ELECTRIC FUEL CORP
Form 10-K/A
May 08, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

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)

DELAWARE	95-4302784
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
632 BROADWAY, NEW YORK, NEW YORK	10012
(Address of principal executive offices)	(Zip Code)

(646) 654-2107
(Registrant's telephone number, including area code)

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

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

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

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 amended 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 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

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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

In May 2001, we issued a total of 125,000 warrants to purchase shares of our common stock at a price of $3.22 per share to a financial consultant that provided certain consulting services to us; these warrants are exercisable by the holder at any time after December 12, 2001 and will expire on June 12, 2006. We issued these securities in reliance on the exemption from registration provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

ITEM 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," "estimates" 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 "Risk Factors," below, and in our other filings with the Securities and Exchange Commission.

Electric Fuel(R) is a registered trademark of Electric Fuel Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless otherwise indicated, "we," "us," "our" and similar terms refer to Electric Fuel and its subsidiaries.

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.

RECENT 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.

IES ACQUISITION

On August 2, 2002, we acquired substantially all the assets of I.E.S. Electronics Industries U.S.A., Inc., a developer, manufacturer and marketer of advanced hi-tech multimedia and interactive digital solutions for training of military, law enforcement and security personnel. These systems are sold to corporations, government agencies, and military and law enforcement professionals around the world.

The consideration for the assets purchased consisted of (i) cash and promissory notes in an aggregate amount of $4,800,000 ($3,000,000 in cash and $1,800,000 in promissory notes), and (ii) the issuance of a total of 3,250,000 shares of our common stock, which shares are the subject of a voting agreement on the part of IES and certain of its affiliated companies whereby IES has agreed, for a period of the greater of five years or for so long as IES holds at least 500,000 of our shares, to vote the shares in favor of (a) the election of Yehuda Harats and Robert S. Ehrlich as directors, and (b) all proposals of management (except for proposals regarding the nomination of individuals other than Yehuda Harats or Robert S. Ehrlich to our Board) that relate to the operation or management of our business in the ordinary course (and not against our interest), or that relate to acquisitions, financings, stock option plans or business development (that are not against our interest). In light of Mr. Harats's resignation from the Board of Directors in 2002 (see "Changes in Management," below), we do not believe that IES continues to be bound to vote for Mr. Harats, but will continue to be bound to vote for Mr. Ehrlich.

In December 2002, the terms of IES's promissory notes were amended to (i) extinguish the $1,000,000 note due at the end of June 2003 in exchange for prepayment of $750,000, (ii) amend the $400,000 note due at the end of December 2003 to be a $450,000 note, and (iii) amend the convertible $400,000 note due at the end of June 2004 to be a $450,000 note convertible at $0.75 as to $150,000, at $0.80 as to $150,000, and at $0.85 as to $150,000.

MDT ACQUISITION

On August 2, 2002, we purchased 51% of the issued and outstanding shares of M.D.T. Protective Industries Ltd., a privately-held Israeli company that specializes in using sophisticated lightweight materials and advanced engineering processes to armor vehicles.

The consideration for the shares purchased consisted of (i) cash in the aggregate amount of 5,814,000 New Israeli Shekels (NIS) (approximately $1,240,000), and (ii) the issuance of an aggregate of 390,638 shares of our common stock.

DISCONTINUATION OF RETAIL SALES OF CONSUMER BATTERY PRODUCTS

In September 2002, we made a decision in principle to discontinue retail sales of our Instant Power consumer battery products because of the high costs associated with consumer marketing and low volume manufacturing. We are using our inventory to continue to fulfill all our existing contractual obligations, online sales, and sales to OEMs and the military. The discontinuation of the consumer retail products resulted in a one-time, pre-tax charge of approximately $6.9 million in the third quarter of 2002, reflecting a write-down of inventory and net fixed assets as well as costs associated with the reduction in our workforce. Almost all these charges were non-cash impacting items.

CHANGES IN MANAGEMENT

In October 2002, we announced that Yehuda Harats, our president and CEO and a member of our Board, had decided to resign from his positions with Electric Fuel and its subsidiaries in order to pursue other interests. The Board of Directors selected Robert S. Ehrlich, Chairman of the Board, to be the new President and CEO. In December 2002, we came to an agreement with our former CEO whereby we agreed to pay him $729,500 through the end of 2005 in satisfaction of all our contractual and legal severance and other obligations to him, which was approximately one-half of the amount we had accrued on our financial statements in connection with such obligations.

PHASE III OF THE ELECTRIC VEHICLE PROGRAM

In October 2002, we received approval and funding from the United States Federal Transit Administration (FTA) to begin Phase III of our American all-electric transit bus demonstration project, which will focus on an evaluation of the performance of zinc-air battery propulsion systems for transit buses; the installation of new advanced ultra capacitors; and the implementation of an advanced control system for auxiliaries.

SALE OF DEBENTURES

In December 2002, we issued and sold to three institutional investors (i) an aggregate $3,500,000 principal amount of 9% Secured Convertible Debentures due June 30, 2005; (ii) Series A Warrants to purchase an aggregate of 1,166,700 shares of our common stock at any time prior to December 31, 2007 at a price of $0.84 per share; (iii) Series B Warrants to purchase an aggregate of 1,166,700 shares of our common stock at any time prior to December 31, 2007 at a price of $0.89 per share; and (iv) Series C Warrants to purchase an aggregate of 1,166,700 shares of our common stock at any time prior to December 31, 2007 at a price of $0.93 per share. The debentures are convertible at the option of the holder into a total of 4,666,667 shares of common stock at a conversion price of

$0.75 per share. In addition, we have issued an aggregate of 387,301 shares of common stock in prepayment of the first nine months of interest on the debentures.

We are required to register the shares of common stock underlying the debentures and the warrants with the Securities and Exchange Commission in a registration statement on Form S-3.

Under the terms of our agreement with the purchasers of our debentures, we granted the purchasers a security interest in the assets connected with our U.S. operations, including our IES subsidiary, as well as in our stock of IES and our other subsidiaries. We also committed ourselves to certain customary affirmative and negative covenants, including obligations on our part to preserve and maintain our assets and restrictions on our ability to incur or guarantee debt, to merge with or sell our assets to another company, and to make significant capital expenditures without the consent of the debenture holders. The foregoing description of our agreement with our debenture holders is qualified in its entirety by reference to the agreements with our debenture holders filed as exhibits to our Current Report on Form 8-K that we filed with the SEC on January 6, 2003.

GERMAN POLICE ORDER

In January 2003, IES was awarded a $2.6 million contract to supply simulation training systems to the largest regional division of the German Police. The contract calls for delivery of approximately 30 separate interactive training systems, with delivery dates ranging from April to September 2003 and payment dates due following delivery, testing and ascertainment of appropriate run capability of each system.

CECOM OREDRS

In December 2002, we entered into a contract with the US Army Communications Electronic Command (CECOM) pursuant to 10 U.S.C. ss. 2304c(2), "Unusual and Compelling Urgency," for a delivery order of advanced Zinc-Air batteries. The contract calls for order releases during the first three calendar quarters of 2003, with a current order ceiling of $2,543,250.

In April 2003, we announced that we had received an additional $1.6 million order from CECOM for a delivery order of advanced Zinc-Air batteries with deliveries anticipated to take place from September through November 2003.

Our line of existing products for the military and defense sectors includes 12/24V, 30/60Ah Advanced Zinc-Air Power Packs (AZAPPs) utilizing our most advanced cells (which have specific energy of 400 Wh/kg), a line of super-lightweight AZAPPs that feature the same 400 Wh/kg cell technology in new 16Ah cells, and our new, high-power 12V Zinc-Air Power Packs (ZAPPs), which offer extended-use 12V portable power and current ratings up to 3.5A, using our commercial Zinc-Air cell technology.

During 2001, we continued to invest in strengthening our intellectual property position. We have 42 unexpired U.S. patents and 15 corresponding European patents issued covering general aspects and various applications of our zinc-air technology; these patents expire between 2007 and 2018.

Since 1992, our Israeli subsidiary, EFL, has received funding from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade relating to the development of our zinc-air battery products, such as our electric vehicle and our batteries and chargers for consumer products. Between 1998 and 2000, we have also received funds from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation Through 2002, we have received an aggregate of $9.9 million from grants from the Chief Scientist and $772,000 from grants from BIRD, and we may receive future grants, the amounts of which would be determined at the time of application.

Our Electric Vehicle Division is continuing its American all-electric transit bus demonstration 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 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. 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 defense and safety products that we manufacture (directly and through our subsidiaries) and from components of the Electric Fuel Electric Vehicle System, 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 our Israeli subsidiary, Electric Fuel (E.F.L) Ltd. ("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 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 $1.2 million in 2000, unchanged.

Revenues in the Instant Power Division during 2001 decreased compared to 2000 primarily because a single large order that we received from one customer (Wal-Mart) during 2000 was not repeated in 2001, thereby resulting in fewer products sold. An additional factor in the decrease in revenues was our reduction in the price at which we sold our products during 2001, which resulted in lower revenues from the products we did sell.

The increase in revenues from the Electric Vehicle Division in 2001 was the result of our having received the German consortium (EFRB) project, described above. This project generated revenues of $471,000 in 2001.

