additionally, \$679 represents other benefits that we paid to Mr. Harats in 2001.

- (6) Of this amount, 80,000 options were in exchange for a total of \$32,000 in salary waived by Mr. Ehrlich pursuant to the options-for-salary program instituted by us beginning in May 2001.
- (7) Of this amount, \$172,360 represents our accrual for severance pay that would be payable to Mr. Ehrlich upon a "change of control" of EFC or upon the occurrence of certain other events; \$50,548 represents the increase of the accrual for sick leave and vacation redeemable by Mr. Ehrlich; \$6,892 represents the increase of our accrual for severance pay that would be payable to Mr. Ehrlich under the laws of the State of Israel if we were to terminate his employment; \$52,841 represents our payments and accruals to pension and education funds; and \$86,434 represents benefit imputed to Mr. Ehrlich upon the purchase by us of certain of his shares for treasury. Additionally, \$679 represents other benefits that we paid to Mr. Ehrlich in 2001.
- (8) All of such options were in exchange for a total of \$3,600 in salary waived by Dr. Degani pursuant to the options-for-salary program instituted by us beginning in May 2001.
- (9) Of this amount, \$11,287 represents payments to Dr. Degani for unused vacation; \$17,155 represents our payments and accruals to pension and education funds; and \$8,936 and \$36,000 represent statutory and contractual severance amounts, respectively, paid to Dr. Degani upon Dr. Degani's leaving our employ in September 2001. Additionally, \$672 represents other benefits that we paid to Dr. Degani in 2001.

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Stock Options

The table below sets forth information with respect to stock options granted to the Named Executive Officers for the fiscal year 2001.

Option Grants in Last Fiscal Year

<TABLE>
<CAPTION>

Name	Individual Grants		Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term/(1)/	
	Number of Securities Underlying Options Granted	% of Total Options granted to Employees in Fiscal Year			5% (\$)	10% (\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Yehuda Harats.....	100,000	6.2%	\$1.43	08/24/11	89,932	227,905
	66,000	4.1%	\$1.43	08/24/11	59,355	150,417
	350,000	21.7%	\$1.43	10/23/11	314,762	797,668
	100,000/(2)/	6.2%	\$1.30	10/31/11	81,756	207,187
Robert S. Ehrlich.....	100,000	6.2%	\$1.43	08/24/11	89,932	227,905
	66,000	4.1%	\$1.43	08/24/11	59,355	150,417
	275,000	17.0%	\$1.43	10/23/11	247,313	626,739
	80,000/(2)/	4.9%	\$1.30	10/31/11	65,405	165,749
Joshua Degani.....	9,000/(2)/	0.6%	\$2.34	06/30/11	13,245	33,564

</TABLE>

(1) The potential realizable value illustrates value that might be realized upon exercise of the options immediately prior to the expiration of their terms, assuming the specified compounded rates of appreciation of the market price per share from the date of grant to the end of the option term. Actual gains, if any, on stock option exercise are dependent upon a number of factors, including the future performance of the common stock and the timing of option exercises, as well as the executive officer's continued employment through the vesting period. The gains shown are net of the option exercise price, but do not include deductions for taxes and other expenses payable upon the exercise of the option or for sale of underlying shares of common stock. The 5% and 10% rates of appreciation are mandated by the rules of the Securities and Exchange Commission and do not represent our estimate or projection of future increases in the price of our stock. There can be no assurance that the amounts reflected in this table will be achieved, and unless the market price of our common stock appreciates over the option term, no value will be realized from the option grants made to the executive officers./

(2) Granted in exchange for a waiver of salary under our options-for-salary program./

The table below sets forth information for the Named Executive Officers with respect to aggregated option exercises during fiscal 2001 and fiscal 2001 year-end option values.

Aggregated Option Exercises and Fiscal Year-End Option Values

<TABLE>
<CAPTION>

Shares Acquired on	Value	Number of Securities Underlying Unexercised	Value of Unexercised In-the-Money Options
--------------------	-------	---	---

Name	Exercise	Realized	Options at Fiscal Year End		at Fiscal-Year-End/(1)/	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Yehuda Harats.....	7,500	\$7,125.00	668,001	462,666	\$105,783.41	\$77,396.59
Robert S. Ehrlich....	7,500	\$7,125.00	750,651	396,916	\$ 79,659.66	\$61,407.84
Joshua Degani.....	0	--	9,000	0	\$ 3,240.00	--

(1) Options that are "in-the-money" are options for which the fair market value of the underlying securities exceeds the exercise or base price of the option./

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Employment Contracts

Each of Messrs. Ehrlich and Harats are parties to similar employment agreements with us effective as of January 1, 2000. The terms of each of these employment agreements expire on December 31, 2002, but are extended automatically for additional terms of two years each unless either the executive or we terminate the agreement sooner. Additionally, we have the right, on at least 90 days' notice to the executive, unilaterally to extend the initial term of the executive's agreement for a period of one year (i.e., until December 31, 2003); if we exercise this right, the automatic two-year extensions would begin from December 31, 2003 instead of December 31, 2002.

The employment agreements provide for a base salary of \$20,000 per month for each of Messrs. Ehrlich and Harats, as adjusted annually for Israeli inflation and devaluation of the Israeli shekel against the U.S. dollar, if any. Additionally, the board may at its discretion raise the executive's base salary. As of January 31, 2001, the board raised Mr. Harats's base salary to \$23,750 per month effective January 1, 2001. In January 2002, the board raised Mr. Ehrlich's base salary to \$23,750 per month effective January 1, 2002; Mr. Ehrlich has elected to waive this increase in his salary and to receive options instead, under our salary for options program.

Each employment agreement provides that if the results we actually attain in a given year are at least 80% of the amount we budgeted at the beginning of the year, we will pay a bonus to each of Messrs. Ehrlich and Harats, on a sliding scale, in an amount equal to a minimum of 35% of their annual base salaries then in effect, up to a maximum of 90% of their annual base salaries then in effect if the results we actually attain for the year in question are 120% or more of the amount we budgeted at the beginning of the year.

The employment agreements also contain various benefits customary in Israel for senior executives (please see "Item 1. Business - Employees," above), tax and financial planning expenses and an automobile, and contain confidentiality and non-competition covenants. Pursuant to the employment agreements, we granted each of Messrs. Ehrlich and Harats demand and "piggyback" registration rights covering shares of our common stock held by them.

We can terminate the employment agreements in the event of death or disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of our board of directors or gross negligence or willful misconduct). Messrs. Ehrlich and Harats each have the right to terminate their employment upon a change in our control or for "Good Reason," which is defined to include adverse changes in employment status or compensation, our insolvency, material breaches and certain other events. Additionally, Messrs. Ehrlich and Harats may retire (after age 68) or terminate their respective agreements for any reason upon 150 days' notice. Upon termination of employment, the employment agreements provide for payment of all accrued and unpaid compensation, and (unless we have terminated the agreement for Cause or the executive has terminated the agreement without Good Reason and without giving us 150 days' notice of termination) bonuses due for the year in which employment is terminated and severance pay in the amount of three years' base salary (or, in the case of termination by an executive on 150 days' notice, a lump sum payment of \$520,000). Furthermore, certain benefits will continue and all outstanding options will be fully vested.

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Other employees have entered into individual employment agreements with us. 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 farther than sixty kilometers from his or her regular work site, we have 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. All of these agreements also contain provisions governing the confidentiality of information and ownership of intellectual property learned or created during the course of the employee's tenure with us. Under the terms of these provisions, employees must keep confidential all information regarding our 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 our service. Further, intellectual property created during the course of the employment relationship belongs to us.

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

Under the laws of Israel, an employee of ours 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. We currently fund this obligation by making monthly payments to approved private provident funds and by its accrual for severance pay in the consolidated financial statements. See Note 2q of the Notes to the Consolidated Financial Statements.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of our board of directors for the 2001 fiscal year consisted of Dr. Jay M. Eastman, Jack E. Rosenfeld and Lawrence M. Miller. None of the members have served as our officers or employees.

Robert S. Ehrlich, our Chairman and Chief Financial Officer, serves as Chairman and a director of PSCX, for which Dr. Eastman serves as director and member of the Executive and Strategic Planning Committees and Mr. Rosenfeld serves as director and member of the Executive Compensation Committees.

Performance Graph

The following graph compares the yearly percentage change in our cumulative total shareholder return on our common stock with the cumulative total return on the Nasdaq Market Index (Broad Market Index) and a self-constructed peer group index over the past five years, from December 31, 1996 through December 31, 2001. The cumulative total shareholder return is based on \$100 invested in our common stock and in the respective indices on December 31, 1996. The stock prices on the performance graph are not necessarily indicative of future price performance.

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CUMULATIVE TOTAL RETURN THROUGH DECEMBER 31, 2001 AMONG ELECTRIC FUEL CORPORATION, NASDAQ MARKET INDEX AND PEER GROUP INDEX

[THE FOLLOWING TABLE WAS REPRESENTED BY A LINE GRAPH IN THE PRINTED MATERIAL.]

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
ELECTRIC FUEL	100.00	51.79	39.29	50.00	66.96	23.71
PEER GROUP/(1)/	100.00	107.95	88.29	178.74	99.22	44.91
BROAD MARKET	100.00	121.64	169.84	315.20	191.36	151.07

/(1) The Peer Group Index is comprised of the following companies: AER Energy Resources, Inc., Battery Technologies Inc., Electrosources, Inc., Ultralife Batteries, Inc. and Valence Technology, Inc. The returns of each company have been weighted according to their respective stock market capitalization for purposes of arriving at a peer group average./

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the security ownership, as of February 28, 2002, of those persons owning of record or known by us to own beneficially more than 5% of our common stock and of each of our Named Executive Officers and directors, and the shares of common stock held by all of our directors and executive officers as a group.

