

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: DECEMBER 31, 1997

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

(State or other jurisdiction of
incorporation or organization)

95-4302784

(I.R.S. Employer
Identification No.)

885 THIRD AVENUE, SUITE 2900, NEW YORK, NEW YORK
(Address of principal executive offices)

10022-4834
(Zip Code)

Registrant's telephone number, including area code: (212) 230-2172

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

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

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

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

The aggregate market value of the registrant's voting stock held by non-
affiliates of the registrant as of March 16, 1998 was approximately \$20,296,091
(based on the last sale price of such stock as reported by The Nasdaq National
Market).

As of March 16, 1998, 14,229,003 shares of registrant's Common Stock, \$.01 par
value per share (the "Common Stock"), were issued and outstanding.

PART I

ITEM 1. BUSINESS
GENERAL

Electric Fuel Corporation ("EFC" or the "Company") is engaged in the
design, development and commercialization of an innovative, advanced zinc-air
battery. To date, the main application for the Company's technology has been a
system for powering zero emission electric vehicles. In part, because the market
for electric vehicles has not demonstrated previously anticipated levels of
growth in 1997, the Company began a strategic shift to actively expand its
activities in non-electric vehicle applications for its zinc-air battery
technology. The Company intends to establish its proprietary zinc-air batteries
as the industry leader in the markets for portable electronic devices, electric
vehicles, safety products and defense applications.

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

To fully utilize its zinc-air battery technology for a wide selection of
applications, at the end of 1997 the Company created three market related
business units: Electric Vehicles, Consumer Batteries, and Defense and Safety
Products.

The Electric Vehicle division is continuing to focus on fleet applications
of the zinc-air battery system with its partners in the United States, Europe
and Asia. Pursuant to a Memorandum of Understanding, the division is also
continuing development of a transit bus in cooperation with the Center for
Sustainable Technology ("CST") in Las Vegas, Nevada, for the US transit market,
and of new vehicle applications including an electric scooter battery for the
Far East market.

The Consumer Batteries division has been formed to pursue the increasing
market interest in a primary single use battery as a substitute for the current
heavier, more expensive, rechargeable batteries. Applications are expected to

include batteries for cellular telephones, camcorders, laptop computers and other portable consumer electronic devices.

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

The Company was incorporated in Delaware in 1990. Unless the context requires otherwise, all references to the "Company" refer collectively to the Company and its wholly-owned subsidiary incorporated under the laws of Israel, Electric Fuel (E.F.L.) Limited ("EFL"), Electric Fuel GmbH, a German wholly-owned subsidiary of EFL and other subsidiaries of EFC and EFL. EFC's executive offices are located at 885 Third Avenue, New York, New York 10022, and its telephone number at its executive offices is (212) 230-2172.

The Company's R&D activities are primarily carried out by EFL at its facilities in Jerusalem and Beit Shemesh, Israel. The Company's facility in Bremen, Germany primarily facilitates the activities of the electric vehicle division in Europe. In May 1997, the Company opened a battery research and development facility in Auburn, Alabama. The Auburn facility is located in a newly constructed building near Auburn University. The facility builds and tests prototype cells and batteries.

BUSINESS STRATEGY

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

-2-

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

For its consumer battery technology, the Company intends to manufacture cells and assemble batteries, and work with strategic partners on marketing, sales and distribution. Strategic partners for cell phone batteries may include cell phone manufacturers, battery producers and assemblers, cellular phone service providers and consumer goods distributors.

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

For its safety products, the Company intends to continue to work with large distributors which specialize in this market. The Company is investigating several new applications for its water activated battery technology, including for use in marine life jackets.

THE ELECTRIC VEHICLE DIVISION

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

THE COMPANY'S ELECTRIC FUEL ELECTRIC VEHICLE SYSTEM

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

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

In field trials with major European entities, the Company is demonstrating the commercial viability of the battery system by regularly driving 300 to 400 km in actual drive cycles. In 1996, an Mercedes-Benz MB410 van powered by the Electric Fuel zinc-air battery crossed the Alps and traveled from Chambray, France over the Moncenisio Pass and continued to the Edison zinc-air regeneration plant in Turin, Italy. The 152 mile (244 km) drive included a 93 mile (150 km) continuous climb over mountainous terrain in which the vehicle climbed over 4950 feet (1500 meters) to reach the summit at 6874 feet (2083 meters), using only 65% of the battery's capacity. In November 1997, the Company powered a Mercedes-Benz MB410 van from central London to Central Paris on a single charge, a distance of 272 miles (439 km), not including the transport through the English Channel Tunnel.

-3-

MAJOR PROGRAMS AND STRATEGIC PARTNERSHIPS

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

Germany - The Deutsche Post

In a field test managed by the German postal service, the Electric Fuel Electric Vehicle System is being tested by the Deutsche Post in vehicles powered by the Electric Fuel battery in Bremen, Germany (the "Field Test"). The Field Test is managed by Deutsche Post to conduct a representative operating test of the Electric Fuel Electric Vehicle System. Only vehicles powered by the Electric Fuel Electric Vehicle System are being tested. In addition to Deutsche Post, participants in the Field Test currently include Vattenfall AB, the largest utility in Sweden, the Swedish postal service, as well as German industrial suppliers Mercedes-Benz AG, and Webasto AG Fahrzeugtechnik, an automotive parts manufacturer ("Webasto"). A consortium of South African companies led by ESKOM, the South African utility company, has also joined the Field Test as an Associate Partner and is considering a demonstration project in South Africa. To date, over 40,000 kilometers have been logged on electric vehicles in the Field Test.