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 several factors (in descending order of importance), as follows:

o The increase in our Electric Vehicle revenues in 2001 - from $310,000 to $894,000 - also resulted in an increase in cost of goods sold of $721,000;

o Products that we had sold that were still subject to possible return continued to be carried as inventory. Once it was clear that these products would not be returned, we decreased the inventory, resulting in an increase in cost of revenues of approximately $615,000.

o We took an inventory write-off as a result of a decision to discontinue production and sale of most disposable battery products in response to low consumer demand for those products, accounting for an increase in cost of revenues of approximately $440,000;

- When we lowered the retail prices of our products, we recognized losses on those of our products that we carried in inventory due to the principle of presenting inventory at the lower of cost or market value, accounting for an increase in cost of revenues of approximately $400,000;

- We concentrated on production of chargers, which were more popular than disposable batteries but which have higher production costs and hence a higher gross loss than do the disposable batteries that we emphasized in 2000, accounting for an increase in cost of revenues of approximately $300,000;

- Some of our equipment began to be depreciable beginning in the second half of 2001, which resulted in an increase in our cost of revenues during 2001 of the amount of the depreciation, which was approximately $200,000;

We are continuing to hold for possible sale the inventory that we wrote off, but we are not assigning any value to it on our balance sheet. If we are unable to sell it within a reasonable time, we will dispose of it.

The above factors were offset to a small extent by higher revenues in the Electric Vehicle Division.

Gross loss was $3.0 million during 2001, compared to $135,000 during 2000, an increase of $2.9 million. This loss was the direct result of all factors presented above, most notably the decrease in sales prices in the Instant Power Division.

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%, primarily as a result of our move from a company primarily engaged in research and development to a company engaged in production, and secondarily as a result of the end of our BIRD funding in 2000. An additional factor was the fact that in 2000 we had classified some of our initial production start-up costs as research and development, since we were working on developing production capability, and these expenses were not repeated in 2001.

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.

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, especially in the United States and the United Kingdom. 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%. This increase in expenses was the result of the following factors (in descending order of importance):

- o Increases in management salaries and in accruals related to our senior employees, accounting for approximately $400,000 of the increase in general and administrative expenses;

- o Increase in accruals for doubtful debts, accounting for approximately $300,000 of the increase in general and administrative expenses; and

- o Non-cash write-down of notes receivable from certain stockholders reflecting a diminution in the market value of securities collateralizing such notes, accounting for approximately $200,000 of the increase in general and administrative expenses.

The reason we increased our accruals for doubtful debts is because a greater portion of our accounts receivable was aged over six months.

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.

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 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 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 25.5% of the stock of our Israeli-based subsidiary EFL is deemed to be beneficially owned (directly, indirectly or by application of certain attribution rules) by four United States citizens: Leon S. Gross, Austin W. Marxe and David M. Greenhouse, and Robert S. Ehrlich. (Information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003.) 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 25.5% 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 1.3%, 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). Under this law, a company may either accept government grants and receive a reduced tax rate, or forego government grants and receive an alternate package of tax benefits that includes a complete exemption from certain taxes. 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 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.

RISK FACTORS

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.

BUSINESS-RELATED RISKS

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; through subsequent public and private offerings of our common stock and equity and debt securities convertible into shares of our common stock; research contracts and supply contracts; funds received under research and development grants from the Government of Israel; and sales of products that we and our subsidiaries manufacture. We incurred significant operating losses since our inception. Additionally, as of December 31, 2002, we had an accumulated deficit of approximately $100.7 million. 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.

OUR EXISTING INDEBTEDNESS MAY ADVERSELY AFFECT OUR ABILITY TO OBTAIN ADDITIONAL FUNDS AND MAY INCREASE OUR VULNERABILITY TO ECONOMIC OR BUSINESS DOWNTURNS.

Our indebtedness, including the aggregate principal amount of the debentures sold by us in December 2002, aggregated approximately $5.3 million as of December 31, 2002. Accordingly, we are subject to the risks associated with indebtedness, including:

o we must dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we have less funds available for operations, future acquisitions of consumer receivable portfolios, and other purposes;

o it may be more difficult and expensive to obtain additional funds through financings, if available at all;

o we are more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

o if we default under any of our existing debt instruments or if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

The occurrence of any of these events could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

The agreements governing the terms of our debentures contain numerous affirmative and negative covenants that limit the discretion of our management with respect to certain business matters and place restrictions on us, including obligations on our part to preserve and maintain our assets and restrictions on our ability to incur or guarantee debt, to merge with or sell our assets to another company, and to make significant capital expenditures without the consent of the debenture holders. Our ability to comply with these and other provisions of such agreements may be affected by changes in economic or business conditions or other events beyond our control.

FAILURE TO COMPLY WITH THE TERMS OF OUR DEBENTURES COULD RESULT IN A DEFAULT THAT COULD HAVE MATERIALLY ADVERSE CONSEQUENCE FOR US.

A failure to comply with the obligations contained in our debenture agreements, including a failure to have our registration statement registering the shares underlying our debentures and the warrants issued as part of the debenture financing declared effective by the SEC on or before January 1, 2004, could result in an event of default under such agreements which could result in an acceleration of the debentures and the acceleration of debt under other instruments evidencing indebtedness that may contain cross-acceleration or cross-default provisions. If the indebtedness under the debentures or other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay in full such indebtedness. The foregoing description of our agreement with our debenture holders is qualified in its entirety by reference to the agreements with our debenture holders filed as exhibits to our Current Report on Form 8-K that we filed with the SEC on January 6, 2003.

WE HAVE PLEDGED A SUBSTANTIAL PORTION OF OUR ASSETS TO SECURE OUR BORROWINGS.

The debentures are secured by a substantial portion of our assets. If we default under the indebtedness secured by our assets, those assets would be available to the secured creditor to satisfy our obligations to the secured creditor, which could materially adversely affect our results of operations and financial condition and adversely affect our stock price.

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. 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 or 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 MAY NOT BE SUCCESSFUL IN OPERATING A NEW BUSINESS.

Prior to the IES and MDT acquisitions, our primary business was the marketing and sale of products based on primary and refuelable Zinc-Air fuel cell technology and advancements in battery technology for defense and security products and other military applications, electric vehicles and consumer electronics. As a result of the IES and MDT acquisitions, a substantial component of our business will be the marketing and sale of hi-tech multimedia and interactive digital solutions for training military, law enforcement and security personnel and sophisticated lightweight materials and advanced engineering processes used to armor vehicles. These are new businesses for us and our management group has limited experience operating these types of businesses. Although we have retained the management personnel at IES and MDT, we cannot assure that such personnel will continue to work for us or that we will be successful in managing this new business. If we are unable to successfully operate these new businesses, especially the business of IES, our business, financial condition and results of operations could be materially impaired.

WE CANNOT ASSURE YOU OF MARKET ACCEPTANCE OF OUR MILITARY ZINC-AIR BATTERY PRODUCTS AND ELECTRIC VEHICLE TECHNOLOGY.

Our batteries for the defense industry and a signal light powered by water-activated batteries for use in life jackets and other rescue apparatus are the only commercial Zinc-Air battery products we currently have available for sale. Significant resources will be required to develop and produce additional consumer products utilizing this technology on a commercial scale. Additional development will 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 Zinc-Air energy system, 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 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.

OUR ACQUISITION STRATEGY INVOLVES VARIOUS RISKS.

Part of our strategy is to grow through the acquisition of companies that will complement our existing operations or provide us with an entry into markets we do not currently serve. Growth through acquisitions involves substantial risks, including the risk of improper valuation of the acquired business and the risk of inadequate integration. There can be no assurance that suitable acquisition candidates will be available, that we will be able to acquire or manage profitably such additional companies or that future acquisitions will produce returns that justify our investments therein. In addition, we may compete for acquisition and expansion opportunities with companies that have significantly greater resources than we do. Furthermore, acquisitions could disrupt our ongoing business, distract the attention of our senior managers, make it difficult to maintain our operational standards, controls and procedures and subject us to contingent and latent risks that are different, in nature and magnitude, than the risks we currently face.

We may finance future acquisitions with cash from operations or additional debt or equity financings. There can be no assurance that we will be able to generate internal cash or obtain financing from external sources or that, if available, such financing will be on terms acceptable to us. The issuance of additional common stock to finance acquisitions may result in substantial dilution to our stockholders. Any debt financing may significantly increase our leverage and may involve restrictive covenants which limit our operations.

WE MAY NOT SUCCESSFULLY INTEGRATE OUR NEW ACQUISITIONS.

In light of our recent acquisitions of IES and MDT, our success will depend in part on our ability to manage the combined operations of these companies and to integrate the operations and personnel of these companies along with our other subsidiaries and divisions into a single organizational structure. There can be no assurance that we will be able to effectively integrate the operations of our subsidiaries and divisions and our newly-acquired businesses into a single organizational structure. Integration of these operations could also place additional pressures on our management as well as on our key technical resources. The failure to successfully manage this integration could have an adverse material effect on us.

If we are successful in acquiring additional businesses, we may experience a period of rapid growth that could place significant additional demands on, and require us to expand, our management, resources and management information systems. Our failure to manage any such rapid growth effectively could have a material adverse effect on our financial condition, results of operations and cash flows.

IF WE ARE UNABLE TO MANAGE OUR GROWTH, OUR OPERATING RESULTS WILL BE IMPAIRED.

We are currently experiencing a period of growth and 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 WILL NEED TO DEVELOP THE EXPERIENCE TO MANUFACTURE CERTAIN OF 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 military batteries and components of the batteries for electric vehicles. In order for us to be successful in the commercial market, these 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.