<TABLE>
<CAPTION>

Name and Address of Beneficial Owner/(1)/	Shares Beneficially Owned/(2)//(3)/	Percentage of Total Shares Outstanding/(3)/
<S>	<C>	<C>
Leon S. Gross.....	3,697,870/(4)//(13)/	12.0%
Austin W. Marx and David M. Greenhouse/(5)/.....	3,027,297/(5)/	9.6%
Yehuda Harats.....	2,104,373/(6)//(8)//(13)/	6.7%
Robert S. Ehrlich.....	1,432,567/(7)//(8)//(13)/	4.5%
Avihai Shen.....	39,656/(9)/	*
Dr. Jay M. Eastman.....	46,668/(10)/	*
Jack E. Rosenfeld.....	48,668/(11)/	*

</TABLE>

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<TABLE>
<CAPTION>

Name and Address of Beneficial Owner/(1)/	Shares Beneficially Owned/(2)//(3)/	Percentage of Total Shares Outstanding/(3)/
<S>	<C>	<C>
Lawrence M. Miller.....	53,582/(12)/	*
All of our directors and executive officers as a group (7 persons).....	7,423,384/(14)/	22.8%

</TABLE>

* Less than one percent.

/(1) Unless otherwise noted, the address of each beneficial owner is in care of Electric Fuel Corporation, 632 Broadway, Suite 301, New York, New York 10012./

/(2) 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./

/(3) For purposes of determining beneficial ownership of our 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 based on 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./

/(4) Includes 463,165 shares held by Leon S. Gross and Lawrence M. Miller as co-trustees of the Rose Gross Charitable Foundation, and 35,000 shares issuable upon exercise of options exercisable within 60 days./

/(5) Consists of 2,419,418 shares and 787,879 warrants. Of these amounts, 1,066,827 shares and 315,151 warrants are owned by Special Situations Fund III, L.P., a Delaware limited partnership ("Special Fund III"), 551,773 shares and 218,182 warrants are owned by Special Situations Private Equity Fund, L.P., a Delaware limited partnership ("SSPE"), 378,136 shares and 109,091 warrants are owned by Special Situations Cayman Fund, L.P., a Cayman Islands limited partnership ("Special Cayman Fund"), and 422,682 shares and 145,455 warrants are owned by Special Situations Technology Fund, L.P., a Delaware limited partnership ("SST"). Austin W. Marx and David M. Greenhouse are the principal owners of MGP Advisers Limited Partnership, a Delaware limited partnership ("MGP"), MG Advisers, L.L.C., a New York limited liability company ("MG"), AWM Investment Company, Inc., a Delaware corporation ("AWM"), and SST Advisers, L.L.C., a Delaware limited liability company ("SSTA"). MGP is the general partner of Special Fund III. AWM is the general partner of MGP and the general partner of and investment adviser to SSPE. SSTA is the general partner of and investment adviser to SST. Messrs. Marx and Greenhouse share voting and investment power over the shares held by all of Special Fund III, SSPE, Special Cayman Fund and SST and are principally responsible for the selection, acquisition and disposition of the portfolio securities by the investment advisers on behalf of their funds. The address of Messrs. Marx and Greenhouse is 153 East 53rd Street, New York, New York 10022. All information in this footnote and in the text to which this footnote relates is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002./

/(6) Includes 1,000,000 shares held by a family trust and 693,001 shares issuable upon exercise of options exercisable within 60 days./

/(7) Includes 52,568 shares held by an affiliated corporation, 242,313 shares held in Mr. Ehrlich's pension plan, 22,000 shares held by children sharing the same household, and 794,401 shares issuable upon exercise of options exercisable within 60 days./

/(8) Messrs. Ehrlich and Harats are parties to a Voting Agreement pursuant to which each of the parties agrees to vote the shares of our common stock held by that person in favor of the election of Messrs. Ehrlich and Harats (or their designees) as directors./

/(9) Includes 35,656 shares issuable upon exercise of options exercisable within 60 days./

/(10) Consists of 46,668 shares issuable upon exercise of options exercisable within 60 days./

/(11) Includes 46,668 shares issuable upon exercise of options exercisable within 60 days./

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/(12) Includes 41,668 shares issuable upon exercise of options exercisable within 60 days./

/(13) 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 our common stock held by that person in favor of the election of Messrs. Ehrlich, Harats and Miller until the earlier of December 10, 2002 or our fifth annual meeting of stockholders after December 10, 1997./

/(14) Includes 1,693,062 shares issuable upon exercise of options exercisable within 60 days./

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to a securities purchase agreement dated December 28, 1999 between a group of purchasers, including Mr. Gross, and us, Mr. Gross agreed that for a period of five years, neither he nor his "affiliates" (as such term is defined

in the Securities Act) directly or indirectly or in conjunction with or through any "associate" (as such term is defined in Rule 12b-2 of the Exchange Act), will (i) solicit proxies with respect to any capital stock or other voting securities of ours under any circumstances, or become a "participant" in any "election contest" relating to the election of our directors (as such terms are used in Rule 14a-11 of Regulation 14A of the Exchange Act); (ii) make an offer for the acquisition of substantially all of our assets or capital stock 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 of our capital stock or other voting securities 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 a stock purchase agreement dated September 30, 1996 between Leon S. Gross and us, we also entered into a registration rights agreement with Mr. Gross 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 demands for a shelf registration statement on Form S-3 for the sale of the common stock that 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. In addition, under the registration rights agreement, Mr. Gross is subject to customary underwriting lock-up requirements with respect to public offerings of our securities.

Pursuant to a voting rights agreement dated September 30, 1996 and as amended December 10, 1997 and December 28, 1999, between Mr. Gross, Robert S. Ehrlich, Yehuda Harats and us, Lawrence M. Miller, Mr. Gross's advisor, is entitled to be nominated to serve on our board of directors so long as Mr. Gross, his heirs or assigns retain at least 1,375,000 shares of common stock. 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 later of December 28, 2004 or our fifth annual meeting of stockholders after December 28, 1999.

On February 9, 2000, Messrs. Ehrlich and Harats each exercised 131,665 stock options. Messrs. Ehrlich and Harats paid the exercise price of the stock options and certain taxes that we paid on their behalf by giving us non-recourse promissory notes in the amount of \$789,990 each, secured by the shares of our common stock acquired through the exercise of the options.

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PART IV

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

(a) The following documents are filed as part of this report:

- (1) Financial Statements - See Index to Financial Statements on page 38 above.
- (2) Financial Statements Schedules - All schedules are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or related notes thereto.
- (3) Exhibits - The following Exhibits are either filed herewith or have previously been filed with the Securities and Exchange Commission and are referred to and incorporated herein by reference to such filings:

<TABLE>
<CAPTION>

Exhibit Number	Description
<S>	<C>
/ (8) / 3.1	Amended and Restated Certificate of Incorporation
/ (15) / 3.1.1	Amendment to our Amended and Restated Certificate of Incorporation
/ (2) / 3.2	Amended and Restated By-Laws
/ (1) / 4	Specimen Certificate for shares of common stock, \$.01 par value
/ (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	Letter of Intent between us and Deutsche Post AG dated November 18, 1993
/ + (6) / 10.6	Amended and Restated 1993 Stock Option and Restricted Stock Purchase Plan dated November 11, 1996
/ + (1) / 10.7.1	Form of Management Employment Agreements
/ + * (1) / 10.7.2	General Employee Agreements
/ * (1) / 10.8	Office of Chief Scientist documents
/ (2) / 10.8.1	Letter from the Office of Chief Scientist to us dated January 4, 1995
/ * (1) / 10.9	Lease Agreement dated December 2, 1992 between us and Har Hotzvim Properties Ltd.
/ * (1) / 10.10	Letter of Approval by the Investment Center of the Ministry of Trade
/ * (2) / 10.11	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.
/ + (3) / 10.12	Amended and Restated 1995 Non-Employee Director Stock Option Plan
/ (3) / 10.13	Letters of Approval of Lines of Credit from First International Bank of Israel Ltd. dated March

</TABLE>

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<TABLE>
<CAPTION>
Exhibit

Number	Description
<S>	<C>
/ (4) / 10.14Stock Purchase Agreement between us and Leon S. Gross ("Gross") dated September 30, 1996
/ (4) / 10.15	.....Registration Rights Agreement between us and Gross dated September 30, 1996
/ (4) / 10.16	.....Voting Rights Agreement between us, Gross, Robert S. Ehrlich and Yehuda Harats dated September 30, 1996
/ (5) / 10.17	.....Agreement between us and Walter Trux dated December 18, 1996
/ (5) / 10.18	.....Cooperation Agreement between The Israel Electric Corporation and EFL dated as of October 31, 1996
/ + (5) / 10.19	.....Amended and Restated Employment Agreement dated as of October 1, 1996 between us, EFL and Yehuda Harats
/ + (15) / 10.19.1	.....Second Amended and Restated Employment Agreement, effective as of January 1, 2000 between us, EFL and Yehuda Harats
/ + (15) / 10.19.2	.....Letter dated January 12, 2001 amending the Second Amended and Restated Employment Agreement, effective as of January 1, 2000 between us, EFL and Yehuda Harats
/ + (5) / 10.20	.....Amended and Restated Employment Agreement dated as of October 1, 1996 between us, EFL and Robert S. Ehrlich
/ + (15) / 10.20.1	.....Second Amended and Restated Employment Agreement, effective as of January 1, 2000 between us, EFL and Robert S. Ehrlich
/ + (15) / 10.20.2	.....Letter dated January 12, 2001 amending the Second Amended and Restated Employment Agreement, effective as of January 1, 2000 between us, EFL and Robert S. Ehrlich
/ (5) / 10.21	.....Agreement dated February 20, 1997 between STN ATLAS Elektronik GmbH and EFL
/ + (6) / 10.22	.....Employment Agreement dated May 13, 1997 between us, EFL, and Joshua Degani
/ + (15) / 10.22.1	.....Amendment dated January 12, 2001 to Employment Agreement dated May 13, 1997 between us, EFL, and Joshua Degani
/ + (6) / 10.23	.....Termination Agreement dated March 12, 1998 between us, EFL and Menachem Korall
/ (6) / 10.24	.....Consulting Agreement dated March 12, 1998 between us, EFL, and Shampi Ltd.
/ (6) / 10.25	.....Amendment No. 1 to the Voting Rights Agreement between us, Gross, Robert S. Ehrlich, and Yehuda Harats dated December 10, 1997
/ (6) / 10.26	.....Amendment No. 2 to the Registration Rights Agreement between us, Gross, Robert S. Ehrlich and Yehuda Harats dated December 10, 1997
/ (7) / 10.27	.....1998 Non-Executive Stock Option and Restrictive Stock Purchase Plan
/ (8) / 10.28	.....Distribution Agreement dated December 31, 1998 between us and TESCO Technologies Inc.
/ (9) / 10.29	.....Amendment to our Restated Certificate of Incorporation
/ (10) / 10.30Securities Purchase Agreement dated December 28, 1999, and exhibits thereto, by and among us and the Purchasers listed on Exhibit A thereto
/ (10) / 10.31Form of Warrant dated December 28, 1999