In December 1997, the Company and Deutsche Post agreed to extend the Field Test through May 1998. Deutsche Post, subject to the satisfaction of certain conditions, has also agreed to fund the additional operating costs for this period. Deutsche Post has stated that it will decide in June 1998, on the basis of its own requirements and at its discretion, whether it deems the Field Test successful, and whether or not it intends to accept it for use in its fleet. The Company believes that acceptance of the Electric Fuel Electric Vehicle System by Deutsche Post for its fleet is a key factor with respect to the Company's efforts to commercialize the Electric Fuel Electric Vehicle System in Europe. There can be no assurance, however, that Deutsche Post will deem the Field Test to have been successful and, even if they do, they may not accept the Electric Fuel Electric Vehicle System as a powering system for a substantial portion of its fleet.

Germany -- Krupp UHDE

The Company has a three year agreement, terminating February 1999, with Krupp UHDE under which both companies will cooperate in the joint development and marketing of Electric Fuel regeneration plants during the term of the Field Test. Additionally, the Company and Krupp UHDE have entered into an agreement which provides for a cooperative marketing arrangement for commercial Electric Fuel regeneration plants in Germany, Austria, Switzerland, Belgium, Luxembourg and The Netherlands. This cooperation agreement is for an exclusive basis until five years after the completion of the Field Test and will terminate in the year 2011. Pursuant to this agreement, the Company is entitled to receive fees on a per transaction basis based on Krupp UHDE's revenues related to the sale of regeneration plants as well as recurring fees from the purchasers of these plants.

Italy -- Edison

In May 1993, the Company entered into an exclusive license agreement (pursuant to the exercise of an option granted in 1991) with Edison, Italy's leading private operator in the field of electric energy production. Pursuant to this license, which terminates in 2008, Edison is authorized to manufacture, use and sell Electric Fuel Vehicle batteries, Refueling Systems, Regeneration Systems and related services based on the Company's technology in Italy, France, Spain and Portugal. The license also grants Edison non-exclusive license rights for the sale of Electric Fuel battery systems and related services to Deutsche Post and Deutsche Telekom, if the Company has first sold in excess of an aggregate of 250 batteries to those customers.

As part of the license agreement, Edison agreed to cooperate in a development program which will cover a maximum of four years commencing in December 1996. During this four-year period, Edison will purchase from the Company batteries and related components and services in an amount up to \$4.0 million, but not less than 600 million Italian lira (approximately \$341,000) per year. In October 1996, the Company agreed to offset the \$4.0 million obligation by an amount equal to the amount of certain prior payments made by Edison to the Company of approximately \$2.0 million with respect to the purchase of products and services from the Company in connection with Edison's activities

-4-

to date. Edison's present commitment has therefore been reduced to \$2.0 million. After the earlier of (x) the end of the four-year period or (y) Edison selling at least 150 battery systems in any consecutive four-month period, the cooperation described above will terminate and Edison will be obligated to purchase from the Company no less than 35% of all battery cells required by it for manufacturing battery systems and no less than 20% of the refueling systems it requires so long as the Company is able to provide these products at prices competitive with Edison's internal costs of producing these products itself. There can, however, be no assurance that the Company will be able to produce such components in a manner that will make such sales profitable to the Company. The license expires in the year 2008, and Edison is under no obligation to exploit the Company's technology.

Through December 31, 1997, the Company had reported revenues from Edison of \$7.2 million for a licensing fee, the supply of prototype batteries and other system components, a refueling system and a pilot 10 kg/hour regeneration plant. In accordance with the license agreement, Edison has agreed to pay the Company royalties on net sales of products and services incorporating the Company's technology, after those sales exceed \$10 million, at the following rates: 5% on net sales over \$10 million up to \$100 million; 4% on net sales over \$100 million up to \$125 million; 3% on net sales over \$125 million up to \$150 million; and 2% on net sales over \$150 million.

Sweden -- Vattenfall

Contemporaneously with the Field Test in Bremen, Vattenfall AB and the Swedish postal service, Posten Distribution AB, have been operating two of the Field Test vehicles in Sweden. For this purpose, Vattenfall has contracted with the Company to purchase Electric Fuel Vehicle batteries, identical to those being used in the Field Test. The Company has agreed to provide refueling and regeneration services to Vattenfall from the 100 kg/hour regeneration plant in Bremen.

In April 1997, the Company completed a rights agreement with Vattenfall, under which Vattenfall exercised its right for a license to establish and operate the Electric Fuel infrastructure for the territory of Sweden, Denmark, Norway, Finland and St. Petersburg, Russia. While a definitive license agreement has not yet been signed, the rights agreement covers the main elements of the license agreement and the future development of the Electric Fuel Electric Vehicle System in the Scandinavian market. If executed, the agreement would run for 25 years and allow Vattenfall, for payment of royalties and certain other considerations to Electric Fuel, the exclusive right to commercialize the Electric Fuel Electric Vehicle System. Vattenfall would then have the exclusive right to own and operate regeneration plants, to run and operate refueling and battery exchange stations and to distribute Electric Fuel batteries in the above described territory. Execution of the definitive license agreement will be decided upon by Vattenfall only after completion of the Field Test in May 1998.