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 and our products 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.

WE MAY FACE PRODUCT LIABILITY CLAIMS.

To date, there have been no material claims or threatened claims against us by users of our products, including the products manufactured by MDT, based on a failure of our products to perform as specified. In the event that any claims for substantial amounts were to be asserted against us, they could have a materially adverse effect on our financial condition and results of operations. We maintain general product liability insurance. However, there is no assurance that the amount of our insurance will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

SOME OF OUR BUSINESS IS DEPENDENT ON GOVERNMENT CONTRACTS.

Most of IES's customers to date have been in the public sector of the U.S., including the federal, state and local governments, and in the public sectors of a number of other countries, and most of MDT's customers have been in the public sector in Israel. A significant decrease in the overall level or allocation of defense spending or law enforcement in the U.S. or other countries could have a material adverse effect on our future results of operations and financial condition.

Sales to public sector customers are subject to a multiplicity of detailed regulatory requirements and public policies as well as to changes in training and purchasing priorities. Contracts with public sector customers may be conditioned upon the continuing availability of public funds, which in turn depends upon lengthy and complex budgetary procedures, and may be subject to certain pricing constraints. Moreover, U.S. government contracts and those of many international government customers may generally be terminated for a variety of factors when it is in the best interests of the government and contractors may be suspended or debarred for misconduct at the discretion of the government. There can be no assurance that these factors or others unique to government contracts or the loss or suspension of necessary regulatory licenses will not have a material adverse effect on our future results of operations and financial condition.

OUR FIELDS OF BUSINESS ARE HIGHLY COMPETITIVE.

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

Our defense and security products compete with other manufacturers of specialized training systems, including Firearms Training Systems, Inc., a producer of interactive simulation systems designed to provide training in the handling and use of small and supporting arms. In addition, we compete with manufacturers and developers of armor for cars and vans, including O'Gara-Hess & Eisenhardt, a division of Armor Holdings, Inc.

Our battery technology competes with other battery technologies, as well as other Zinc-Air technologies. The competition in this area of our business 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 our competitors 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 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.

If we are unable to compete successfully in each of our operating areas, especially in the defense and security products area of our business, our business and results of operations could be materially adversely affected.

FAILURE TO RECEIVE REQUIRED REGULATORY PERMITS OR TO COMPLY WITH VARIOUS REGULATIONS TO WHICH WE ARE SUBJECT 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 business. 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 these regulations or the adoption of new regulations will not impose costly compliance requirements on us, subject us to future liabilities, or restrict our ability to operate our business.

OUR BUSINESS IS DEPENDENT ON PATENTS AND OTHER 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, that any of our issued patents will afford protection against a competitor or that third parties will not make infringement claims against us.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, 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 agreements 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 HAVE UNDERGONE RECENT MANAGEMENT CHANGES.

In October 2002, Yehuda Harats, who had been our CEO since the inception of our company, resigned from his positions with us in order to pursue other interests. Our Board of Directors selected our long-time Chairman of the Board, Robert S. Ehrlich, to be our new President and CEO. Our success will depend to some extent on our ability to quickly and smoothly execute the change in leadership as a result of this change of CEO.

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

Chairman, President and Chief Executive Officer, Robert S. Ehrlich. The loss of Mr. Ehrlich could have a material adverse effect on us. We are party to an employment agreement with Mr. Ehrlich, which agreement expires at the end of 2003. We do not have key-man life insurance on Mr. Ehrlich.

THERE ARE RISKS INVOLVED WITH THE INTERNATIONAL NATURE OF OUR BUSINESS.

A significant portion of our sales are made to customers located outside the U.S., primarily in Europe and Asia. In 2000, 2001 and 2002, without taking account of revenues derived from discontinued operations, 45%, 29% and 56%, respectively, of our revenues, including the revenues of IES and MDT on a pro forma basis, were derived from sales to customers located outside the U.S. We expect that our international customers will continue to account for a substantial portion of our revenues in the near future. Sales to international customers may be subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, foreign taxes, longer payment cycles and changes in import/export regulations and tariff rates. In addition, various forms of protectionist trade legislation have been and in the future may be proposed in the U.S. and certain other countries. Any resulting changes in current tariff structures or other trade and monetary policies could adversely affect our sales to international customers.

WE MAY BE SUBJECT TO INCREASED UNITED STATES TAXATION.

We believe that Electric Fuel and our wholly-owned Israeli subsidiary 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 Electric Fuel and EFL have not had any material undistributed PHC income. However, no assurance can be given that Electric Fuel and EFL will not have undistributed PHC income in the future.

Approximately 22.9% of the stock of EFL was deemed to be beneficially owned (directly or indirectly by application of certain attribution rules) as of December 31, 2002 by four United States citizens: Leon S. Gross, Austin W. Marxe and David M. Greenhouse, and Robert S. Ehrlich (see "Item 12. Security Ownership of Certain Beneficial Owners and Management") (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003). 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 22.9% 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 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.

INVESTORS SHOULD NOT PURCHASE OUR COMMON STOCK WITH THE EXPECTATION OF RECEIVING CASH DIVIDENDS.

We currently intend to retain any future earnings for funding growth and, as a result, do not expect to pay any cash dividends in the foreseeable future.

MARKET-RELATED RISKS

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: o 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. Our stock price has generally been trading below $1.00 since October 18, 2002. On December 6, 2002, Nasdaq notified us of our failure to meet the continued listing standards, and informed us that unless our stock closes for ten consecutive trading days with a bid price in excess of $1.00 prior to March 6, 2003 (subsequently extended, as a result of an amendment to Nasdaq's listing regulations, to June 4, 2003), Nasdaq would notify us of its intent to delist our stock from the Nasdaq National Market. Should Nasdaq notify us of its intent to delist our stock, we would 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 that we would be approved for listing on the Nasdaq SmallCap market, which has the same $1.00 minimum bid and other similar requirements as the Nasdaq National Market. If we were to move to the Nasdaq SmallCap market, current Nasdaq regulations would give us the opportunity to obtain an additional 180-day grace period and an additional 90-day grace period after that if we meet certain net income, shareholders' equity or market capitalization criteria. 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.

In addition, if we fail to maintain Nasdaq listing for our securities, and no other exclusion from the definition of a "penny stock" under the Exchange Act is available, then any broker engaging in a transaction in our securities would be required to provide any customer with a risk disclosure document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market values of our securities held in the customer's account. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation. If brokers become subject to the "penny stock" rules when engaging in transactions in our securities, they would become less willing to engage in transactions, thereby making it more difficult for our stockholders to dispose of their shares.

WE ARE SUBJECT TO SIGNIFICANT INFLUENCE BY SOME STOCKHOLDERS THAT MAY HAVE THE EFFECT OF DELAYING OR PREVENTING A CHANGE IN CONTROL.

As of February 28, 2003, our directors, executive officers and principal stockholders and their affiliates (including, Leon S. Gross (11.6%), Austin W. Marxe and David M. Greenhouse (8.0%), IES Electronics Industries Ltd. (6.2%), and Robert S. Ehrlich (4.3%)) collectively are deemed beneficially to own approximately 29.0% of the outstanding shares of our common stock (see "Item 12. Security Ownership of Certain Beneficial Owners and Management"), including options and warrants exercisable within 60 days of February 28, 2003 (information with respect to the stockholdings of Messrs. Marxe and Greenhouse is based on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2002, as amended on February 13, 2003, and information with respect to the stockholdings of IES Electronics Industries Ltd. is based on a Schedule 13D filed with the Securities and Exchange Commission on August 12, 2002, as amended on October 28, 2002 and January 9, 2003). 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 also have the effect of delaying, preventing or discouraging a change in control of Electric Fuel.

Pursuant to a voting rights agreement dated September 30, 1996, as amended, between Leon S. 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 beneficial ownership of 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 earlier of December 28, 2004 or our fifth annual meeting of stockholders after December 28, 1999. Mr. Harats resigned as a director in 2002; however, we believe that Mr. Harats must continue to comply with the terms of this agreement.

A SUBSTANTIAL NUMBER OF OUR SHARES ARE AVAILABLE FOR SALE IN THE PUBLIC MARKET AND SALES OF THOSE SHARES COULD ADVERSELY AFFECT OUR STOCK PRICE.

Sales of a substantial number of shares of common stock into the public market, or the perception that those sales could occur, could adversely affect our stock price or could impair our ability to obtain capital through an offering of equity securities. As of February 281, 2003, we had 35,146,261 shares of common stock issued and outstanding. Of these shares, 27,610,658, are

freely transferable without restriction under the Securities Act of 1933 and 7,526,478 may be sold subject to the volume restrictions, manner-of-sale provisions and other conditions of Rule 144 under the Securities Act of 1933.

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 the registration of the shares of our common stock owned by Mr. Gross. In addition, Mr. Gross was granted unlimited rights to "piggyback" on registration statements that we file for the sale of our common stock. Mr. Gross presently owns 3,547,870 shares, of which 1,538,462 have never been registered.

In addition, pursuant to the terms of their employment agreements with us, both Yehuda Harats and Robert S. Ehrlich have a right to demand registration of their shares. Of the shares owned by Mr. Harats, 435,404 shares have never been registered, and of the 688,166 shares owned by Mr. Ehrlich, 453,933 shares have never been registered.