</TABLE>

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<TABLE>
<CAPTION>
Exhibit

Number	Description
<S>	<C>
/ (10) / 10.32Amendment No. 1 to Voting Rights Agreement dated December 28, 1999, by and between us, Leon S. Gross, Robert S. Ehrlich, Yehuda Harats and the Purchasers listed on Exhibit A to the Securities Purchase Agreement dated December 28, 1999
/ (11) / 10.33	.....Common Stock Purchase Agreement dated January 5, 2000, and exhibits thereto, by and among us and the Purchasers listed on Exhibit A thereto
/ (12) / 10.34.1	.....Promissory Note dated January 3, 1998, from Yehuda Harats to us
/ (12) / 10.34.2	.....Amendment dated April 1, 1998, to Promissory Note dated January 3, 1998 between Yehuda Harats and us
/ (12) / 10.35.1	.....Promissory Note dated January 3, 1993, from Robert S. Ehrlich to us
/ (12) / 10.35.2	.....Amendment dated April 1, 1998, to Promissory Note dated January 3, 1993 between Robert S. Ehrlich and us
/ (12) / 10.36	.....Promissory Note dated December 3, 1999, from Yehuda Harats to us
/ (12) / 10.37	.....Promissory Note dated December 3, 1999, from Robert S. Ehrlich to us
/ (12) / 10.38	.....Promissory Note dated February 9, 2000, from Yehuda Harats to us
/ (12) / 10.39	.....Promissory Note dated February 9, 2000, from Robert S. Ehrlich to us
(15) / 10.40	.....Share and Assets Purchase Agreement dated March 15, 2000 among us, Tadiran Limited, Tadiran Batteries Limited and Tadiran Electric Industries
/ (15) / 10.41	.....Stock Purchase Agreement dated March 15, 2000 between us and Koor Industries Ltd.
/ (15) / 10.42	.....Registration Rights Agreement dated March 15, 2000 between us, Tadiran Limited and Koor Industries Ltd.
/ (15) / 10.43	.....Voting Rights Agreement dated March 15, 2000 among made as of March 15, 2000 by and among us, Robert S. Ehrlich and Yehuda Harats, Koor Industries Ltd. and Tadiran Limited
/ (13) / 10.44	.....Termination and Release Agreement dated May 17, 2000 among us, Tadiran Limited, Tadiran Batteries Limited, Tadiran Electric Industries Corporation, Koor Industries Ltd., Robert S. Ehrlich and Yehuda Harats
/ (13) / 10.45	.....Common Stock Purchase Agreement dated May 17, 2000 between us and Koor Industries Ltd.
/ (13) / 10.46	.....Registration Rights Agreement dated May 17, 2000 between us and Koor Industries Ltd.
/ (14) / 10.47	.....Securities Purchase Agreement dated as of November 17, 2000 between us and Capital Ventures International
/ (14) / 10.48	.....Series A Stock Purchase Warrant issued to Capital Ventures International dated November 17, 2000
/ (14) / 10.49	.....Series B Stock Purchase Warrant issued to Capital Ventures International dated November 17, 2000
/ (14) / 10.50	.....Stock Purchase Warrant issued to Josephthal & Co., Inc. dated November 17, 2000
/ (15) / 10.51	.....Promissory Note dated January 12, 2001, from Yehuda Harats to us
/ (15) / 10.52Promissory Note dated January 12, 2001, from Robert S. Ehrlich to us

</TABLE>

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(b) Reports on Form 8-K.

- (1) We filed a Current Report on Form 8-K on November 21, 2001, reporting "Item 5. Other Events," in connection with the Securities Purchase Agreement dated as of October 25, 2001 between us and Orsay Services Inc.
- (2) We filed a Current Report on Form 8-K on December 4, 2001, reporting "Item 5. Other Events," in connection with the Securities Purchase Agreement dated as of December 4, 2001 between us and Vertical International Limited.

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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 26, 2002.

ELECTRIC FUEL CORPORATION

By: /s/ Robert S. Ehrlich

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

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

<TABLE>
<CAPTION>

Signature -----	Title -----	Date -----
<S> /s/ Yehuda Harats ----- Yehuda Harats	<C> President, Chief Executive Officer and Director (Principal Executive Officer)	<C> March 26, 2002 -----
/s/ Robert S. Ehrlich ----- Robert S. Ehrlich	Chairman, Chief Financial Officer and Director (Principal Financial Officer)	March 26, 2002 -----
/s/ Avihai Shen ----- Avihai Shen	Vice President - Finance (Principal Accounting Officer)	March 26, 2002 -----
/s/ Jay M. Eastman ----- Dr. Jay M. Eastman	Director	March 26, 2002 -----
/s/ Leon S. Gross ----- Leon S. Gross	Director	March 26, 2002 -----
/s/ Lawrence M. Miller ----- Lawrence M. Miller	Director	March 26, 2002 -----
/s/ Jack E. Rosenfeld ----- Jack E. Rosenfeld	Director	March 26, 2002 -----

</TABLE>

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001

IN U.S. DOLLARS

INDEX

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Consolidated Balance Sheets	3 - 4

Consolidated Statements of Operations	5
Statements of Changes in Shareholders' Equity	6 - 7
Consolidated Statements of Cash Flows	8 - 9
Notes to Consolidated Financial Statements	10 - 28

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[LOGO OF ERNST & YOUNG]

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

ELECTRIC FUEL CORPORATION

We have audited the accompanying consolidated balance sheets of Electric Fuel Corporation (the "Company") and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Tel Aviv, Israel	/s/ Kost Forer & Gabbay
January 29, 2002	KOST FORER & GABBAY
	A Member of Ernst & Young International

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	2001	2000
	U.S. dollars	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$12,671,754	\$11,596,225
Trade receivables (net of allowance for doubtful accounts in the amounts of \$444,534 and \$107,388 as of December 31, 2001 and 2000, respectively and allowance for returns in the amounts of \$834,000 and \$793,600 as of December 31, 2001 and 2000, respectively)	1,230,259	2,212,434
Other accounts receivable and prepaid expenses (Note 3)	714,946	2,418,715
Inventories (Note 4)	3,472,197	3,208,948
	-----	-----
Total current assets	18,089,156	19,436,322
	-----	-----
NOTES RECEIVABLE FROM SHAREHOLDERS (Note 5)	501,288	778,677
	-----	-----
SEVERANCE PAY FUND	1,078,131	995,283
	-----	-----
PROPERTY AND EQUIPMENT, NET (Note 6)	6,739,665	6,446,064
	-----	-----
	\$26,408,240	\$27,656,346
	=====	=====

</TABLE>

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS<TABLE>
<CAPTION>

	December 31,	
	2001	2000
	U.S. dollars	
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 1,824,957	\$ 3,242,460
Other accounts payable and accrued expenses (Note 8)	1,730,799	1,544,975
Total current liabilities	3,555,756	4,787,435
ACCRUED SEVERANCE PAY	3,444,427	2,790,542
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
SHAREHOLDERS' EQUITY (Note 10):		
Share capital -		
Common stock - \$0.01 par value each;		
Authorized: 100,000,000 shares as of December 31, 2001 and 2000;		
Issued: 29,059,469 shares and 21,422,691 shares as of December 31,		
2001 and 2000, respectively		
Outstanding - 28,504,136 shares and 21,417,358 shares as of December		
31, 2001 and 2000, respectively	290,596	214,227
Preferred shares - \$ 0.01 par value each;		
Authorized: 1,000,000 shares as of December 31, 2001 and 2000; No		
shares issued and outstanding as of December 31, 2001 and 2000	--	--
Additional paid-in capital	104,254,109	87,658,990
Accumulated deficit	(80,736,461)	(63,449,673)
Deferred stock compensation	(18,000)	(17,240)
Treasury stock, at cost (common stock - 555,333 shares and 5,333		
shares as of December 31, 2001 and 2000, respectively)	(3,537,106)	(37,731)
Notes receivable from shareholders	(845,081)	(4,290,204)
Total shareholders' equity	19,408,057	20,078,369
	\$ 26,408,240	\$ 27,656,346

</TABLE>

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS<TABLE>
<CAPTION>

	Year ended December 31,		
	2001	2000	1999
	U.S. dollars (except for share data)		
<S>	<C>	<C>	<C>
Revenues	\$ 4,032,888	\$ 4,053,562	\$ 2,693,998
Cost of revenues *)	7,053,602	4,188,442	--
Gross profit (loss) *)	(3,020,714)	(134,880)	2,693,998
Research and development, net (Note 12a) *)	3,512,084	4,588,137	6,631,075
Sales and marketing expenses	6,255,703	4,160,902	760,359
General and administrative expenses	4,760,866	3,641,220	2,402,284
Total operating costs and expenses	14,528,653	12,390,259	9,793,718
Operating loss	(17,549,367)	(12,525,139)	(7,099,720)
Financial income, net (Note 12b)	262,579	544,181	190,049

Loss before taxes on income	(17,286,788)	(11,980,958)	(6,909,671)
Taxes on income (Note 11)	--	--	6,017
	-----	-----	-----
Net loss	\$ (17,286,788)	\$ (11,980,958)	\$ (6,915,688)
	=====	=====	=====
Basic and diluted net loss per share	\$ (0.71)	\$ (0.62)	\$ (0.48)
	=====	=====	=====
Weighted average number of shares used in computing basic and diluted net loss per share	24,200,184	19,243,446	14,334,277
	=====	=====	=====

</TABLE>

*) In 1999 the Company's cost of revenues were included in research and development costs (see Note 2k).