Israel -- Israel Electric Corporation

During the fourth quarter of 1996, the Company and the Israel Electric Corporation ("IEC") entered into an agreement (the "IEC Agreement") pursuant to which the Company and IEC agreed to cooperate with respect to a demonstration program for and marketing of the Electric Fuel Electric Vehicle System in Israel. Pursuant to the IEC Agreement, IEC was also granted the exclusive license for sales of Electric Fuel and the provision for zinc-air battery refueling and regeneration services in Israel, Egypt, Jordan, Lebanon, Syria and the Palestinian Authority. In addition, IEC has agreed to pay to the Company royalties based on a percentage of revenues related to the license after June 30, 1999. The IEC Agreement also provides a right of first refusal to IEC with respect to similar licenses covering Saudi Arabia, Iraq, Iran and the United Arab Emirates. The IEC Agreement may be terminated by either party for breach and by IEC, in any event, upon 60 days notice to the Company. IEC has paid the Company \$960,000 in connection with the IEC Agreement. IEC will be test driving one Mercedes-Benz MB410 van in Israel during 1998.

The Netherlands

Electric Fuel, pursuant to a Memorandum of Understanding, is working on a program for the Province of Gelderland, the largest province in Holland, to utilize the Electric Fuel Electric Vehicle System in passenger van "train-taxis", cabs which transport people between train stations and their final destinations. The program is managed by KEMA,

-5-

an international consulting and management organization which specializes in electric energy systems. Other project partners include electric utility companies NUON of Holland and Vattenfall of Sweden. One Mercedes-Benz Vito passenger van was converted to an electric drivetrain and was presented at the World Sustainable Energy Trade Fair in Amsterdam in May 1997, where the Company exhibited its technology. This vehicle is currently undergoing final modifications at Mercedes-Benz to accept Electric Fuel batteries.

THE UNITED STATES

Electric Power Research Institute

In 1997, the Company and the Electric Power Research Institute, the

research and development organization for the electricity industry, signed a memorandum of understanding for a phased program to collaborate in the development and commercial introduction of the Electric Fuel technology in North America. In accordance with the memorandum of understanding, a preliminary study was performed by EPRI in cooperation with Electric Fuel to establish principal markets for the Electric Fuel vehicle battery system. EPRI is now conducting an assessment of fleet market acceptability of the Electric Fuel zinc-air batteries. EPRI is also conducting a program to investigate the economic feasibility of establishing a zinc regeneration infrastructure in specific US geographic regions, assess the environmental impact of the technology and its infrastructure, verify performance of the zinc-air battery system in a certified laboratory and test the performance of the battery under actual use conditions in the United States.

New York Power Authority

The Company and the New York Power Authority signed a memorandum of understanding in 1997 for a joint program to introduce the Electric Fuel zinc-air battery system in the New York City area, concentrating at first on buses for mass transit. Under the program, Electric Fuel and the New York Power Authority have stated their intent to work together to secure local partners drawn from the private and public sectors who are interested in participating in the demonstration project. These include local business fleet operators, transit operators, environmental and government organizations.

The Company and the New York Power Authority have also stated their intention to jointly undertake feasibility studies to determine the technical and financial viability of moving forward with a full-scale commercial operation to include construction of a zinc regeneration facility in New York City.

Center for Sustainable Technology

The Company and the Center for Sustainable Technology, L.L.C., have signed a memorandum of understanding to establish the first US-based Electric Fuel battery bus demonstration site in Las Vegas.

Subject to receiving funding from the U.S. Department of Transportation, it is anticipated that the joint project will include outfitting, operating and maintaining a zinc-air powered bus in Nevada to demonstrate the practical applications of the Electric Fuel Electric Vehicle System in transit buses, and demonstrate the superior performance and convenience of the Electric Fuel Electric Vehicle System.

The Center for Sustainable Technology and the Company plan to develop engineering requirements for a model zinc regeneration facility to refuel a fleet of electric vehicles. Electric Fuel and the Center for Sustainable Technology intend to form strategic alliances with both public and private organizations in Nevada to support this phase of the project. There can be no assurance, however, that such funding will be obtained.

JAPAN -- TOMEN CORPORATION

The Company and Tomen Corporation have signed a cooperation agreement to introduce the Electric Fuel Electric Vehicle System in Japan and other locations in the Far East. Under the first phase of the agreement, the Company and Tomen will determine feasibility of advancing the zinc-air technology in Japan, including pursuing a demonstration

-6-

project and researching the potential market requirements. Tomen is acting as Electric Fuel's exclusive marketing representative with industry, governmental and quasi-governmental organizations, and is researching the legal and regulatory requirements in Japan to commercialize the zinc-air technology.

The Company and Tomen are also working to form strategic alliances with public and private organizations to support the program and advance the commercialization of the zinc-air battery.

COMPETITION

The Company believes that its products must be available at a price that is competitive with alternative technologies, particularly those intended for use in zero or low-emission vehicles. Besides other battery technologies, these include "hybrid systems", which combine internal combustion engine, diesel engine, battery technologies, use of hydrogen, and regular or low pollution fuels such as gasoline, diesel, compressed natural gas, liquified natural gas, ethanol and methanol. Other alternative technologies presently use costly components, including use of fuel cells, supercapacitors, flywheels and catalytic removal of pollutants. These various technologies are at differing stages of development and any one of them, or a new technology, may prove to be more cost effective, or otherwise more readily acceptable by consumers, than the Electric Fuel Electric Vehicle System. In addition, the California Air Resource Board has expressed concerns to the Company about the infrastructure requirements of the Electric Fuel Electric Vehicle System as compared to battery technologies which use electrical recharging.

The competition to develop electric vehicle battery systems and to obtain funding for the development of electric vehicle battery systems is, and is expected to remain, intense. The Company's technology competes with other

battery technologies as well as with different zinc-air batteries and with advanced vehicle propulsion systems. The competition consists of development stage companies as well as major international companies, and consortia including such companies, including automobile manufacturers, battery manufacturers, and energy production and transportation companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company.