EXERCISE OF OUR WARRANTS, OPTIONS AND CONVERTIBLE DEBT COULD ADVERSELY AFFECT OUR STOCK PRICE AND WILL BE DILUTIVE.

As of February 28, 2003, there were outstanding warrants to purchase a total of 9,421,238 shares of our common stock at a weighted average exercise price of $1.87 per share, options to purchase a total of 5,715,955 shares of our common stock at a weighted average exercise price of $2.16 per share, of which 5,131,032 were vested and exercisable within 60 days of such date, at a weighted average exercise price of $2.15 per share, and outstanding debentures and promissory notes convertible into a total of 6,032,721 shares of our common stock at a weighted average conversion price of $0.65 per share. Holders of our options, warrants and convertible debt will probably exercise or convert them only at a time when the price of our common stock is higher than their respective exercise or conversion prices. Accordingly, we may be required to issue shares of our common stock at a price substantially lower than the market price of our stock. This could adversely affect our stock price. In addition, if and when these shares are issued, the percentage of our common stock that existing stockholders own will be diluted.

OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE A TAKEOVER.

Provisions of our amended and restated certificate of incorporation may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions:

- divide our board of directors into three classes serving staggered three-year terms;

- only permit removal of directors by stockholders "for cause," and require the affirmative vote of at least 85% of the outstanding common stock to so remove; and

- allow us to issue preferred stock without any vote or further action by the stockholders.

The classification system of electing directors and the removal provision may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us and may maintain the incumbency of our board of directors, as the classification of the board of directors increases the difficulty of replacing a majority of the directors. These provisions may have the effect of deferring hostile takeovers, delaying changes in our control or management, or may make it more difficult for stockholders to take certain corporate actions. The amendment of any of these provisions would require approval by holders of at least 85% of the outstanding common stock.

ISRAEL-RELATED RISKS

A SIGNIFICANT PORTION OF OUR OPERATIONS TAKES PLACE IN ISRAEL, AND WE COULD BE ADVERSELY AFFECTED BY THE ECONOMIC, POLITICAL AND MILITARY CONDITIONS IN THAT REGION.

The offices and facilities of two of our principal subsidiaries, EFL and MDT, are located in Israel (in Beit Shemesh and Lod, respectively, both of which are within Israel's pre-1967 borders). We conduct research and development activities through EFL, and most of our senior management is located at EFL's facilities. 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 us 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.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES ON US AND OUR OFFICERS MAY BE DIFFICULT TO OBTAIN.

We are organized under the laws of the State of Delaware and will be subject to service of process in the United States. However, approximately 49% of our assets are located outside the United States. In addition, two of our directors and all of our executive officers are residents of Israel and all or a substantial portion of the assets of such directors and executive officers are located outside the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of the Securities Act and the Exchange Act. As a result, it may not be possible for investors to enforce or effect service of process upon these directors and executive officers or to judgments of U.S. courts predicated upon the civil liability provisions of U.S. laws against our assets, as well as the assets of these directors and executive officers. In addition, awards of punitive damages in actions brought in the U.S. or elsewhere may be unenforceable in Israel.

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 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, EFL has granted a floating lien (that is, a lien that applies not only to assets owned at the time but also to after-acquired assets) over all of EFL's assets as a security to the State of Israel to secure its obligations under the approved enterprise programs.

OUR GRANTS FROM THE ISRAELI GOVERNMENT IMPOSE CERTAIN RESTRICTIONS ON US.

Since 1992, our Israeli subsidiary, EFL, has received funding from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade relating to the development of our Zinc-Air battery products, such as our electric vehicle and our batteries and chargers for consumer products. Between 1998 and 2000, we have also received funds from the Israeli-U.S. Bi-National Industrial Research and Development (BIRD) Foundation. Through the end of 2002, we have received an aggregate of $9.9 million from grants from the Chief Scientist and $772,000 from grants from BIRD, and we may receive future grants, the amounts of which would be determined at the time of application. The funding from the Chief Scientist prohibits the transfer or license of know-how and the manufacture of resulting products outside of Israel without the permission of the Chief Scientist. Although we believe that the Chief Scientist does not unreasonably withhold this permission if the request is based upon commercially justified circumstances and any royalty obligations to the Chief Scientist are sufficiently assured, the matter is solely within the discretion of the Chief Scientist, and we cannot be sure that such consent, if requested, would be granted upon terms satisfactory to us or granted at all. Without such consent, we would be unable to manufacture any products developed by this research outside of Israel, even if it would be less expensive for us to do so. Additionally, 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 would 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 of up to 5% would be applied. These restrictions could adversely affect our potential revenues and net income from the sale of such products.

EXCHANGE RATE FLUCTUATIONS BETWEEN THE U.S. DOLLAR AND THE ISRAELI 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.

SOME OF OUR AGREEMENTS ARE GOVERNED BY ISRAELI LAW.

Israeli law governs both our agreement with IES and our agreement with MDT, as well as certain other agreements, such as our lease agreements on our subsidiaries' premises in Israel. While Israeli law differs in certain respects from American law, we do not believe that these differences materially adversely affect our rights or remedies under these agreements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors...
Consolidated Balance Sheets...
Consolidated Statements of Operations...
Statements of Changes in Shareholders' Equity...................................
Consolidated Statements of Cash Flows...

Notes to Consolidated Financial Statements....................................

SUPPLEMENTARY FINANCIAL DATA

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

PART III

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 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, based on the lowest closing price of our common stock during such month ($1.30), at a ratio of options to purchase 2.5 shares of our stock for each dollar in salary waived. Thus, in exchange for waiver of $151,739 in salary, our employees received a total of 379,347 options. 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 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, resulting in the grant of 379,347 options to senior employees (including executive officers) during 2001.

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)

		ANNUAL COMPENSATION			LONG TER COMPENSAT
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURIT UNDERLY OPTION
Yehuda Harats	2001	$ 248,681	$ 99,750(2)	$ 19,145(3)	616,0
President, Chief Executive	2000	$ 245,560	$ 82,380	$ 8,083	400,0
Officer and director	1999	$ 141,710	$ 80,011	$ 8,055	100,0
Robert S. Ehrlich	2001	$ 211,644	$ 84,000(2)	$ 17,201(3)	521,0
Chairman of the Board and Chief	2000	$ 245,574	$ 82,380	$ 7,146	400,0
Financial Officer	1999	$ 137,466	$ 80,011	$ 6,094	47,5
Dr. Joshua Degani*	2001	$ 99,183	$ 0(2)	$ 4,400(3)	9,0
Executive Vice President and	2000	$ 130,417	$ 25,000	$ 6,120	35,0

Chief Operating Officer	1999	$ 110,259	$ 17,500	$ 5,063	35,0

* 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 treasury shares. 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 treasury shares. 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.

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

	INDIVIDUAL GRANTS				
					POTENTIAL R OF ASSUME OF STOCK PR FOR OPT
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRCE ($/SH)	EXPIRATION DATE	5% ($)
Yehuda Harats..........	100,000	6.2%	$1.43	08/24/11	89,932
	66,000	4.1%	$1.43	08/24/11	59,355
	350,000	21.7%	$1.43	10/23/11	314,762
	100,000(2)	6.2%	$1.30	10/31/11	81,756
Robert S. Ehrlich......	100,000	6.2%	$1.43	08/24/11	89,932
	66,000	4.1%	$1.43	08/24/11	59,355
	275,000	17.0%	$1.43	10/23/11	247,313
	80,000(2)	4.9%	$1.30	10/31/11	65,405
Joshua Degani..........	9,000(2)	0.6%	$2.34	06/30/11	13,245

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(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

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF IN-THE-M AT FISCA
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABL
Yehuda Harats........	7,500	$ 7,125.00	668,001	462,666	$ 105,7
Robert S. Ehrlich.....	7,500	$ 7,125.00	750,651	396,916	$ 79,6
Joshua Degani.........	0	-	9,000	0	$ 3,2

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(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.

EMPLOYMENT CONTRACTS

In October 2002, we announced that Yehuda Harats, the president and CEO and a member of our Board, decided to resign from his positions with Electric Fuel and its subsidiaries in order to pursue other interests. The Board of Directors selected Robert S. Ehrlich, Chairman of the Board, to be the new President and CEO. In connection with the resignation of Mr. Harats, we are required to pay him certain amounts due to him by law and under the terms of his employment agreement. In December 2002, we came to an agreement with Mr. Harats whereby we agreed to pay him $729,500 through the end of 2005 in satisfaction of all our contractual and legal severance and other obligations to him, which was approximately one-half of the amount we had accrued on our financial statements in connection with such obligations.

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.

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.

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

[GRAPHIC CHART OMITTED]

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00

ELECTRIC FUEL	100.00	51.79	39.29	50.00	66.96
PEER GROUP(1)	100.00	107.95	88.29	178.74	99.22
BROAD MARKET	100.00	121.64	169.84	315.20	191.36

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(1) The Peer Group Index is comprised of the following companies: AER Energy Resources, Inc., Battery Technologies Inc., Electrosource, 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.

PART IV

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

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

(1) Financial Statements - See Index to Financial Statements on page 29 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 filed herewith: EXHIBIT NUMBER

DESCRIPTION

23 Consent of Kost Forer & Gabbay

99.1 Written Statement of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Written Statement of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 8, 2003.