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

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common shares		Additional paid-in capital	Accumulated deficit	Deferred stock compensation
	Shares	Amount			
U.S. dollars					
<S>	<C>	<C>	<C>	<C>	<C>
Balance as of December 31, 1998	14,303,387	\$143,034	\$57,398,814	\$ (44,553,027)	--
Comprehensive loss:					
Net realized losses on available-for-sale securities, net	--	--	--	--	--
Net loss	--	--	--	(6,915,688)	--
Issuance of shares, net	1,425,000	14,250	(*1,279,201)	--	--
Accrued interest on notes receivable from shareholders	--	--	--	--	--
	-----	-----	-----	-----	-----
Total comprehensive loss					
Balance as of December 31, 1999	15,728,387	157,284	58,678,015	(51,468,715)	--
Payment of interest and principal on notes receivable from shareholders	--	--	--	--	--
Issuance of shares, net	2,512,952	25,130	18,774,023	--	--
Exercise of options and warrants	3,181,352	31,813	9,373,650	--	--
Deferred stock compensation	--	--	64,174	--	(64,174)
Amortization of deferred stock compensation	--	--	--	--	46,934
Amortization of compensation related to options issued to consultants	--	--	769,128	--	--
Accrued interest on notes receivable from shareholders	--	--	--	--	--
Net loss	--	--	--	(11,980,958)	--
	-----	-----	-----	-----	-----
Total comprehensive loss					
Balance as of December 31, 2000	21,422,691	\$214,227	\$87,658,990	\$ (63,449,673)	\$ (17,240)
	=====	=====	=====	=====	=====

<CAPTION>

	Accumulated other comprehensive income (loss)	Treasury stock	Total comprehensive loss	Notes receivable from shareholders	Total shareholders' equity
	-----	-----	-----	-----	-----
U.S. dollars					
<S>	<C>	<C>	<C>	<C>	<C>
Balance as of December 31, 1998	\$ (1,943)	\$ (1,806,481)		\$ (598,885)	\$ 10,581,512
Comprehensive loss:					
Net realized losses on available-for-sale securities, net	1,943	--	\$ 1,943	--	1,943
Net loss	--	--	(6,913,745)	--	(6,915,688)
	-----	-----	-----	-----	-----
Issuance of shares, net	--	(*1,768,750)		(2,435,950)	626,251
Accrued interest on notes					

receivable from shareholders	--	--	(51,659)	(51,659)
Total comprehensive loss			\$ (6,917,631)	
Balance as of December 31, 1999	--	(37,731)	(3,086,494)	4,242,359
Payment of interest and principal on notes receivable from shareholders	--	--	2,705,052	2,705,052
Issuance of shares, net	--	--	--	18,799,153
Exercise of options and warrants	--	--	(3,723,456)	5,682,007
Deferred stock compensation	--	--	--	--
Amortization of deferred stock compensation	--	--	--	46,934
Amortization of compensation related to options issued to consultants	--	--	--	769,128
Accrued interest on notes receivable from shareholders	--	--	(185,306)	(185,306)
Net loss	--	--	(11,980,958)	(11,980,958)
Total comprehensive loss			\$ (11,980,958)	
Balance as of December 31, 2000	\$ --	\$ (37,731)	\$ (4,290,204)	\$ 20,078,369

</TABLE>

*) Reclassified

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

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>

<CAPTION>

	Common stock		Additional paid-in capital	Accumulated deficit
	Shares	Amount		
<S>	<C>	<C>	<C>	<C>
Balance as of December 31, 2000	21,422,691	\$214,227	\$ 87,658,990	\$ (63,449,673)
Purchase of common shares from shareholders and repayment of the related interest and principal of notes from shareholders	--	--	228,674	--
Issuance of shares, net	7,083,480	70,836	14,844,887	--
Exercise of options and warrants	553,298	5,533	1,348,756	--
Deferred stock compensation	--	--	11,807	--
Amortization of deferred stock compensation	--	--	--	--
Amortization of compensation related to options issued to consultants	--	--	160,945	--
Net loss	--	--	--	(17,286,788)
Balance as of December 31, 2001	29,059,469	\$290,596	\$104,254,109	\$ (80,736,461)

<CAPTION>

	Deferred stock compensation	Treasury stock	Total comprehensive loss	Notes receivable from shareholders	Total shareholders' equity
	<C>	<C>	<C>	<C>	<C>
Balance as of December 31, 2000	\$ (17,240)	\$ (37,731)	--	\$ (4,290,204)	\$ 20,078,369
Purchase of common shares from shareholders and repayment of the related interest and principal of notes from shareholders	--	(3,499,375)	--	3,470,431	199,730
Issuance of shares, net	--	--	--	18,000	14,933,723
Exercise of options and warrants	--	--	--	(43,308)	1,310,981
Deferred stock compensation	(11,807)	--	--	--	--
Amortization of deferred stock compensation	11,047	--	--	--	11,047
Amortization of compensation related to options issued to consultants	--	--	--	--	160,995

Net loss	--	--	(17,286,788)	--	(17,286,788)
Total comprehensive loss			\$17,286,788		
Balance as of December 31, 2001	\$ (18,000)	\$ (3,537,106)		\$ (845,081)	\$ 19,408,057

</TABLE>

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

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year ended December 31,		
	2001	2000	1999
	U.S. dollars		
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	\$ (17,286,788)	\$ (11,980,958)	\$ (6,915,688)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	980,008	753,910	710,759
Accrued severance pay, net	571,037	249,195	(298,056)
Amortization of deferred stock compensation	11,047	46,934	--
Compensation expenses and write-off of notes receivable from shareholders	471,619	--	--
Compensation expenses related to options issued to consultants	160,995	769,128	--
Amortization of compensation related to shares issued to consultants	15,488	--	--
Accrued interest on notes receivable from shareholders	--	(230,924)	(51,659)
Decrease (increase) in trade receivables and other accounts receivable and prepaid expenses	2,674,104	(2,657,682)	464,056
Increase in inventories	(263,249)	(2,163,468)	(670,937)
Increase (decrease) in trade payables and other accounts payable and accrued expenses	(1,037,635)	1,257,016	1,200,315
Decrease in deferred revenues	--	--	(136,549)
Other	813	(6,330)	(2,761)
Net cash used in operating activities	(13,702,561)	(13,963,179)	(5,700,520)

</TABLE>

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

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year ended December 31,		
	2001	2000	1999
	U.S. dollars		
<S>	<C>	<C>	<C>
Cash flows from investing activities:			
Purchase of property and equipment	(1,275,303)	(2,858,512)	(1,473,444)
Payment to suppliers for purchase of property and equipment	(227,230)	--	--
Loans granted to shareholders	--	(958,156)	--
Repayment of loans granted to shareholders	--	225,097	--
Proceeds from sale of property and equipment	40,217	57,867	34,643
Proceeds from sale of available-for-sale marketable securities	--	--	3,702,411
Net cash provided by (used in) investing activities	(1,462,316)	(3,533,704)	2,263,610
Cash flows from financing activities:			
Proceeds from issuance of shares, net	14,923,925	18,150,710	750,000
Proceeds from exercise of options and warrants	1,310,981	5,681,701	--
Payment of interest and principal on notes receivable from shareholders	5,500	2,705,052	--
Net cash provided by financing activities	16,240,406	26,537,463	750,000
Increase (decrease) in cash and cash equivalents	1,075,529	9,040,580	(2,686,910)
Cash and cash equivalents at the beginning of the year	11,596,225	2,555,645	5,242,555
Cash and cash equivalents at the end of the year	\$ 12,671,754	\$ 11,596,225	\$ 2,555,645

Supplementary information on non-cash activities:			
Purchase of property and equipment against trade payables	\$ 39,336	\$ 227,230	\$ --
	=====	=====	=====
Purchase of treasury stock in respect of notes receivable from shareholders	\$ 3,499,375	\$ --	\$ --
	=====	=====	=====
Issuance of shares (including additional paid-in capital) against notes receivable	\$ --	\$ --	\$ 2,435,950
	=====	=====	=====
Issuance of shares in respect of prepaid expenses	\$ --	\$ 525,000	\$ --
	=====	=====	=====
Exercise of options and warrants against notes receivable	\$ 43,308	\$ 3,704,076	\$ --
	=====	=====	=====
Liabilities in respect of share issuance expenses	\$ --	\$ --	\$ 123,749
	=====	=====	=====
Supplemental disclosure of cash flows activities:			
Cash paid during the year for:			
Interest	\$ 19,106	\$ 25,537	\$ 38,202
	=====	=====	=====
Income taxes	\$ 25,000	\$ 34,149	\$ 23,430
	=====	=====	=====

</TABLE>

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

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Electric Fuel Corporation ("EFC," "Electric Fuel," or the "Company") and its subsidiaries are engaged in the design, development and commercialization of its proprietary zinc-air battery technology for portable consumer electronic devices such as cellular telephones products, as well as for electric vehicles and defense applications. The Company is primarily operating through Electric Fuel Ltd. ("EFL") a wholly-owned Israeli based subsidiary. The Company's production and research and development are primarily in Israel.