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

In addition, several consortia have been formed to fund research on electric vehicle battery technologies which compete with the Company's battery technology, including the United States Advanced Battery Consortium ("USABC"), an organization that has funded to date a total of \$260 million, which is financed by the United States Department of Energy, General Motors Corporation, Ford Motor Company, Chrysler Corporation, and the Electric Power Research Institute; the Advanced Lead-Acid Battery Consortium, funded by North American lead manufacturers; and the New Energy Development Organization, a Japanese consortium funded by the Japanese government and certain Japanese battery manufacturers. The Company believes that competing zinc-air battery technologies are at a much earlier stage of development, not just in terms of size and number of cells, modules and demonstrations in electric vehicles, but also in terms of the scale of development effort.

The Company believes that the Electric Fuel Electric Vehicle System exhibits a combination of performance characteristics superior to those of other electric vehicle battery technologies that are currently commercially available or, to the Company's knowledge, currently under development. Electric vehicle performance requirements that are likely to be established by fleet operators will include vehicle range, load capacity, speed and acceleration characteristics, refueling/recharging time and operating cost per mile.

An area of increased development has been that of fuel cell powered vehicles, spearheaded by the Ballard Corp.'s solid polymer electrolyte hydrogen-air fuel cell program. The Company considers that intrinsic problems of this system, covering costs of the precious metal catalysts and other cell components such as the polymer membrane, as well as the development of a safe and compact method of storing the hydrogen fuel (or successfully generating it via a reformer from a conventional alternative liquid fuel), could delay implementation of this system for several years. Significant investments

-7-

in this technology have been made by major automobile companies (i.e., Mercedes-Benz, Ford, General Motors, and Chrysler Corp.)

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

MARKETING

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

CONSUMER BATTERY DIVISION

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

PRODUCTS

The Company is currently developing a series of primary, prismatic, zinc-air cells for use in battery packs for cell phones. The Company has produced prototype cells for the three most popular models of cell phones -- the Motorola MicroTAC type, Nokia 2100 series and the Ericsson 600. The Company believes these batteries will offer competitive advantages in performance, convenience, price, safety and recycling.

According to Hershel Shostek and Associates, an independent research firm, at the end of 1997 there were over 200 million subscribers for cellular phones worldwide, with projected growth to almost 800 million users by the year 2003. The Company believes that a significant number of these users will purchase primary batteries for their cell phones as an accessory or back-up for their rechargeable batteries. Consumer acceptance of a primary battery for cell phones is expected to increase as more cell phone networks have become digital and cell phones power requirements is decreasing. Based on a digital cellular network with a new generation lower power cell phone, tests have demonstrated that Electric Fuel batteries could provide up to four weeks of power at standby and 15 hours of talk time.

Battery Performance

Electric Fuel Batteries deliver a unique combination of high energy density and high power density which provides superior performance in cell phones, camcorders and notebook PCs. The Company believes it can achieve an improvement

factor of 3-4 times against any available rechargeable battery made for these products. The Company believes this power feature is the reason many consumers will use a primary (single use) battery.

In Company testing, an Electric Fuel battery for analog cellular phones has exhibited capacity of 2.65Ah, equivalent to over six hours of "talk time" in analog cellphones. This is three times more time than currently available Li-ion battery provides with equal battery pack dimensions. The Electric Fuel battery also weighs one third less than the Li-ion battery. The Company has developed a specification of a battery for a leading notebook computer with a capacity of 110Wh, compared to 30-35Wh for most Li-ion rechargeable batteries for notebook computers.

Convenience

Electric Fuel Batteries are expected to provide the same kind of convenience for cell phones and notebook PCs that "AA"s provide to "walkman" type cassette/CD players and pagers. A typical user will be able to use a digital cellular telephone for up to four weeks with a single battery. The Company's batteries are expected to be small, lightweight and

-8-

available in multiple retail channels. With an expected two year shelf life, the Company's batteries can be kept in a briefcase, purse, desk drawer, glove compartment, etc. and always be fully charged and ready to use.

MARKETING

The Company's objective is to become a leading provider of primary battery cells and batteries for portable electronic devices (PED's), initially for cell phones. To achieve that objective, the Company intends:

(1) to develop a network of strategic alliances with OEMs of these products, as well as companies engaged in the distribution & retailing of these products, battery manufacturers and others;

(2) to initially market battery cells, made by the company, to large OEMs who build and bundle the primary batteries with new product shipments and then distribute batteries to the installed base of consumers through traditional and emerging retail channels;

(3) as costs come down and market acceptance increases, the Company intends to market cells and batteries through various consumer distribution channels and seek strategic relationships with leading consumer battery manufacturers; and

(4) to develop a "power by Electric Fuel" brand name recognition program with OEMs and the battery manufacturers.

The Company's business strategy is based on selling high performance, zinc-air cells and batteries to customers including OEMs such as leading cellular telephone manufacturers worldwide; and carriers and cellular phone providers, as well to private-label battery manufacturers and distributors of cellular products and accessories.

The Company believes that initial penetration of primary batteries into these markets will depend on receiving initial orders for the cells from OEMs. Thereafter, with increasing consumer awareness and demand, consumer product companies can be approached. The Company's primary target is the cell phone market. The Company believes that after some initial success with a primary battery in the cell phone market, camcorders and notebook PCs batteries can be introduced to the market as well.

The Company believes that the market for primary batteries for these devices is not significant today principally because current primary batteries don't provide significant performance or weight advantages to make such a product acceptable to consumers. The Company believes that its primary zinc-air cells, with three or four times more performance combined with lighter weight match the requirements of the marketplace. The Company further believes that consumer acceptance is reasonably assured as most other portable electronics (such as walkman-type cassette players and electronic handheld games) are operated with primary batteries, as do nearly all household items such as cameras, watches and flashlights, etc.