ELECTRIC FUEL CORPORATION

By: /s/ Robert S. Ehrlich
Name: Robert S. Ehrlich
Title: Chairman, President and
Chief Executive Officer

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

SIGNATURE	TITLE	
/S/ ROBERT S. EHRLICH Robert S. Ehrlich	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	Ma
/S/ AVIHAI SHEN Avihai Shen	Vice President - Finance (Principal Financial Officer)	Ma
/S/ DANNY WALDNER Danny Waldner	Controller (Principal Accounting Officer)	Ma
/S/ STEVEN ESSES Steven Esses	Executive Vice President, Chief Operating Officer and Director	Ma
/S/ JAY M. EASTMAN Dr. Jay M. Eastman	Director	Ma
/S/ LAWRENCE M. MILLER Lawrence M. Miller	Director	Ma
/S/ JACK E. ROSENFELD Jack E. Rosenfeld	Director	Ma
Bert W. Wasserman	Director	M

CERTIFICATIONS

I, Robert S. Ehrlich, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Electric Fuel Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/S/ ROBERT S. EHRLICH

Robert S. Ehrlich, Chairman, President and CEO
(Principal Executive Officer)

CERTIFICATIONS

I, Avihai Shen, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Electric Fuel Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including

any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 5, 2003

/S/ AVIHAI SHEN

Avihai Shen, Vice President - Finance
(Principal Financial Officer)

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2001

IN U.S. DOLLARS

INDEX

	Page
Report of Independent Auditors	2
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 - 34

ERNST & YOUNG

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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.

/s/ Kost Forer & Gabbay
KOST FORER & GABBAY
A Member of Ernst & Young Global

Tel Aviv, Israel
January 29, 2002
(except for Note 1 and Note 10d.2,
for which the date is February 20,
2003)

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$12,671
Trade receivables (net of allowance for doubtful accounts in the amounts of $245,934 and $107,388 as of December 31, 2001 and 2000, respectively and allowance for returns in the amounts of $239,000 and $0 as of December 31, 2001 and 2000, respectively)	1,230
Other accounts receivable and prepaid expenses (Note 3)	714
Inventories (Note 4)	3,472
Total current assets	18,089
LOANS TO SHAREHOLDERS (Note 5)	501
SEVERANCE PAY FUND	1,078
PROPERTY AND EQUIPMENT, NET (Note 6)	6,739
	$26,408

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	2001
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Trade payables	$1,824,
Other accounts payable and accrued expenses (Note 8)	1,730,
Total current liabilities	3,555,
ACCRUED SEVERANCE PAY	3,444,
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,
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	105,686,
Accumulated deficit	(82,169,
Deferred stock compensation	(18,0
Treasury stock, at cost (common stock - 555,333 shares and 5,333 shares as of December 31, 2001 and 2000, respectively)	(3,537,1
Notes receivable from shareholders	(845,0
Total shareholders' equity	19,408,
	$26,408,

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBE	
	2001	2000
	U.S. DOLLARS	
Revenues from products	$ 3,138,843	$ 3,743,
Revenues from services	894,045	310,
Total revenues	4,032,888	4,053,
Operating costs and expenses Cost of revenues (including $441,875, $0 and $0 write-off of inventory for the year 2001, 2000 and 1999, respectively)	7,053,602	4,188,
Research and development, net (Note 12a)	3,512,084	4,588,
Selling and marketing expenses	6,255,703	4,160,
General and administrative expenses	4,760,866	3,641,
Total operating costs and expenses	21,528,555	16,578,
Operating loss	(17,549,367)	(12,525,1
Financial income, net (Note 12b)	262,579	544,
Loss before taxes on income	(17,286,788)	(11,980,9
Taxes on income (Note 11)	-	
Net loss	$ (17,286,788)	$ (11,980,9
Deemed dividend to certain shareholders of common stock	*) $ (1,196,667)	
Net loss attributable to shareholders of common stock	*) $ (18,483,455)	$ (11,980,9
Basic and diluted net loss per share	*) $ (0.76)	$ (0.
Weighted average number of shares used in computing basic and diluted net loss per share	24,200,184	19,243,4

*) As restated. See Note 1.
**) See Note 2.h.

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

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

	COMMON SHARES		ADDITIONAL		DEFERR
			PAID-IN	ACCUMULATED	STOC
	SHARES	AMOUNT	CAPITAL	DEFICIT	COMPENSA
					U.
Balance as of January 1, 1999	14,303,387	$ 143,034	$57,398,814	$(44,553,027)	
Comprehensive loss:					
Net realized losses on available-for-sale securities	-	-	-	-	
Net loss	-	-	-	(6,915,688)	
Issuance of shares to investors, net	1,425,000	14,250	2,712,001	-	
Purchase of treasury stock	-	-	-	*)(1,432,800)	
Accrued interest on notes receivable from shareholders	-	-	-	-	
Total comprehensive loss					
Balance as of December 31, 1999	15,728,387	157,284	60,110,815	(52,901,515)	
Payment of interest and principal on notes receivable from shareholders	-	-	-	-	
Issuance of shares to investors, net	2,477,952	24,780	18,249,373	-	
Issuance of shares to service providers	35,000	350	524,650	-	
Exercise of options	1,880,156	18,802	6,936,355	-	
Exercise of warrants	1,301,196	13,011	2,437,295	-	
Deferred stock compensation	-	-	37,924	-	(3
Stock compensation related to options repriced	-	-	26,250	-	
Amortization of deferred stock compensation	-	-	-	-	
Stock compensation related to options issued to consultants	-	-	769,128	-	
Accrued interest on notes receivable from shareholders	-	-	-	-	
Comprehensive loss					
Net loss	-	-	-	(11,980,958)	

Total comprehensive loss					
Balance as of December 31, 2000	21,422,691	$ 214,227	$89,091,790	$(64,882,473)	$ (1

*) As revised. See Note 10.d.2.

	TREASURY STOCK	TOTAL COMPREHENSIVE LOSS	NOTES RECEIVABLE FROM SHAREHOLDERS	TOTAL SHAREHOLDERS' EQUITY
Balance as of January 1, 1999	$ (1,806,481)		$(598,885)	$10,581,512
Comprehensive loss:				
Net realized losses on available-for-sale securities	-	$ 1,943	-	1,943
Net loss	-	(6,915,688)	-	(6,915,688)
Issuance of shares to investors, net	-	-	(2,100,000)	626,251
Purchase of treasury stock	*) 1,768,750	-	(335,950)	
Accrued interest on notes receivable from shareholders	-		(51,659)	(51,659)
Total comprehensive loss		$ (6,913,745)		
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 to investors, net	-		-	18,274,153
Issuance of shares to service providers	-	-	-	525,000
Exercise of options	-	-	(3,723,456)	3,231,701
Exercise of warrants	-	-		2,450,306
Deferred stock compensation	-		-	-
Stock compensation related to options repriced	-		-	26,250
Amortization of deferred stock compensation	-		-	20,684
Stock compensation related to options issued to consultants	-		-	769,128
Accrued interest on notes receivable from shareholders	-		(185,306)	(185,306)
Comprehensive loss				
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

*) As revised. See Note 10.d.2.

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

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

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED
	SHARES	AMOUNT	CAPITAL	DEFICIT
Balance as of January 1, 2001	21,422,691	$ 214,227	$89,091,790	$64,882,473)
Repurchase of common shares form shareholders and repayment of the related interest and principal of notes from shareholders	-	-	228,674	-
Issuance of shares to investors, net	6,740,359	67,405	14,325,941	-
Retirement of shares	(3,000)	(30)	(17,970)	-
Issuance of shares to service providers	346,121	3,461	536,916	-
Exercise of options	219,965	2,900	511,389	-
Exercise of warrants	333,333	3,333	836,667	-
Deferred stock compensation	-	-	18,000	-
Amortization of deferred stock compensation	-	-	(6,193)	-
Stock compensation related to options issued to consultants	-	-	139,291	-
Stock compensation related to options to consultants repriced	-	-	21,704	-
Comprehensive loss:				
Net loss	-	-	-	(17,286,788)
Total comprehensive loss				
Balance as of December 31, 2001	29,059,469	$ 290,596	$105,686,909	$(82,169,261)

	DEFERRED STOCK COMPENSATION	TREASURY STOCK	TOTAL COMPREHENSIVE LOSS	NOTES RECEIVABLE FROM SHAREHOLDER
Balance as of January 1, 2001	$ (17,240)	$ (37,731)		$ (4,290,204
Repurchase of common shares				

form shareholders and repayment of the related interest and principal of notes from shareholders	-	(3,499,375)		3,470,43
Issuance of shares to investors, net	-	-		
Retirement of shares	-	-		18,00
Issuance of shares to service providers	-	-		
Exercise of options	-	-		(43,308
Exercise of warrants	-	-	-	
Deferred stock compensation	18,000	-		
Amortization of deferred stock compensation	17,240	-		
Stock compensation related to options issued to consultants	-	-		
Stock compensation related to options to consultants repriced	-	-		
Comprehensive loss:				
Net loss	-	-	(17,286,788)	
Total comprehensive loss			$(17,286,788)	
Balance as of December 31, 2001	$ (18,000)	$ (3,537,106)		$ (845,081)

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DEC	
	2001	2000
	U.S. DOL	
Cash flows from operating activities:		
Net loss	$ (17,286,788)	$ (11,98
Adjustments required to reconcile net loss to net cash used in operating activities:		
Depreciation	980,008	7
Net realized losses on available-for-sale marketable securities	-	
Accrued severance pay, net	571,037	2