In November 2000, the Company established a wholly-owned subsidiary in the U.K ("EFL U.K."). The Company has two wholly-owned non-operating subsidiaries, in Germany ("GmbH") and in the Netherlands ("BV"), as well as two subsidiaries in the United States: Electric Fuel Transportation Corp. (Delaware) and Instant Power Corporation (Delaware).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

The Company's transactions are recorded in U.S. dollars, and its subsidiaries' transactions are recorded in new Israeli shekels and pounds sterling; however, the majority of EFL's sales are made outside Israel in U.S. dollars, and a substantial portion of EFL's costs is incurred in U.S. dollars. The majority of financial transactions of EFL UK is in U.S. dollars and a substantial portion of EFL UK's costs is incurred in U.S. dollars.

The Company's management believes that the dollar is the primary currency of the economic environment in which the Company and each of its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured into U.S. dollars in accordance with Statement No. 52 "Foreign Currency Translation" of the Financial Accounting Standard Board ("FASB"). All transaction, gains and losses from the remeasured monetary balance sheet items are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

e. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence. Cost is determined as follows:

Raw and packaging materials - by the "moving average basis" method. Work in progress - represents the cost of development in progress. Finished products - on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

f. Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation and investment grants.

Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%

Computers and related equipment	33
Motor vehicles	15
Office furniture and equipment	6 - 10
Machinery, equipment and installation	10 - 25 (mainly 10)
Leasehold improvements	Over the term of the lease

The Company and its subsidiaries periodically assess the recoverability of the carrying amount of property and equipment fixed assets and provide for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." For each of the three years ended December 31, 2001 the Company did not record any impairment losses on long-lived assets.

g. Revenue recognition:

Revenues from products are recognized in accordance with Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB No. 101") when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured.

Revenues from long-term research and development agreements, subcontracted for the U.S. government, are recorded on a cost plus basis when services are rendered (see Note 9c).

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's provision for returns is provided in accordance with FAS 48 "Revenue Recognition when Right Of Return Exists," based on the Company's past experience. The Company accrues estimated sales returns upon recognition of sales.

Revenues from the development services of the production that require significant customization, integration and installation are recognized based on Statement of Position No. 81-1 "Accounting for Performance of Construction - Type and Certain Production - Type Contracts," using contract accounting on a percentage of completion method, based on the relationship of actual costs incurred to total costs estimated to be incurred over the duration of the contract and in accordance to the "Input Method."

h. Warranty costs:

The Company provides a warranty at no extra charge for one year. A provision is recorded in respect of probable costs in connection with warranties, based on the Company's experience.

i. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." This Statement prescribes the use of the liability method, whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

j. Royalty-bearing grants:

Royalty-bearing grants from the Office of the Chief Scientist ("OCS") of the

Israeli Ministry of Industry and Trade and from the Israel-U.S. Bi-national Industrial Research and Development Foundation ("BIRD-F") for funding approved research and development projects are recognized at the time the Company is entitled to such grants on the basis of the costs incurred, and included as a deduction of research and development costs.

k. Cost of revenues:

In 1999, the Company's cost of revenues were included in research and development costs, since the Company's production was integrated with the product development process, it was impossible to segregate the cost of revenues from the research and development expenses, since these expenses were interrelated by their nature.

l. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables and notes receivable from shareholders. Cash and cash equivalents are invested in U.S. dollar deposits with major Israeli, U.S. and U.K. banks. Such deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company and its subsidiaries are mainly derived from sales to customers located primarily in the United States and Europe. Management believes that credit risks are moderated by

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. An allowance for doubtful accounts is determined with respect to those accounts that the Company has determined to be doubtful of collection.

The notes receivable from shareholders are from financially sound shareholders.

The Company has no off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

m. Basic and diluted net loss per share:

Basic net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net loss per share is computed based on the weighted average number of shares of common stock outstanding during each year, plus dilutive potential shares of common stock considered outstanding during the year, in accordance with FASB Statement No. 128, "Earnings Per Share."

All outstanding stock options and warrants have been excluded from the calculation of the diluted net loss per common share because all such securities are anti-dilutive for all periods presented. The total weighted average number of shares related to the outstanding options and warrants excluded from the calculations of diluted net loss per share was 3,170,334, 2,812,725 and 2,820,679 for the years ended December 31, 2001, 2000 and 1999, respectively.

n. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("FIN 44") in accounting for its employee stock option plans. Under APB 25, when the exercise price of the Company's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized. The pro forma disclosures required by SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), are provided in Note 10.

The Company applies SFAS 123 and EITF 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" with respect to options issued to non-employees. SFAS 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

o. Advertising costs:

The Company and its subsidiaries expense advertising costs as incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999, was approximately \$1,676,280 \$1,453,025 and \$364,957, respectively.

p. Fair value of financial instruments:

The following methods and assumptions were used by the Company and its subsidiaries in estimating their fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, trade receivable and trade payable approximate their fair value due to the short-term maturity of such instruments.

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
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The carrying amount of the Company's long-term notes receivables from shareholders approximates their fair value. The fair value was estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar type of borrowing arrangements.

q. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israeli severance pay law based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date. The Company records as expense the net increase in its funded or unfunded severance liability. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability for all of its employees is fully provided by monthly deposits with severance pay funds, insurance policies and by an accrual. Deposits with severance pay funds and insurance policies are under the control of the Company.

In addition and according to certain employment agreements, the Company is obligated to provide for a special severance pay in addition to amounts due to certain employees pursuant to Israeli severance pay law. The Company has made a provision for this special severance pay. As of December 31, 2001 and 2000, the accumulated severance pay amounted to \$1,975,535 and \$1,586,372, respectively.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies and include immaterial profits.

Severance expenses for the years ended December 31, 2001, 2000 and 1999, amounted to approximately \$653,885, \$430,943 and \$203,690, respectively.

r. Research and development cost:

Research and development costs are charged to the statement of operation as incurred.

s. Impact of recently issued accounting standards:

In July 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standard No. 141 "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company. Application of the non-amortization provisions of SFAS No. 142 may result in an increase in net income.

FASB recently issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") that is applicable to financial statements issued for fiscal years beginning after December 15, 2001. FASB's new rules on the asset impairment supersede FASB Statement 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and portions of APB Opinion 30, "Reporting the Results of Operations." SFAS No. 144 provides a single accounting model for long-

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
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lived assets to be disposed of and significantly changes the criteria that must be met to classify an asset as "held-for-sale." Classification as "held-for-sale" is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The provisions of SFAS No. 144 are not expected to have a material effect on the Company's financial position or operating results.

NOTE 3:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

December 31,	
-----	-----
2001	2000

U.S. dollars

Government authorities	\$ 425,593	\$1,726,282
U.S. government	--	45,749
Employees	16,862	162,518
Prepaid expenses	241,150	299,082
Other	31,341	185,084
	-----	-----
	\$ 714,946	\$2,418,715
	=====	=====

NOTE 4:- INVENTORIES

Raw and packaging materials	\$1,097,492	\$1,581,048
Work in progress	356,152	457,319
Finished products	2,018,553	1,170,581
	-----	-----
	\$3,472,197	\$3,208,948
	=====	=====

NOTE 5:- NOTES RECEIVABLE FROM SHAREHOLDERS

In February and May 2000, two officers of the Company exercised options to purchase a total of 263,330 and 550,000, respectively, shares of the Company's common stock. In connection with such exercises, the Company granted loans to those two officers to cover their related tax liabilities. The loans were in the form of non-recourse promissory note in the total amount of \$733,059 bearing interest at a rate equal to 4% over the then-current percentage increase in the Israeli consumer price index between the date of the loan and the date of the annual interest calculation. During 2001, 550,000 shares were repurchased from such officers in exchange for repayment of the promissory notes and related tax liabilities.

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- PROPERTY AND EQUIPMENT, NET

a. Composition of property and equipment is as follows:

	December 31,	
	2001	2000

	U.S. dollars	

Cost:		
Computers and related equipment	\$ 786,158	\$ 636,997
Motor vehicles	336,216	389,019
Office furniture and equipment	313,760	311,885
Machinery, equipment and installations	9,396,636	8,502,762
Leasehold improvements	888,841	732,291
	-----	-----
	11,721,611	10,572,954
	-----	-----
Accumulated depreciation:		
Computers and related equipment	566,290	445,209
Motor vehicles	62,523	139,024
Office furniture and equipment	180,498	162,530
Machinery, equipment and installations	3,526,145	2,826,656
Leasehold improvements	646,490	553,471
	-----	-----
	4,981,946	4,126,890
	-----	-----
Depreciated cost	\$ 6,739,665	\$ 6,446,064
	=====	=====

b. Depreciation expense amounted to \$980,008, \$753,910 and \$710,759, for the years ended December 31, 2001, 2000 and 1999, respectively.

As for liens, see Note 9d.

NOTE 7:- SHORT-TERM BANK CREDIT

The Company has an unused line of credit up to \$750,000, secured by such security as the Company and the bank shall agree upon from time to time.