The Company believes that long life, primary batteries for these devices offer significant advantages to both OEMs, service providers and consumers. Consumers will benefit by having additional operating time and features, OEMs will benefit by being able to offer PED's with enhanced features and by selling a frequently purchased, branded product (the batteries). Service providers, especially cellular carriers will benefit by an increase of "minutes of use" by subscribers.

The Company projects two sources of sales for primary batteries for cellular phones: batteries shipped with new handsets and batteries sold into the installed base.

DISTRIBUTION

The Company does not intend to be directly involved in the distribution of batteries to the consumer. Rather, batteries are expected to be distributed through two channels. The first is distribution of cell phone batteries bundled with new handsets sold by OEMs, in order to reach both new customers and current customers who are purchasing new equipment. The retail end of this channel has

traditionally been resellers and specialty outlets. In addition, cellular equipment and service is increasingly becoming available at mass merchants. The second channel of distribution is by third

-9-

party distributors who sell to retailers from mass merchants to regional and local supermarkets and convenience stores and specialty retailers (such as airport shops).

Marketing for batteries, both primary and rechargeable has evolved and expanded during the past year. Large battery companies are entering the mass channels of distribution with branded name rechargeable batteries for cell phones & notebook PCs. These companies are targeting the traditional retail channels for alkaline batteries to sell rechargeable batteries for cell phones and notebook PCs. As these retailers begin selling rechargeables for cell phones and notebook PCs, the Company believes there will be a similar opportunity to market a primary battery for cell phones and notebook PCs in these outlets.

COMPETITION

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The Company's batteries will compete with both rechargeable and primary battery packs. Competing rechargeable batteries include nickel-cadmium, nickel-metal-hydride and lithium-ion. Alkaline batteries are making an initial appearance in the market for primary batteries for cellular phones. The companies offering these competing technologies have substantially greater resources than the Company. The Company believes its batteries will offer competitive advantages in performance, convenience, price, safety and recycling.

DEFENSE AND SAFETY DIVISION

The Defense and Safety Products division is continuing to expand the development of other advanced uses of the battery technology, including a high-power zinc-oxygen battery for torpedoes and an advanced portable zinc-air battery for the US Army. This division also oversees the Company's water-activated survivor locator light for the airline and marine applications and will pursue further development of the safety products business. The Company was recently awarded a contract from Israel's Ministry of Defense to develop an advanced zinc-air battery for a propulsion system. The first phase of the contract will run through the end of 1998.

DEFENSE

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

PROJECTS

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In December 1997, the Company was awarded a contract from the US Army's Communications-Electronics Command (CECOM) to develop an advanced primary zinc-air battery. The contract runs from January 1, 1998 through June 30, 1999.

Under the terms of the contract, the Company is required to deliver ten prototype battery packs of at least 400 watt-hours each. CECOM has set 400 watt-hours per kilogram as the minimum specific energy content of the prototype batteries to be delivered under the contract. Electric Fuel was one of three companies selected to perform the development work, along with Rayovac Corp. and Eagle Picher Industries, Inc.

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

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

The Company concluded the work on a second development contract for its compact, high-power zinc-oxygen battery for torpedo propulsion in July 1997. This contract with STN Atlas Elektronik GmbH of Hamburg, Germany,

-10-

(STN ATLAS) which ran from July 1996 through July 1997, was a follow-up to the first contract with STN ATLAS, which ran from July 1995 through June 1996.

STN ATLAS is the prime contractor to the German Defense Ministry for a new generation of heavyweight torpedo, and Electric Fuel's zinc-oxygen technology is being considered by STN ATLAS as a possible technology for a future version of the torpedo.

MARKETING

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With shrinking defense budgets in most Western countries, less funds are being made available for research and development. The defense establishment in many countries, including the US, is looking to adopt so-called dual-use technologies, i.e., technologies that are produced for commercial markets and

that can be adapted to military specifications with a minimum of expenditure. The Electric Fuel zinc-air technology fits this latter requirement, as the batteries being developed for military applications are similar to the batteries that Electric Fuel has developed and continues to develop for the electric vehicle and consumer battery markets.

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

COMPETITION

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

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

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

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

The Company's high-power zinc-oxygen battery technology competes with primary and secondary silver-zinc batteries, and with developmental aluminum-silver oxide batteries.

Silver-zinc batteries are produced by other battery manufacturers, and are commonly used for underwater propulsion and torpedo propulsion. Cost of producing and maintaining such batteries is high, and the zinc-oxygen battery can yield somewhat higher energy and power densities.

The aluminum-silver oxide battery has been developed by SAFT and Friwo Silberkraft and has been implemented in a lightweight torpedo, but scaling up to heavyweight torpedo size has been reported to be complicated because of the electrolyte circulation systems.

-11-

SAFETY PRODUCTS

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

Products

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

The WAB-H12 SLL consists of a magnesium-cuprous chloride battery attached to a light assembly that includes a mini-bulb inside a plastic focusing lens. The battery is activated by either sea water or fresh water, and lasts for 12 hours. The lens is designed to focus maximum light in the horizontal and vertical directions dictated by various specifications governing certification of the product.

The Company manufactures, assembles and packages the SLL in its factory in Bet Shemesh, Israel. First shipments of the WAB-H12 were made in 1996, and as of the first quarter of 1998 regular monthly shipments are being made to several customers, most of whom are leading manufacturers of life vests and rafts for the commercial aviation market worldwide.