Amortization of deferred stock compensation	17,240	
Impairment of loans to shareholders	206,005	
Compensation expenses related to repurchase of treasury stock	228,674	
Write-off of inventories	441,875	
Amortization of compensation related to options issued to consultants and repriced options issued to employees and consultants	160,995	7
Compensation expenses related to shares issued to service providers	660,377	4
Accrued interest on notes receivable from shareholders	36,940	(23
Decrease (increase) in trade receivables	982,175	(1,71
Decrease (increase) in other accounts receivable and prepaid expenses	1,583,769	(1,34
Increase in inventories	(705,124)	(2,16
Increase (decrease) in trade payables	(1,229,609)	9
Increase (decrease) in other accounts payable and accrued expenses	185,824	2
Decrease in deferred revenues	-	
Other	120	(
Net cash used in operating activities	(13,166,482)	(13,96

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECE	
	2001	2000
	U.S. DOLL	
Cash flows from investing activities:		
Purchase of property and equipment	(1,275,303)	(2,858
Payment to suppliers for purchase of property and equipment from previous year	(227,230)	
Loans granted to shareholders	-	(958
Repayment of loans granted to shareholders	-	22
Proceeds from sale of property and equipment	40,217	5
Proceeds from sale of available-for-sale marketable securities	-	
Net cash provided by (used in) investing activities	(1,462,316)	(3,533
Cash flows from financing activities:		

Proceeds from issuance of shares, net	14,393,346	18,15
Proceeds from exercise of options	470,981	3,23
Proceeds from exercise of warrants	840,000	2,45
Payment of interest and principal on notes receivable from shareholders	-	2,70
Net cash provided by financing activities	15,704,327	26,53
Increase (decrease) in cash and cash equivalents	1,075,529	9,04
Cash and cash equivalents at the beginning of the year	11,596,225	2,55
Cash and cash equivalents at the end of the year	$ 12,671,754	$ 11,59
Supplementary information on non-cash transactions:		
Purchase of property and equipment against trade payables	$ 39,336	$ 22
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.	$ -	$
Retirement of shares issued under notes receivables	$ 18,000	$
Issuance of shares to consultants in respect of prepaid expenses	$ -	$ 12
Exercise of options against notes receivable	$ 43,308	$ 3,72
Liabilities in respect of share issuance expenses	$ -	$
Supplemental disclosure of cash flows activities: Cash paid during the year for:		
Interest	$ 19,106	$ 2

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

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a.

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 operations are primarily located 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).

The Company conducted a comprehensive review on the re-pricing of warrants granted during 2000 to its investors and investment banker. As a result of that review, the Company reconsidered the calculation and the related assumptions related to the deemed dividend derived from this transaction, which was immaterial initially and should have resulted and currently recorded the deemed dividend in the amount of $1,196,667 (see Note 10e.2), a non-cash item. The accompanying consolidated financial statements for the year ended December 31, 2001 were restated to record this deemed dividend, which increased the loss applicable to common shareholders to $18,483,455 and the calculation of basic and diluted net loss per share to $0.76 for the year ended December 31, 2001. This restatement does not affect the balance sheet, the changes in shareholders' equity or the cash flow statements.

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:

A majority of the revenues of the Company and its subsidiaries is generated in U.S. dollars. In addition, a substantial portion of the Company's and its subsidiaries costs are incurred in U.S. dollars ("dollar"). Company's management believes, that the dollar is the primary currency of the economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the dollar. Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS No. 52"). 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.

Note 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.

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 and for market prices lower than cost. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on this evaluation, provisions are made in each period to write inventory down to its market prices. In 2001, the Company wrote off $441,875 of slow-moving and obsolete inventory, which has been included in cost of revenues.

Cost is determined as follows:

Raw and packaging materials - by the average cost method.
Work in progress - represents the cost of manufacturing with the addition of allocable indirect manufacturing cost. 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 (no investment grants were granted during 2001, 2000 and 1999).

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 and provide for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets in accordance with Statement of Financial Accounting Standard No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"). For each of the three years ended December 31, 2001 the Company did not record any impairment losses on long-lived assets.

Note 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

g. Revenue recognition:

The Company and its subsidiaries generate revenues mainly from sale of zinc-air battery products for portable consumer electronic devices such as cellular telephones products, as well as for defense applications. To a lesser extent, revenues are generated from development services and long-term arrangements subcontracted by the U.S Government. The Company sells its products to large retail companies as well as through resellers.

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, no further obligation remains and collectibility is reasonably assured. In situations where the Company sells its products to large retail companies, where returns are expected to be accepted revenues are recognized on cash basis.

The Company generally does not grant a right of return to its customers. When returns are expected and estimated, the Company defers revenue until the probability of such returns expires, at which time revenue is recognized provided that all other revenue recognition criteria are met. The Company maintains provision for product returns, based on its experience in accordance with Statement of Financial Accounting Standard No. 48, "Revenue Recognition When Right of Return Exists" ("SFAS No. 48"). The provision has been deducted from revenues and amounted to $239,000, $0, and $0 for the years ended December 31, 2001, 2000 and 1999, respectively.

The Company maintains consigned inventory at customer locations for certain products. For these products, revenue is recognized at the time the products are sold to a final customer and all other SAB No. 101 criteria are met.

Revenues from long-term agreements, subcontracted by the U.S. government, are recorded on a cost-sharing basis, when services are rendered and products delivered, as prescribed on the related agreements. Provision on estimated losses are recognized in the period in which the likelihood of such losses is determined. As of December 31, 2001, no such estimated losses were identified..

Deferred revenues includes unearned amounts received from customers, but not recognized as revenues.

Revenues from development services are recognized based on Statement of Position No. 81-1 "Accounting for Performance of Construction - Type and Certain Production - Type Contracts" ("SOP 81-1"),using contract accounting on a percentage of completion method, based on completion of agreed-upon milestones and in accordance with the "Output Method." Provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined. As of December 31, 2001, no such estimated losses were identified.

h. 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.

i. Research and development cost:

Research and development costs, net of grants received, are charged to the statements of operations as incurred.

j. Royalty-bearing grants:

Note 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). 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.

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 long-term loans to 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 the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition. An allowance for doubtful accounts is determined with respect to those accounts that the Company has determined to be doubtful of collection.

The Company has provided long-term loans to its shareholders, amounting to $501,288 and $778,677 as of December 31, 2001 and 2000, respectively. The long-term loans are secured by the Company's shares and if the value of the Company's shares decreases, the Company would incur material losses.

The Company and its subsidiaries had 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 Statement of Financial Standards No. 128, "Earnings Per Share" ("SFAS No. 128").

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.

Note 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 No. 25") and Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plans. Under APB No. 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 Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), are provided in Note 10.f.

The Company applies SFAS No. 123 and Emerging Issue Task Force No. 96-18 "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18") with respect to options issued to non-employees. SFAS No. 123 requires use of an option valuation model to measure the fair value of the options at the grant date.

o. 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.

The carrying amount of the Company's long-term loans to shareholders approximates their fair value. The fair value was estimated using the fair market value of the secured Company's shares.

p. 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. 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. The value of these policies is recorded as an asset in the Company's balance sheet.

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 in accordance with Statement of Financial Accounting Standard No. 106, "Employer's Accounting for Post Retirement Benefits Other than Pensions" ("SFAS No. 106"). As of December 31, 2001 and 2000, the accumulated severance pay in that regard 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 includes 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.

Note 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

q. 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.

r. 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 No. 141") and Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 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 No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. The Company does not expect any effect of this standard on the earnings or financial position of the Company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and superseded SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged.

The provisions of SFAS No. 144 are not expected to have a material effect on the Company's financial position or operating results.

s. Reclassification:

Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the presentation used in 2001 (see also Note 10.d.2).

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:- LOANS TO 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 (see Note 10.d.3). In connection with such exercises, the Company granted loans secured by the Company's shares 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 $958,156, bearing interest at a rate equal to 4% over the then-current percentage increase in the Israeli Consumer Price Index ("CPI") between the date of the loan and the date of the annual interest calculation. During the year 2000 and 2001 one of the shareholders repaid a portion of his non-recourse note at the amount of $225,097 and $38,639, respectively (see Note 10.d.3). During the year 2001, the Company has impaired those loans and has written off the amount of $206,005 due to decline of the fair market value of its shares.

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	$ 63
Motor vehicles	336,216	38
Office furniture and equipment	313,760	31
Machinery, equipment and installations	9,396,636	8,50
Leasehold improvements	888,841	73
	11,721,611	10,57
Accumulated depreciation:		
Computers and related equipment	566,290	44
Motor vehicles	62,523	13
Office furniture and equipment	180,498	16
Machinery, equipment and installations	3,526,145	2,82
Leasehold improvements	646,490	55
	4,981,946	4,12
Depreciated cost	$ 6,739,665	$ 6,44

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 of 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	-
Royalties to Office of the Chief Scientist	46,955	62,000
Other	60,180	282,351
	$1,730,799	$ 1,544,975

*) Reclassified

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Royalty commitments:

1. Under EFL's research and development agreements with the Office of the Chief Scientist ("OCS"), and pursuant to applicable laws, EFL 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).

EFL is obligated to pay royalties only on sales of products in respect of which OCS participated in their development. Should the project fail, EFL 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.

As of December 31, 2001, total contingent liability to pay to OCS (at 100%) was outstanding at the amount of approximately $ 9,764,000.