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2001	2000

	U.S. dollars	

Employees and payroll accruals	\$ 884,262	(* \$ 591,992
Accrued vacation pay	419,679	388,350
Accrued expenses	221,653	(* 220,282
Advances from customers	98,070	--
Warranty	54,000	100,000

Royalties	46,955	62,000
Other	6,180	182,351
	-----	-----
	\$1,730,799	\$1,544,975
	=====	=====

* Reclassified

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

1. Under the Company's research and development agreements with the OCS, and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3%-3.5% of net sales of products developed with funds provided by the OCS, up to an amount equal to 100% of research and development grants received from the OCS (linked to the U.S. dollars. Amounts due in respect of projects approved after year 1999 also bear interest of the Libor rate).

2. EFL, in cooperation with a U.S. participant, has received approval from the BIRD-F 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-F at the aforementioned rate of 50%.

Royalties at rates of 2.5%-5% of sales are payable up to a maximum of 150% of the grant received, linked to the U.S. Consumer Price Index. Accelerated royalties are due under certain circumstances.

3. The Company is obligated to pay royalties only on sales of products in respect of which OCS and BIRD-F participated in their development. Should the project fail, the Company will not be obligated to pay any royalties.

Royalties paid or accrued for the years ended December 31, 2001, 2000 and 1999, to the OCS amounted to \$75,791, \$70,637 and \$69,169, respectively and to BIRD-F \$0 for each of the three years ended December 31, 2001.

As of December 31, 2001, total contingent liability to pay royalties are as follows: OCS (at 100%) - approximately \$9,764,000; BIRD-F (at 150%) - approximately \$772,000.

b. Lease commitments:

The Company and its subsidiaries rent their facilities under various operating lease agreements, which expire on various dates, the latest of which is in 2005. The minimum rental payments under non-cancelable operating leases are as follows:

	Year ended December 31, ----- U.S. dollars -----
2002	438,761
2003	396,388
2004	214,199
2005	174,612

	1,223,960
	=====

Total rent expenses for the years ended December 31, 2001, 2000 and 1999, were approximately \$456,701, \$261,000 and \$345,000, respectively.

Rental payments are primarily payable in Israeli currency, linked to the Israeli Consumer Price Index ("CPI").

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
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c. Agreements with the Federal Transit Administration:

In 1998, the Company, in cooperation with U.S. participants entered into phase I of an agreement with the U.S. government (Department of Transportation - Federal Transit Administration) for performance of sub-contracted services in regard to the construction and operation of a passenger bus for the U.S. government.

The services are priced on a cost plus basis to be paid by the U.S. government and are limited to the maximum approved cost of the project which is approximately \$2,000,000. The Company's share in the project is approximately \$1,750,000.

Revenues in respect of phase I, for the year ended December 31, 2000 and 1999,

were: \$253,582 and \$1,212,675, respectively.

During the last quarter of 2000, a phase II was signed, limited to maximum approved cost of the project which is approximately \$1,361,000. The Company's share in the project is approximately \$804,000. Revenues in respect of phase II, for the year ended December 31, 2001 were \$422,998.

d. Liens:

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

e. Guarantees:

The Company obtained bank guarantees in the amount of \$36,076, mainly in respect of lease agreements.

NOTE 10:- SHAREHOLDERS' EQUITY

a. Shareholders' rights:

The Company's shares confer upon the holders the right to receive notice to participate and vote in the general meetings of the Company and right to receive dividends, if and when declared.

b. Financial transactions:

1. Non-recourse notes receivable from employee-shareholders 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 at a rate of 1% over the then-current federal funds rate of 5.5% or linked to the Israeli CPI, whichever is higher. In April 1998, the terms of the recourse notes were amended such that the Company would have recourse only to certain termination compensation due to the employee-shareholders (which exceeds the amounts outstanding under the notes), or if terminated for cause, the employee-shareholders would continue to be personally liable.

Additionally, the Company agreed to purchase Company shares from the employee-shareholders, at prevailing market prices, up to the full amount outstanding under the notes and to grant new options at exercise prices equal to prevailing market prices, in the amount that the shares were sold by the employee-shareholders.

In March 2000, the employee-shareholders exercised certain stock options. The proceeds from the sale of the shares were allocated to the repayment of the loan referred to above. As of December 31, 2001, there was no outstanding balance on the loan.

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
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2. On December 3, 1999, two officers of the Company each purchased 125,000 shares of common stock out of the Company's treasury at the closing price of the common stock on December 2, 1999. Each such officer's purchase price of \$167,975 was financed by the Company by a non-recourse note secured by the purchased shares bearing interest at 2%, with interest calculated and charged in advance based on a term of ten years.

3. On December 28, 1999, the Company entered into an agreement with a group of private investors, including Mr. Leon S. Gross, a director of Electric Fuel Corporation and one of the existing shareholders. Pursuant to the agreement, the Company issued 1,425,000 shares of Common stock for total purchase price of \$2,850,000. The Company also issued warrants to purchase up to an additional 1,425,000 shares of the Company's common stock to the investors. Pursuant to the terms of these warrants, a total of 251,196 shares of common stock were issued to such warrant holders in 2000 on a cashless exercise basis. As of December 31, 2000, 1,050,000 warrants had been exercised, in addition to the warrants issued on a cashless basis.

4. On January 5, 2000, the Company entered into a Common Stock Purchase Agreement with a group of private investors. Pursuant to this agreement, on January 10, 2000, the Company issued 385,000 shares of common stock to the investors for a total purchase price of \$962,500.

5. On February 9, 2000 and in May 2000, certain officers of the Company exercised options to purchase a total of 263,330 and 550,000, respectively, shares of the Company's common stock, paying the exercise price in the form of ten-years non-recourse promissory notes in an aggregate amount of \$658,326 and \$3,045,750, respectively. The notes are secured by the shares issued upon exercise of such options, bearing interest at a rate equal to the federal fund rate + 1%. Certain of these shares were repurchased from such officers in exchange for repayment of the promissory notes, as described in Note 10.b.10 below

6. On May 17, 2000, the Company entered into an agreement with an investor, pursuant to which the Company issued 1,000,000 shares of common stock to the investor, at a price of \$10.00 per share, for a total purchase price of \$10,000,000. In addition, the Company subsequently issued an additional 92,952 shares of common stock pursuant to the anti-dilution calculation stated in the share purchase agreement with the investor.

7. On May 25, 2000, the Company repriced 150,000 warrants from \$6.60 per share to \$4.95; these warrants were immediately exercised by the warrant holder. The Company also repriced 160,000 warrants held by this same warrant holder from \$3.375 per share to \$4.95. As a result of the forgoing, the Company recorded compensation in an amount of \$26,260.

8. In June 2000, 35,000 shares of common stock were issued to a supplier. Accordingly, the Company recorded compensation expenses of \$405,000 and prepaid expenses of \$120,000 as of December 31, 2000.

9. On November 17, 2000, the Company entered into an agreement with a venture capital fund, pursuant to which the Company issued 1,000,000 shares of common stock to the investor, at a price of \$8.375 per share, for a total purchase of \$8,375,000. The Company also issued warrants to purchase an additional 1,000,000 shares of common stock to the investor, with exercise prices of between \$11.31 and

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$12.56 per share. In addition, the Company issued warrants to purchase 150,000 shares of common stock with exercise prices of between \$9.63 and \$12.56 per share, to an investment banker involved in this agreement. Out of these warrants issued to the investor, 666,667 warrants expire on November 17, 2005 and 333,333 warrants expire on August 17, 2001. These warrants were subsequently re-priced, as described in Note 10.b.12 below and the 333,333 warrants that were to expire on August 17, 2001 were exercised for a total consideration of \$840,000. Out of the 150,000 warrants issued to the investment banker, 100,000 warrants expire on November 17, 2005 and 50,000 warrants expire on August 17, 2001. These warrants were subsequently re-priced, as described in Note 10.b.12 below, and the 50,000 warrants that were to expire on August 17, 2001 were extended to November 17, 2005. Such warrants are subject to typical antidilution provisions.

10. In February 2001, the Board of Directors of the Company, upon the recommendation of its Compensation Committee and with the agreement of the officers involved, purchased a total of 550,000 of the shares referred to in Note 10.b.5 above in exchange for repayment of the non-recourse notes from the officers in the amount of \$3,499,575. \$3,251,113 out of this amount relates to 550,000 shares from May 2000. The remaining amount of \$248,262 represents repayment of other notes.

11. In May 2001, the Company issued a total of 4,045,454 shares of its common stock to a group of institutional investors at a price of \$2.75 per share, or a total purchase price of \$11,125,000. Additionally, the Company issued to these investors a total of 2,696,971 warrants to purchase shares of common stock at a price of \$3.22 per share; these warrants are exercisable by the holder at any time after November 8, 2001 and will expire on May 8, 2006. The Company also issued to a financial consultant that provided certain consulting services concurrently with this transaction a total of 125,000 warrants to purchase shares of common stock at a price of \$3.22 per share; these warrants are exercisable by the holder at any time after December 12, 2001 and will expire on June 12, 2006.

12. As part of the transaction described in the foregoing note, the Company, in May 2001, re-priced the warrants referred to in Note 10.b.9 above. The exercise price of the warrants that were exercisable at \$12.56 was reduced to \$3.50 and \$3.08, the exercise price of the warrants that were exercisable at \$11.31 was reduced to \$2.52 and the exercise price of the warrants that were exercisable at \$9.63 was reduced to \$3.08. Additionally, the Company issued to this investor an additional warrant to purchase 250,000 shares of common stock at an exercise price of \$3.08 per share, expiring on May 3, 2006.