At the end of 1997, the Company began development of a new product intended specifically for the marine market, where new certification requirements are to take effect on July 1, 1998 (See Certification). This new product, designated the model WAB-MX8 lifejacket light, has been submitted for testing and approval as of March 1998. The WAB-MX8 utilizes two batteries of the type made for the WAB-H12 light, and uses a high efficiency bulb enclosed in a non-focusing dome-type lens intended to maximize light intensity throughout the upper hemisphere of the light sub-assembly, as dictated by the new marine certification requirements.

If approval is obtained, the Company expects to begin manufacturing the WAB-MX8 life jacket light by the end of 1998.

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

CERTIFICATION

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For use in the aviation market, a survivor locator light requires certification by the US Federal Aviation Administration (FAA) under Technical Specification Order (TSO) C-85. This certification is generally recognized worldwide. The primary functional requirement is that the appliance provide a minimum light intensity of 1.0 candela (cd) in certain specified horizontal and vertical directions for a minimum of 8 hours.

TSO approval is given to non-American manufacturers by the civil aviation authority in the country of manufacture, after TSO Design Approval by the FAA itself. Since the Company's manufacturing facilities are located in Bet Shemesh, Israel, this approval is given by the Civil Aviation Authority of Israel (CAAI).

The Company's Model WAB-H12 Survivor Locator Light received this approval and Aeronautical Product Approval (APA) C-85 certification from the CAAI in 1996, following TSO Design Approval by the FAA, and this approval is given without time limit. The Company is obligated to manufacture the WAB-H12 light with a quality assurance system approved by CAAI, and approval of the Company's Quality Assurance system for the WAB-H12 was also granted in 1996. Each shipment of TSO-certified lights must be accompanied by a CAAI-issued Certificate of

-12-

Airworthiness, demonstrating that every shipment from the Company is preceded by an inspection visit from the CAAI Airworthiness Division.

A new FAA specification, TSO C-85a, has been in effect since the 4th quarter of 1996. This new specification has more stringent testing requirements than the original TSO. Any SLL's approved under the original TSO C-85 may continue to be manufactured indefinitely under that approval, and there is no obligation to upgrade to the new TSO. To the Company's knowledge, no SLL has yet been approved under TSO C-85a. The Company has not yet applied for approval under the new specification, but intends to apply in 1998.

For use in the marine market, approval by bodies such as the US Coast Guard are required. There are two types of approval relevant to the Company's products: US Coast Guard (USCG) approval for lakes and inland waterways, and approval under the International Marine Organization (IMO) Safety on Life at Sea (SOLAS) Convention for use at sea, which can be obtained through the USCG. The primary functional requirement is similar to that of the FAA TSO C-85, except that the minimum light intensity is 0.75 cd in the marine market instead of 1.0 cd. The Company received both types of approval from the USCG in 1997 for the WAB-H12 light.

However, in 1996 new SOLAS regulations were approved, calling for a change in the functional requirement wherein the 0.75 cd light intensity would be required throughout the "upper hemisphere" rather than in certain directions only. As a result, the Company's SOLAS approval expires on June 30, 1998, while the USCG approval for lakes and inland waterways extends to 2002.

The Company expects to receive SOLAS approval for at least one new product, the model WAB-MX8 lifejacket light, in 1998. The Company will manufacture the WAB-MX8 light in its Bet Shemesh factory, under the auspices of its CAAI-approved Quality Assurance system.

MARKETING

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The annual market for life jacket lights is estimated at more than 2 million units worldwide, of which about 50% is in the United States. About one-third of the sales are in the aviation market, and the other two-thirds in the marine market. All markets have shown growth of at least 5% per year in recent years, but recent economic developments in the Asian markets could mean a flattening or slight reduction in the market over the next two years.

The Company first targeted the aviation market, because of the small number of lifejacket manufacturers producing TSO-certified products. There are about 5 major producers worldwide catering to the TSO market, with 4 of them located in the US.

COMPETITION

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

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

McMurdo also makes a range of water-activated and manually activated lifejacket and liferaft lights and related products for the marine market, and

its parent company (and exclusive distributor) Pains Wessex Ltd. of England manufactures other marine safety products such as emergency pyrotechnic devices. McMurdo uses water-activated magnesium-silver chloride batteries in its TSO lights, and offers both water-activated and lithium-based lights for the marine market. McMurdo has also announced a primary lithium-battery based product to meet the new SOLAS regulations.

-13-

MANUFACTURING

The Company has constructed a production facility in leased premises in Bet Shemesh, Israel for manufacturing and assembling the Electric Fuel batteries and related components of the Electric Fuel System. This facility is utilized to manufacture and assemble Electric Fuel batteries for electric vehicle demonstration programs, survivor locator lights, and prototype consumer battery cells. The Company plans to expand this facility as needed to enable more efficient assembly of batteries in greater quantities. The Company believes that the manufacturing process required to produce its batteries incorporates relatively standard and inexpensive procedures and, that therefore, the establishment of a full-scale production facility should be commercially feasible.

It is the Company's plan that zinc anodes for its electric vehicle battery will be manufactured by parties licensed by the Company to operate regeneration facilities. Regeneration and refueling equipment are expected to be manufactured by the Company and by third parties licensed by the Company to do so, although proprietary components of the equipment may be manufactured and supplied by the Company. Prototype regeneration and refueling systems have been constructed by the Company and are in operation at its facilities in Israel and a prototype regeneration facility is in operation in Italy. The Company has also constructed a 100 kg/hr regeneration facility in Bremen, Germany. The zinc regeneration facility in Israel is used to produce zinc for the Company's consumer zinc-air batteries as well.