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.

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

Royalties paid or accrued to the BIRD-F amounted at $0 for each of the three years ended December 31, 2001.

As of December 31, 2001, total contingent liability to pay to BIRD-F (at 150%) was outstanding at the amount of 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

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

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").

c. Guarantees:

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

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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.

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. Issuance of common stock to investors:

1. 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, of which an amount of $2,100,000 was paid through an exchange of non-recourse promissory notes. These non-recourse notes were repaid during the year 2000. (See also Note 10e.1)

2. 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.

3. 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, on November 16, 2000, 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.

4. 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 price of $8,375,000. (See also Note 10.e.2.)

5. 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. (See also Notes 10.e.2 and 10.e.3.)

6. 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.

7. 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.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

c. Issuance of common stock to service providers:

1. In June 2000, 35,000 shares of common stock were issued at no consideration to a consultant for providing business development and marketing services in the United Kingdom At the issuance date, the fair value of these shares was determined both by the value of the shares issued as reflected by fair market price at the issuance date and by the value of the services provided and amounted to $525,000 in accordance with EITF 96-18. In accordance with EITF 00-18, "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees" ("EITF 00-18"), the Company recorded this compensation expenses of $405,000 during the year 2000 and $120,000 during the year 2001 and included these amounts in marketing expenses.

2. On June 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. At the issuance date the fair value of these shares was determined both by the value of the shares issued as reflected by fair market price at the issuance date and by the value of the services provided and amounted to $15,488 in accordance with EITF 96-18. In accordance with EITF 00-18, the Company recorded this compensation expense as marketing expenses in the amount of $15,488.

3. On September 17, 2001 the Company issued to selling and marketing consultants a total of 337,571 shares of its common stock in compensation for distribution services rendered by such consultant. At the issuance date the fair value of these shares was determined both by the value of the shares issued as reflected by fair market price at the issuance date and by the value of the services provided and amounted to $524,889 in accordance with EITF 96-18 and in accordance with EITF 00-18. The Company recorded this compensation expense as marketing expenses in the amount of $524,889.

d. Issuance of notes receivable

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 (see Note 10.f). The proceeds in the amount of $605,052 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 this loan. As for additional note repayment at that date, see Note 10.b.1.

2. On December 3, 1999, two officers of the Company purchased 250,000 shares of common stock, which had already been issued, out of the Company's treasury stock

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NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

at the closing price of the common stock on December 2, 1999. The total purchase price of $335,950 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.

The Company has accounted for the re-purchase of these shares out of treasury stock in accordance with Accounting Principles Board Opinion No. 6 "Status of Accounting Research Bulletins" ("APB 6"). The shares re-purchased were included in treasury stock at their cost price of $1,768,750. The Company initially recorded the excess of purchase price over stated value against additional paid in capital. As a result of the financial statements review performed by the United States Securities and Exchange Commission, the Company reconsidered the classification of the loss generated from this re-issuance of such shares and the excess of purchase price over stated value at the amount of $1,432,800 has been reclassified in its entirety to accumulated deficit.

3. In February 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 form of ten-year non-recourse promissory notes in an aggregate amount of $658,326 and $3,040,250, respectively. The notes are secured by the shares issued upon exercise of such options, bearing non-recourse interest at a rate equal to the federal fund rate

+ 1%. (See Note 5)

The Company has accounted for these promissory notes as a variable stock award pursuant to the provisions of Emerging Issues Task Force issue 95-16, "Accounting for Stock Compensation Arrangements with Employer Loan Features under APB Opinion 25" ("EITF 95-16"). The Company did not record any compensation due to the decrease in the market value of the Company's shares during the years 2001 and 2000.

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, which had already been issued, in exchange for repayment of the non-recourse notes from the officers in the amount of $3,470,431. $3,183,530 out of this amount relates to 550,000 shares from May 2000. The remaining amount of $248,262 represents repayment of other notes, including $38,639 of loans to shareholders described in Note 5. As a result of this transaction, the Company recorded treasury stock in the amount of $3,499,375. An amount of $228,674 was recorded as additional paid-in-capital as it reflected a compensation expense related to this re-purchase.

e. Warrants:

1. As part of the investment agreement in December 1999 (see Note 10.b.1), the Company issued warrants to purchase up to an additional 950,000 and 475,000 shares of the Company's common stock to the investors at the exercise price of $1.25 and $4.50 per share, respectively. 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.

2. As part of the investment agreement in November 2000 (see Note 10.b.4), the Company issued warrants to purchase an additional 1,000,000 shares of common stock to the investor, with exercise prices of $11.31 for 333,333 of these warrants and $12.56 per share for 666,667 of these warrants. In addition, the Company issued warrants to purchase 150,000 shares of common stock, with exercise prices of $9.63 for 50,000 of these warrants and $12.56 per share for 100,000 of these warrants 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.

As part of the transaction in May 2001 (see Note 10 b.5), the Company repriced these warrants in the following manner:

- Of the 1,000,000 warrants granted to the investor, the exercise price of 666,667 warrants was reduced from $12.56 to $3.50 and of 333,333 warrants was reduced from $11.31 to $2.52. In addition, the 333,333 warrants that were to expire on August 17, 2001, were immediately exercised for a total consideration of $840,000.

- Moreover, 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, to expire on May 3, 2006.
- Of the 150,000 warrants granted to the investment banker the exercise price of 100,000 warrants was reduced from $12.56 to $3.08 and of 50,000 warrants was reduced from $9.63 to $3.08. In addition, the 50,000 warrants that were to expire on August 17, 2001 were extended to November 17, 2005.

As a result of the aforesaid modifications, including the repricing of the warrants to the investors and to the investment banker and the additional grant of warrants to the investor, the Company has recorded a deemed dividend in the amount of $1,196,667, to reflect the additional benefit created for these certain investors. The fair value of the repriced warrants was calculated as a difference measured between (1) the fair value of the modified warrant determined in accordance with the provisions of SFAS No. 123, and (2) the value of the old warrant immediately before its terms are modified, determined based on the shorter of (a) its remaining expected life or (b) the expected life of the modified option. The deemed dividend increased the loss applicable to common stockholders in the calculation of basic and diluted net loss per share for the year ended December 31, 2001, without any effect on total shareholder's equity.

3. As part of the investment agreement in May 2001 (see Note 10.b.5), the Company issued to the 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 investment banking 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 and will expire on June 12, 2006. In addition the Company paid approximately $562,000 in cash, which was recorded as deduction from additional paid in capital.

f. Stock option plans:

1. Options to employees and others (except consultants)

a. 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, the Board of Directors or the designated committee grants options and determines the vesting period and the exercise terms.

1) 1991 Employee Option Plan - 2,115,600 shares reserved for issuance, of which 33,692 are available for future grants to employees as of December 31, 2001.

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

2) 1993 Employee Option Plan - as amended, 4,200,000 shares reserved for issuance, of which 300,526 are available for future grants to employees as of December 31, 2001.

3) 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 as of December 31, 2001.

4) 1995 Non-Employee Director Plan - 1,000,000 shares reserved for issuance, of which 680,000 are available for future grants to directors as of December 31, 2001.

b. 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).

c. 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:

	2001		2000		
	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE	AMOUN
		$		$	
Options outstanding at beginning of year	2,624,225	$ 3.82	2,820,679	$ 3.44	2,964
Changes during year:					
Granted (1) (3)	2,172,314	$ 1.55	1,598,233	$ 4.58	496
Exercised(4) (2)	(159,965)	$ 1.31	(1,715,628)	$ 3.84	
Forfeited or cancelled	(396,346)	$ 4.11	(79,059)	$ 4.93	(640,
Repriced (2):					
Old exercise price	-	-	(310,000)	$ 4.95	
New exercise price	-	-	310,000	$ 4.95	
Options outstanding at end of year	4,240,228	$ 2.74	2,624,225	$ 3.82	2,820
Options exercisable at end of year	2,643,987	$ 2.75	1,078,332	$ 3.81	2,082

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

(2) On May 25, 2000, the Company repriced downwards 150,000 options from $6.60 per share to $4.95. The Company also repriced upward 160,000 options held by the same options holder from $3.375 per share to $4.95. The options holder immediately exercised those options. In accordance with FIN 44 the downward repricing resulted in a variable plan accounting, however, due to the immediate

exercise the Company recorded a compensation expense in the amount of $ 26,250 at that date only.

(3) The Company recorded deferred stock compensation for options issued with an exercise price below the fair value of the common stock in the amount of $18,000 and $37,924 as of December 31, 2001 and 2000, respectively. Deferred stock

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

compensation is amortized and recorded as compensation expenses ratably over the vesting period of the option. The stock compensation expense that has been charged in the consolidated statements of operations in respect of options to employees in 2001, 2000 and 1999, was $17,240, $20,684 and $0, respectively.