13. On September 17, 2001 the Company issued a consultant a total of 8,550 shares of its common stock in compensation for services rendered by such consultant for the Company for preparation of certain video point-of-purchase and sales demonstration materials. The Company recorded total compensation expenses of \$15,488.

14. On September 17, 2001 the Company issued to a distributor a total of 337,571 shares of its common stock at its fair value.

15. On November 21, 2001, the Company issued a total of 1,503,759 shares of its common stock at a purchase price of \$1.33 per share, or a total purchase price of \$2,000,000, to a single institutional investor.

16. On December 5, 2001, the Company issued a total of 1,190,476 shares of its common stock at a purchase price of \$1.68 per share, or a total purchase price of \$2,000,000, to a single institutional investor.

c. Stock option plans:

1. The Company has adopted the following stock option plans, whereby options may be granted for purchase of shares of the Company's common stock. Under the terms of the employee plans,

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

a) 1991 Employee Option Plan - 2,115,600 shares reserved for issuance, of which 33,692 are available for future grants to employees.

b) 1993 Employee Option Plan - as amended, 4,200,000 shares reserved for issuance, of which 300,526 are available for future grants to employees.

c) 1998 Employee Option Plan - as amended, 4,750,000 shares reserved for issuance, of which 2,846,388 are available for future grants to employees and consultants.

d) 1995 Non-Employee Director Plan - 1,000,000 shares reserved for issuance, of which 680,000 are available for future grants to directors. Directors receive an initial grant of options to purchase 25,000 shares of the Company's common stock and thereafter receive annual option grants to purchase 10,000 shares of common stock for serving on the Board of Directors. All employee options will be granted at fair market value.

2. Under these plans, options generally expire no later than 10 years from the date of grant. Each option can be exercised to purchase one share, conferring the same rights as the other common shares. Options that are cancelled or forfeited before expiration become available for future grants.

The options generally vest over a three-year period (33.3% per annum).

3. A summary of the status of the Company's plans and other share options (except for options granted to consultants) granted as of December 31, 2001, 2000 and 1999, and changes during the years ended on those dates, is presented below:

<TABLE>
<CAPTION>

	2001		2000		1999	
	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	2,624,225	\$3.82	2,820,679	\$3.44	2,964,255	\$3.70
Changes during year:						
Granted (1)	2,172,314	\$1.55	1,598,233	\$4.58	496,475	\$1.56
Exercised	(159,965)	\$1.31	(1,715,628)	\$3.84	--	--
Repriced:						
Old exercise price	--	--	(310,000)	\$4.95	--	--
New exercise price	--	--	310,000	\$4.95	--	--
Forfeited or canceled	(396,346)	\$4.11	(79,059)	\$4.93	(640,051)	\$3.25
Options outstanding at end of year	4,240,228	\$2.74	2,624,225	\$3.82	2,820,679	\$3.44
Options exercisable at end of year	2,643,987	\$2.75	1,078,332	\$3.81	2,082,390	\$3.91

</TABLE>

(1) Includes 1,189,749, 870,000 and 182,500 options granted to related parties in 2001, 2000 and 1999, respectively.

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. The following table summarizes information about options outstanding as of December 31, 2001:

<TABLE>
<CAPTION>

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2001	Weighted average exercise price
		Years	\$		\$
<S>	<C>	<C>	<C>	<C>	<C>
0.3-2	2,268,819	9.01	1.38	1,389,764	1.35
3-4	463,909	4.79	2.99	406,961	2.99
4-6	1,437,500	8.40	4.58	787,262	4.68
6-8	60,000	3.02	7.43	50,000	7.53
8-	10,000	5.75	9.06	10,000	9.06
	4,240,228	8.25	2.74	2,643,987	2.75

</TABLE>

The compensation cost that has been charged in the consolidated statements of operations in respect of options to employees in 2001, 2000 and 1999, was \$11,047 \$46,934 and \$0, respectively. Such amount is presented as a reduction of shareholders' equity and is amortized ratably over the vesting period of the related options.

Weighted-average fair values and exercise price of options on dates of grant are as follows:

<TABLE>

<CAPTION>

	Equals market price			Exceeds market price			Less than market price		
	Year ended December 31,			Year ended December 31,			Year ended December 31,		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Weighted average exercise prices	\$1.579	\$4.580	\$1.560	\$1.466	\$7.125	--	\$1.30	\$5.270	--
Weighted average fair value on grant date	\$ 0.50	\$4.120	\$1.320	\$0.56	\$3.760	--	\$0.79	\$6.600	--

</TABLE>

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro forma information under SFAS 123:

Pro forma information regarding net loss is required by SFAS No. 123 (for grants issued after December 1994), and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant, using the Black-Scholes Option Valuation Model, with the following weighted-average assumptions

	2001	2000	1999
Dividend yield	0%	0%	0%
Expected volatility	58%	95%	120%
Risk-free interest	2-5%	6.5%	5.5%
Expected life of up to	3 years	10 years	10 years

<TABLE>

<CAPTION>

	2001		2000		1999	
	As reported	Pro-forma	As reported	Pro-forma	As reported	Pro-forma
U.S. dollars						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net loss	\$ (17,286,788)	\$ (20,175,934)	\$ (11,980,958)	\$ (14,006,038)	\$ (6,915,688)	\$ (8,367,584)
Basic and diluted net loss per share	\$ (0.71)	\$ (0.83)	\$ (0.62)	\$ (0.73)	\$ (0.48)	\$ (0.58)

</TABLE>

5. Options issued to consultants:

a) The Company's outstanding options to consultants as of December 31, 2001, are as follows:

<TABLE>

<CAPTION>

Issuance date	Options for Common shares	Average Exercise price per share	Options exercisable	Average Exercise price per share	Exercisable through
		\$		\$	
<S>	<C>	<C>	<C>	<C>	<C>
Previous years	113,500	4.99	113,500	4.99	2010
February 2001	100,000	7.40	--	--	2010
August 2001	30,000	1.43	10,000	1.43	2004

</TABLE>

b) The Company had accounted for its options to consultants under the fair value method of SFAS No. 123 and EITF 96-18. The fair value for these options was estimated using a Black-Scholes option-pricing model with the following

weighted-average assumptions:

	2001	2000	1999
	-----	-----	-----
Dividend yield	0%	0%	0%
Expected volatility	82%	95%	120%
Risk-free interest	3.5-4.5%	6.5%	5.5%
Expected life of up to	1 year	5 years	10 years

c) In connection with the grant of stock options to consultants, the Company recorded stock compensation expenses totaling \$160,995 and \$796,128 for the years ended December 31, 2001 and 2000 respectively.

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in U.S. dollars. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 11:- INCOME TAXES

a. Taxation of U.S. parent company (EFC):

As of December 31, 2001, EFC has operating loss carryforwards for U.S. federal income tax purposes of approximately \$7 million, which are available to offset future taxable income, if any, expiring in 2015.

b. Israeli subsidiary (EFL):

1. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Investments Law"):

EFL's manufacturing facility has been granted "Approved Enterprise" status under the Investments Law, and is entitled to investment grants from the State of Israel of 38% on property and equipment located in Jerusalem, and 10% on property and equipment 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 amount of approximately \$500,000. EFL effectively operated the program during 1993, and is entitled to the tax benefits available under the Investments Law. EFL is entitled to additional tax benefits as a "foreign investment company," as defined by the Investments Law. In 1995, EFL received approval for a second "Approved Enterprise" program for investment in property and equipment, in the amount of approximately \$6,000,000, and approval for grants at the abovementioned rates, for these approved property and equipment.

In 2000, EFL received approval for a third "Approved Enterprise" program for investment in property and equipment, in the amount of approximately \$4,500,000, and approval for grants at the abovementioned rates, for these approved property and equipment.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Investments 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 the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2001, the Company had fulfilled all conditions.

The main tax benefits available to EFL are:

a) Reduced tax rates:

During the period of benefits (seven to ten years), commencing in the first year in which EFL earns taxable income from the "Approved Enterprise," a reduced corporate tax rate of between 10% and 25% (depending on the percentage of foreign ownership, based on present ownership percentages of 15%) will apply, instead of the regular tax rates (see 4, below).

The period of tax benefits, detailed above, is subject to limits of 12 years from the commencement of production, or 14 years from the approval date, whichever is earlier. Hence, the first program will expire in the year 2004 and the second in the year 2008. The commencement of production according to the third program hasn't been determined yet by the investment center and so there is no ability to determine the

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

period of the tax benefits according to this program. The benefits have not yet been utilized since the Company has no taxable income, since its incorporation.

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 operation of these assets.

2. Measurement of results for tax purposes under the Income Tax Law (Inflationary Adjustments), 1985

Results for tax purposes are measured in real terms of earnings in NIS after certain adjustments for increases in the Consumer Price Index. As explained in Note 2b, the financial statements are presented in U.S. dollars. The difference between the annual change in the Israeli consumer price index and in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes on this difference between the reporting currency and the tax bases of assets and liabilities.

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 issuance 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 from sources other than the "Approved Enterprise," is taxed at the regular rate of 36%.

5. Tax rates applicable to income distributed as dividends by EFL:

The effective taxes on income distributed by EFL to its parent company, EFC, would increase 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 respect to income arising from EFL's "Approved Enterprise," and 44% in respect of other income. EFL does not have any earnings available for distribution as dividend, nor does it intend to distribute any dividends in the foreseeable future.