REGULATORY AND ENVIRONMENTAL MATTERS

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

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

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

PATENTS AND TRADE SECRETS

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

In general, the Company's proprietary technology may be categorized as follows: the overall Electric Fuel System or a combination of the Electric Fuel System components; the zinc anode, including its physical and mechanical attributes; the construction of the air cathode; cell structure and arrangements; connectors; the automatic refueling system; zinc regeneration and safety features; small consumer batteries, their components and manufacture. The Company's issued patents and pending and anticipated patent applications are principally related to inventions within these categories. The Company believes that these patents, together with its trade secrets, experience, know-how and contractual

-14-

arrangements adequately protect the Company's technology. The Company holds 34 unexpired patents granted in the United States of which five are non-zinc-air patents covering such items as water activated batteries. The Company also holds nine approved patent applications in Europe and two approved patent applications in Israel. The Company has patent applications pending in the United States, in Europe, Israel, Japan, and elsewhere, and is continually preparing additional patent applications for filing in the United States and elsewhere. All of the Company's currently issued patents expire between June 2009 and December 2014.

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

RESEARCH AND DEVELOPMENT

During the years ended December 31, 1995, 1996, and 1997, the Company's gross research and product development expenditures, including costs of revenues of prototype batteries and components of the Electric Fuel System, were \$14.4 million, \$13.1 million and \$12.2 million, respectively. During these periods, the Office of the Chief Scientist of the Israel Ministry of Industry and Trade (the "Chief Scientist") participated in research and development efforts of the Company thereby reducing the Company's gross research and product development expenditures in the amounts of \$1.6 million, \$1.5 million and \$2.4 million, respectively.

Under the terms of the grants from the Chief Scientist and current Chief Scientist regulations, the Company is obligated to pay royalties at the rate of 3% of the net sales of products developed from projects funded by the Chief Scientist for the first three years of sales, with increasing levels thereafter, up to 5%. The Company currently pays royalties at the rate of 3% of Electric Vehicle revenues. The obligation to make such royalty payments ends when 100% of the amount granted (in NIS linked to the dollar) is repaid. The Government of Israel does not own proprietary rights in the technology developed using its funding, but certain restrictions with respect to the technology apply, including the obligation to obtain the Israeli Government's consent to manufacture the product based on such technology outside of Israel or for the transfer of the technology to a third party, which consent may be conditioned upon an increase in royalty rates or in the amount to be repaid. Current regulations require, that in the case of the approved transfer of manufacturing rights out of Israel, the maximum amount to be repaid will be increased to 120% to 300% of the amount granted, depending on the extent of the manufacturing to be conducted outside of Israel, and that an increased royalty rate will be applied.

EMPLOYEES

As of March 15, 1998, the Company had 3 employees at its Auburn, Alabama research facility. In its Israeli subsidiary there were 116 full-time employees, of whom 7 hold doctoral degrees and 59 hold other advanced degrees. Of the total, 44 employees were engaged in product research and development, 52 were engaged in production and operations, and the remainder in general and administrative functions. The Company had, in its German subsidiary, 28 employees engaged in plant operations there. The Company's success will depend in large part on its ability to attract and retain skilled and experienced employees.

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

-15-

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

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

result in any material liability to the Company.

THE REORGANIZATION

Immediately prior to the Company's initial public offering in March, 1994, one of the Company's principal stockholders, Advanced Materials Technologies, Inc. ("Amtec") was merged with and into the Company (the "Reorganization"). The Boards of Directors of EFC and Amtec determined that a reorganization of the ownership of EFC and Amtec was necessary in order to simplify the corporate structure, achieve operating efficiencies and put publicly traded stock in the hands of EFC's ultimate stockholders. The Reorganization was accomplished by a merger pursuant to which Amtec was merged with and into EFC, with EFC being the surviving corporation and with holders of Amtec's Common and Preferred Stock receiving shares of EFC's Common Stock in exchange for the Amtec equity held by them. Thus, the effects of the Reorganization were (1) to eliminate Amtec by merging it with and into EFC, and (2) to give former stockholders of Amtec equity interests directly in EFC in exchange for their equity interests in Amtec. EFC also acquired certain assets totaling approximately \$328,000 in connection with the Reorganization.

ITEM 2. PROPERTIES

EFC's corporate headquarters are located in New York, New York and leased on a month-to-month basis. The Auburn, Alabama research facility, constituting approximately 2,000 square feet, is leased on an annual basis. The Company's research and development and administrative facilities, constituting approximately 11,000 square feet, are located in Jerusalem, Israel and held under a lease agreement expiring in March 2000. The Company's production facilities for the manufacture and assembly of Electric Fuel batteries, related Electric Fuel System components, and Survivor Locator Lights, constituting approximately 34,000 square feet, are located in Beit Shemesh, near Jerusalem, Israel and held under lease agreements which expired on December 31, 1997. The Company is completing a new agreement whereby the lease term would be extended for up to 10 years, with the ability to terminate the lease at any time upon 12 months written notice. In addition, during 1996, the Company leased in Beit Shemesh, additional space of approximately 16,000 square feet. The lease agreement expires on March 19, 1999, and the term of the lease may be extended for up to two years upon six months' prior written notice. The Company intends to transfer the production facilities currently located in Beit Shemesh to a new facility in Jerusalem, once it is constructed.