(4) In December 2001, the Company exercised 33,314 options for which the exercise price was not paid at the exercise date. The Company recorded the owed amount of $43,308 as "Note receivable from shareholders" in the statement of shareholders' equity. In accordance with EITF 95-16, since the original option grant did not permit the exercise of the options through loans, and due to the Company's history of granting non-recourse loans, this postponement in payments of the exercise price resulted in a variable plan accounting. However, the Company did not record any compensation due to the decrease in the market value of the Company's shares during 2001.

d. The options outstanding as of December 31, 2001 have been separated into ranges of exercise price, as follows:

	OPTIONS OUTSTANDING			OP
RANGE OF EXERCISE PRICES	AMOUNT OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	AMOUNT AT DEC
$		YEARS	$	
0.3-2	2,268,819	9.01	1.38	
3-4	463,909	4.79	2.99	
4-6	1,437,500	8.40	4.58	
6-8	60,000	3.02	7.43	
8-	10,000	5.75	9.06	
	4,240,228	8.25	2.74	

e. Pro forma information under SFAS No. 123:

Pro forma information regarding net loss and net loss per share 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	82%	95%	120%
Risk-free interest	3.5-4.5%	6.5%	5.5%
Expected life of up to	3 years	10 years	10 years

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

NOTE 10:- SHAREHOLDERS' EQUITY (CONT.)

	EQUALS MARKET PRICE			EXCEEDS MARKET PRICE		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	2001	2000	1999	2001	2000	1999
Weighted average exercise prices	$ 1.579	$ 4.580	$ 1.560	$ 1.466	$ 7.125	-
Weighted average fair value on grant date	$ 0.50	$ 4.120	$ 1.320	$ 0.56	$ 3.760	-

Pro forma results:

	2001		2000		1
	AS REPORTED	PRO-FORMA	AS REPORTED	PRO-FORMA	AS REPORTED
	U.S. DOLLARS				
Net loss attributable to shareholders of common stock	$(18,4823,455)	$ (21,372,601)	$ (11,980,958)	$ (14,006,038)	$ (6,915,688
Basic and diluted					

net loss per share	$ (0.76)	$ (0.88)	$ (0.62)	$ (0.73)	$ (0.48

2. Options issued to consultants:

a. The Company's outstanding options to consultants as of December 31, 2001, are as fo

	2001		2000	
	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE	AMOUNT	WEIGHTED AVERAGE EXERCISE PRICE
		$		$
Options outstanding at beginning of year	175,786	$ 6.57	141,814	$ 3.09
Changes during year:				
Granted (1)	130,000	$ 6.02	198,500	$ 5.86
Exercised	(60,000)	$ 5.13	(164,528)	$ 2.72
Repriced (2):				
Old exercise price	(56,821)	$ 9.44	-	$ -
New exercise price	56,821	$ 4.78	-	$ -
Options outstanding at end of year	245,786	$ 5.55	175,786	$ 6.56
Options exercisable at end of year	125,786	$ 6.42	149,044	$ 6.80

(1) 120,000 options out of 130,000 options granted in 2001 to the Company's selling and marketing consultants are subject to the achievement of the targets specified in the agreements with these consultants. The measurement date for these options has not yet occurred as these targets have not been met, in accordance with EITF 96-18. When the targets will be achieved the Company would record appropriate compensation upon the fair value at the same date at which the targets will be achieved.

(2) During the year 2001 the Company repriced 56,821 options to its service providers. The fair value of repriced warrants was calculated as a difference measured between (1) the fair value of the modified warrants determined in accordance with the provisions of SFAS 123, and (2) the value of the old warrant

immediately before its terms were modified, determined based on the shorter of

(a) its remaining expected life or (b) the expected life of the modified option. As a result of the repricing, the Company has recorded an additional compensation at the amount of $21,704, and included this amount in marketing expenses

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%
Contractual life of up to	10 years	5 years	10 years

c. In connection with the grant of stock options to consultants, the Company recorded stock compensation expenses totaling $139,291 and $796,128 for the years ended December 31, 2001 and 2000 respectively, and included these amounts in marketing expenses.

3. 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.

4. Treasury Stock:

Treasury stock is the Company's common stock that has been issued and subsequently reacquired. The acquisition of common stock is accounted for under the cost method, and presented as reduction of stockholders' equity.

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. Utilization of U.S net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating loses before utilization.

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 in its plant in Beit Shemesh, and to reduced tax rates on income arising from the "Approved Enterprise," as detailed below.

NOTE 11:- INCOME TAXES (CONT.)

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, according to the Company's management, the Company 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 has not been determined yet by the investment center and so there is no ability to determine the 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, EFL has not provided deferred income taxes on this difference between the reporting currency and the tax bases of assets and liabilities.

NOTE 11:- INCOME TAXES (CONT.)

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

DECEMBER 31,

	2001	2000
	U.S. DOLLARS	
Operating loss carryforward	$ 12,162,581	$ 8,261,1
Reserve and allowance	477,522	726,6
Net deferred tax asset before valuation allowance	12,640,103	8,987,7
Valuation allowance	(12,640,103)	(8,987,7
	$ -	$

NOTE 11:- INCOME TAXES (CONT.)

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. The change in the valuation allowance as of December 31, 2001 was $3,652,353.

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)
	$(17,286,788)	$ (11,980,958)	$ (6,909,671)

NOTE 12:- SELECTED STATEMENTS OF OPERATIONS DATA

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

YEAR ENDED DECEMBER 31		
2001	2000	1999
	U.S. DOLLARS	

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

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)
	(65,249)	(286,523)	(103,735)
Financial income:			
Interest	327,828	830,704	293,784
Total	$262,579	$ 544,181	$ 190,049

NOTE 13:- RELATED PARTY DISCLOSURES

	Year ended December 31,	
	2001	2000
	U.S.dollars	
Transactions:		
General and administrative expenses	$ 32,850	$ 28,800
Financial income (expenses), net from notes receivable and loan holders (see Notes 5 and 10.d.3)	$(36,940)	$ 230,924

NOTE 14:- SEGMENT INFORMATION

a. General:

The Company and its subsidiaries operate 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").

The Company currently operates in three business segments: Electric Vehicles, Consumer Batteries and Defense and Safety Products.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based upon two primary factors, one is the segment's operating income and the other is based on the segment's contribution to the Company's future strategic growth.

NOTE 14:- SEGMENT INFORMATION (CONT.)

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

	ELECTRIC VEHICLES	DEFENSE AND SAFETY PRODUCTS	CONSUMER BATTERIES	AL OTH
			U.S. DOLLARS	
2001:				
Revenues from outside customers	$ 894,045	$ 1,199,587	$ 1,939,256	$
Depreciation expense	(242,678)	(61,760)	(449,995)	(2
Direct expenses (1)	(907,286)	(1,388,215)	(13,816,934)	(4,4
Segment gross loss	$ (255,919)	$ (250,388)	$ (12,327,673)	$ (4,7
Financial income, net				
Net loss				
Segment assets (2)	$ 665,736	$ 645,378	$ 8,180,795	$ 71
Expenditures for segment assets	$ -	$ 21,376	$ 969,278	$ 32

2000:				
Revenues from outside customers	$ 310,441	$1,168,054	$ 2,563,621	$
Depreciation expense	(249,796)	(60,612)	(239,668)	(2
Direct expenses (1)	(472,770)	(1,120,020)	(10,246,938)	(3,9
Segment gross loss	$ (412,125)	$ (12,578)	$ (7,922,985)	$ (4,1
Financial income, net				
Net loss				
Segment assets (2)	$ 908,414	$ 556,863	$ 7,527,160	$ 6
Expenditures for segment assets	$ -	$ 7,671	$ 2,767,083	$ 3
1999:				
Revenues from outside customers	$ 1,229,854	$ 979,123	$ 254,991	$ 2
Depreciation expense	(234,550)	(85,291)	(149,259)	(2
Direct expenses (1)	(2,659,478)	(1,242,652)	(3,007,398)	(2,1
Segment gross loss	$ (1,664,174)	$ (348,820)	$ (2,901,666)	$ (2,1
Taxes on income				
Financial income, net				
Net loss				
Segment assets	$ 1,129,771	$ 360,553	$ 1,516,519	$ 1,1
Expenditures for segment assets	$ 221,808	$ 80,657	$ 942,450	$ 2

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

(2) Including property and equipment and inventory.

ELECTRIC FUEL CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- SEGMENT INFORMATION (CONT.)

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:

	2001		2000		199
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues
	U.S. dollars				
U.S.A.	$ 2,055,773	$ 99,606	$ 2,664,105	$ 62,914	$ 2,282,643
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
	$ 4,032,888	$6,739,665	$ 4,053,562	$ 6,446,064	$ 2,693,998

* Reclassified

d. Revenues from major customers:

	2001	2000	1999
	%		
Electric vehicles:			
Customer A	12%	-	
Customer B	10%	6%	
Defense and safety products:			
Customer C	7%	7%	
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 an 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

	QUARTER ENDED			
2001	MARCH 31	JUNE 30	SEPTEMBER 30	
Net revenue................................	$ 725,959	$ 1,034,218	$ 1,214,115	$
Gross loss.................................	$ (235,826)	$ (1,219,621)	$ (818,719)	$
Net loss...................................	$ (3,424,964)	$ (4,590,840)	$ (4,410,556)	$
Net loss per share - basic and diluted......	$ (0.16)	$ (0.19)	$ (0.19)	$
Shares used in per share calculation........	21,802,499	23,562,099	23,612,097	
2000				
Net revenue................................	$ 652,946	$ 632,541	$ 566,367	$
Gross loss.................................	$ (1,423,902)	$ (1,230,490)	$ (1,211,023)	$
Net loss...................................	$ (2,473,739)	$ (2,860,494)	$ (2,753,504)	$
Net loss per share - basic and diluted......	$ (0.14)	$ (0.15)	$ (0.14)	$
Shares used in per share calculation........	17,166,343	18,935,208	20,231,991	