6. Tax loss carryforwards:

As of December 31, 2001, EFL has operating loss carryforwards for Israeli tax purposes of approximately \$75 million, which are available, indefinitely, to offset future taxable income.

c. European subsidiaries:

Income of the European subsidiaries, which is derived from intercompany transactions, is based on the tax laws in their countries of domicile.

d. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Sig-

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

nificant components of the Company's deferred tax assets resulting from tax loss carryforward are as follows:

	December 31,	
	2001	2000
	U.S. dollars	
	-----	-----
Domestic income taxes:		
Deferred tax asset *)	\$ 2,462,000	\$ 862,750
Less - valuation allowance	(2,462,000)	(862,750)
	-----	-----
	\$ --	\$ --
	=====	=====
Foreign income taxes:		
Deferred tax asset *)	\$10,178,000	\$ 8,125,000
Less - valuation allowance	(10,178,000)	(8,125,000)
	-----	-----
	\$ --	\$ --
	=====	=====

*) Mainly in respect of loss carryforwards, deductible expenditures reported as a reduction of the proceeds from issuing shares, accrued severance pay and depreciation on property and equipment.

The Company and its subsidiaries provided valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences. Management currently believes that it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary

differences will not be realized.

e. Loss before taxes on income:

	Year ended December 31		
	2001	2000	1999
	U.S. dollars		
Domestic	\$ (5,828,828)	\$ (2,021,661)	\$ (232,205)
Foreign	(11,457,960)	(9,959,297)	(6,677,466)
	<u>\$ (17,286,788)</u>	<u>\$ (11,980,958)</u>	<u>\$ (6,909,671)</u>

NOTE 12:- SELECTED STATEMENTS OF OPERATIONS DATA

	Year ended December 31		
	2001	2000	1999
	U.S. dollars		

a. Research and development, net (In 1999 included also COGS):

Research and development costs	\$4,199,891	\$5,546,519	\$7,834,051
Less royalty-bearing grants	687,807	958,382	1,202,976
	<u>\$3,512,084</u>	<u>\$4,588,137</u>	<u>\$6,631,075</u>

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b. Financial income, net:

Financial expenses:			
Interest, bank charges and fees	\$ (49,246)	\$ (67,480)	\$ (71,074)
Foreign currency translation differences	(16,003)	(219,043)	(32,661)
	<u>(65,249)</u>	<u>(286,523)</u>	<u>(103,735)</u>
Financial income:			
Interest	327,828	830,704	293,784
Total	<u>\$262,579</u>	<u>\$ 544,181</u>	<u>\$ 190,049</u>

NOTE 13:- RELATED PARTY DISCLOSURES

	Year ended December 31,		
	2001	2000	1999
	U.S. dollars		

Transactions:

Selling, general and administrative expenses	\$ 32,850	\$ 28,800	\$15,750
	<u>=====</u>	<u>=====</u>	<u>=====</u>
Financial (expenses) income, net (see Note 5 and Note 10.b.5)	<u>\$ (36,940)</u>	<u>\$ 230,924</u>	<u>\$51,659</u>

NOTE 14:- SEGMENT INFORMATION

a. General:

The Company operates primarily in three business segments (see Note 1 for a brief description of the Company's business) and follows the requirements of Statement of Financial Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131").

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

b. The following is information about reported segment gains, losses and assets:

<TABLE>

<CAPTION>

	Electric vehicles	Defense and safety products	Consumer batteries	All other	Total
U.S. dollars					
<S>	<C>	<C>	<C>	<C>	<C>
2001:					
Revenues from outside customers	\$ 894,045	\$ 1,199,587	\$ 1,939,256	\$ --	\$ 4,032,888
Depreciation expense	(242,678)	(61,760)	(449,995)	(225,575)	(980,008)
Direct expenses (1)	(907,286)	(1,388,215)	(13,816,934)	(4,489,812)	(20,602,247)
Segment gross loss	\$ (255,919)	\$ (250,388)	\$ (12,327,673)	\$ (4,715,387)	(17,549,367)
Financial income, net					262,579
Net loss					\$(17,286,788)
Segment assets (2)	\$ 665,736	\$ 645,378	\$ 8,180,795	\$ 719,953	\$ 10,211,862
Expenditures for segment assets	\$ --	\$ 21,376	\$ 969,278	\$ 323,985	\$ 1,314,639
2000:					
Revenues from outside customers	\$ 310,441	\$ 1,168,054	\$ 2,563,621	\$ 11,446	\$ 4,053,562
Depreciation expense	(249,796)	(60,612)	(239,668)	(203,834)	(753,910)
Direct expenses (1)	(472,770)	(1,120,020)	(10,246,938)	(3,985,063)	(15,824,791)
Segment gross loss	\$ (412,125)	\$ (12,578)	\$ (7,922,985)	\$ (4,177,451)	(12,525,139)
Financial income, net					544,181
Net loss					\$(11,980,958)
Segment assets (2)	\$ 908,414	\$ 556,863	\$ 7,527,160	\$ 662,575	\$ 9,655,012
Expenditures for segment assets	\$ --	\$ 7,671	\$ 2,767,083	\$ 310,988	\$ 3,085,742
1999:					
Revenues from outside customers	\$ 1,229,854	\$ 979,123	\$ 254,991	\$ 230,030	\$ 2,693,998
Depreciation expense	(234,550)	(85,291)	(149,259)	(241,659)	(710,759)
Direct expenses (1)	(2,659,478)	(1,242,652)	(3,007,398)	(2,173,431)	(9,082,959)
Segment gross loss	\$(1,664,174)	\$ (348,820)	\$ (2,901,666)	\$ (2,185,060)	(7,099,720)
Taxes on income					(6,017)
Financial income, net					190,049
Net loss					\$(6,915,688)
Segment assets	\$ 1,129,771	\$ 360,553	\$ 1,516,519	\$ 1,158,926	\$ 4,165,769
Expenditures for segment assets	\$ 221,808	\$ 80,657	\$ 942,450	\$ 228,529	\$ 1,473,444

</TABLE>

(1) Including sales and marketing, general and administrative expenses.

(2) Including property and equipment and inventory.

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ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

c. Summary information about geographic areas:

The following presents total revenues according to end customers location for the years ended December 31, 2001, 2000 and 1999, and long-lived assets as of December 31, 2001, 2000 and 1999:

<TABLE>

<CAPTION>

	2001		2000		1999	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
U.S. dollars						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S.A	\$2,055,773	\$ 99,606	\$ 2,664,105	\$ 62,914	\$ 2,282,643	\$ 36,038
Germany	602,700	--	51,988	--	71,198	--
England	556,581	--	211,349	--	59,400	--
Other	817,834	\$6,640,059	(* 1,126,120)	(* 6,383,150)	(* 280,757)	(* 4,129,731)
	\$4,032,888	\$6,739,665	\$ 4,053,562	\$ 6,446,064	\$ 2,693,998	\$ 4,165,769

</TABLE>

* Reclassified

d. Revenues from major customers:

	2001	2000	1999
	----	----	----
	%		

Electric vehicles:			
Customer A	12%	--	--
Customer B	10%	6%	45%
Defense and safety products:			
Customer C	7%	7%	13%
Consumer batteries			
Customer D	--	36%	--

NOTE 15:- Subsequent events

On January 18, 2002, the Company issued a total of 441,176 shares of its common stock at a purchase price of \$1.70 per share, or a total purchase price of \$750,000, to investor.

On January 24, 2002, the Company issued a total of 1,600,000 shares of its common stock at a purchase price of \$1.55 per share, or a total purchase price of \$2,480,000, to a group of investors.

- - - - -
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SUPPLEMENTARY FINANCIAL DATA

Quarterly Financial Data (unaudited) for the two years ended December 31, 2001

<TABLE>
<CAPTION>

<S>	Quarter Ended			
	March 31	June 30	September 30	December 31
	-----	-----	-----	-----
<C>	<C>	<C>	<C>	
2001				

Net revenue	\$ 725,959	\$ 1,034,218	\$ 1,214,115	\$ 1,058,595
Gross loss	\$ (235,826)	\$ (1,219,621)	\$ (818,719)	\$ (761,855)
Net loss	\$ (3,424,964)	\$ (4,590,840)	\$ (4,410,556)	\$ (4,860,438)
Net loss per share - basic and diluted..	\$ (0.16)	\$ (0.19)	\$ (0.19)	\$ (0.18)
Shares used in per share calculation ...	21,802,499	23,562,099	23,612,097	26,648,319
2000				

Net revenue	\$ 652,946	\$ 632,541	\$ 566,367	\$ 2,201,708
Gross loss	\$ (1,423,902)	\$ (1,230,490)	\$ (1,211,023)	\$ (857,602)
Net loss	\$ (2,473,739)	\$ (2,860,494)	\$ (2,753,504)	\$ (3,893,221)
Net loss per share - basic and diluted..	\$ (0.14)	\$ (0.15)	\$ (0.14)	\$ (0.19)
Shares used in per share calculation ...	17,166,343	18,935,208	20,231,991	20,843,030

</TABLE>

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SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Jurisdiction
Electric Fuel (E.F.L.) Ltd.	Israel
Electric Fuel B.V.	Netherlands
Electric Fuel GmbH	Germany
Electric Fuel Consumer Products Corp.	Delaware
Electric Fuel Transportation Corp.	Delaware
Instant Power Corporation	Delaware

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-81044, 333-19753, 333-59902 and 333-74197) (pertaining to the 1991 Qualified Stock Option Plan, the Amended and Restated 1993 Stock Option and Restricted Stock Purchase Plan, the 1995 Amended and Restated Non-Employee Director Stock Option Plan and the 1998 Non-Executive Employee Stock Option and Restricted Stock Purchase Plan) and Form S-3 (Nos. 333-95361, 333-33986, 333-37630, 333-45818, 333-49628, 333-59346, and 333-63514) of our report dated January 29, 2002 with respect to the consolidated financial statements of Electric Fuel Corporation for the three years ended December 31, 2001 included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ Kost Forer & Gabbay

Kost Forer & Gabbay
A Member of Ernst & Young International

Tel-Aviv, Israel
March 26, 2002