The Company's wholly owned subsidiary, Electric Fuel GmbH ("EFGmbH"), has leased a facility located in Bremen, Germany from Stadtwerke Bremen AG within which it has established a regeneration plant to operate vehicles

-16-

for the Deutsche Post Field Test. The lease is currently in effect and will remain in effect until 6 months after the end of the Field Test. EFGmbH has the option of extending the term of the lease until December 12, 2006. In the event that EFGmbH exercises its option, it has the right to terminate the agreement at the end of each calendar quarter upon three months written notice. In addition EFGmbH has leased approximately 3,000 square feet of office space alongside the regeneration facility. Part of the space is sub-leased. The lease agreement expires on April 30, 1998, at which time the offices will be moved into the Stadtwerke facility.

The aggregate rental payments under the long term leases, at rates in effect at December 31, 1997, are approximately \$242,000, \$174,000, and \$39,000 in the years ended December 31, 1998, 1999 and 2000 respectively. The rental payments in Israel are payable in Israeli currency linked to the Israeli Consumer Price Index.

The Company is actively looking for additional land to construct larger premises near its Jerusalem facilities. The Company received a letter in August 1995 from the Israel Ministry of Industry and Trade authorizing the allocation to the Company of approximately 5.4 dunam (approximately 1.4 acres) with rights to construct facilities of up to approximately 90,000 square feet in Jerusalem, near its existing facilities. Although the Company has paid the Jerusalem Land Development Authority approximately \$77,000 in development fees related to this site, the Company continues to look for a more suitable site. If the Company does not enter into a lease agreement for the site, the development fees will be returned to the Company.

ITEM 3. LEGAL PROCEEDINGS

None.

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

None.

-17-

PART II

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

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

<TABLE>
<CAPTION>

	HIGH	LOW
	-----	-----
<S>	<C>	<C>
1994		
First Quarter	\$ 14.25	\$ 8.00
Second Quarter	12.50	6.50
Third Quarter	8.50	5.50
Fourth Quarter	8.50	5.75
1995		
First Quarter	\$ 6.25	\$ 4.25
Second Quarter	13.875	4.625
Third Quarter	11.375	7.875
Fourth Quarter	10.00	7.875
1996		
First Quarter	\$ 11.75	\$ 6.25
Second Quarter	8.00	6.125
Third Quarter	7.25	5.875
Fourth Quarter	7.00	5.875
1997		
First Quarter	\$ 7.63	\$ 4.75
Second Quarter	7.75	5.31
Third Quarter	10.25	6.13
Fourth Quarter	9.06	3.25

</TABLE>

As of March 17, 1998 the Company had approximately 221 holders of record of its Common Stock.

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

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below with respect to the statements of income (loss) for each of the five fiscal years in the period ended December 31, 1997, and with respect to the balance sheets at the end of each such fiscal year has been derived from the financial statements of the Company, which have been audited by Kesselman & Kesselman, independent certified public accountants in Israel, and a member firm of Coopers and Lybrand International. The financial information set forth below is qualified by and should be read in conjunction with the Financial Statements contained in Item 8 of this Report and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 of this Report."

-18-

<TABLE>
<CAPTION>

	Year Ended December 31				
	1993	1994	1995	1996	1997
<S>	<C>	<C>	<C>	<C>	<C>
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE)				
Statement of Operation Data					
Revenues	\$3,694	\$ 4,873	\$ 4,372	\$ 5,405	\$ 4,526
Research and Development - expenses and costs of revenues	1,830	4,770	14,379	13,068	12,228
Less: royalty-bearing grants	(578)	(699)	(1,561)	(1,506)	(2,382)
	1,252	4,071	12,818	11,562	9,846
Provision for anticipated program losses	-	1,500	2,600	-	-
Selling, general and administrative expenses	1,694	3,365	2,725	4,693	4,440
Operating income (loss)	\$ 748	\$ (4,063)	\$ (13,798)	\$ (10,850)	\$ (9,760)
Financial Income (expenses)	50	583	664	794	775
Income (loss) before taxes on income	\$ 798	\$ (3,480)	\$ (13,134)	\$ (10,056)	\$ (8,985)
Taxes on Income	147	20	35	(38)	144
Income (loss) from the operations of the Company and its subsidiaries	\$ 651	\$ (3,500)	\$ (13,169)	\$ (10,018)	\$ (9,129)
Share in loss of investee Company	\$ -	61	52	-	-
Net Income (loss)	651	(3,561)	(13,221)	(10,018)	(9,129)
Earnings (loss) per share	\$0.08	\$ (0.43)	\$ (1.87)	\$ (0.92)	\$ (0.73)
Weighted average number of common shares outstanding (in thousands)	7,926	8,319	7,088	10,947	12,515

AS AT DECEMBER 31

1993 1994 1995 1996 1997

BALANCE SHEET DATA:					
Cash, cash equivalents & investments in marketable debt securities	\$2,514	\$18,222	\$ 9,580	\$ 23,959	\$16,717
Receivables and other assets	958	2,528	4,135	3,259	3,101
Fixed assets, net of depreciation	398	1,989	5,986	7,304	4,754
Total Assets	\$3,870	\$22,739	\$ 19,701	\$ 34,522	\$24,572
Liabilities	\$2,783	\$ 3,736	\$ 13,880	\$ 6,652	\$ 5,813
Long term debt	0	0	0	0	0
Stockholders Equity	1,087	19,003	5,821	27,870	18,759
Total liabilities and stockholders equity	\$3,870	\$22,739	\$ 19,701	\$ 34,522	\$24,572

</TABLE>

-19-

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

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

GENERAL

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

In part, because the market for electric vehicles has not demonstrated previously anticipated levels of growth in 1997, the Company began a strategic shift to actively expand its activities into additional applications for its zinc-air battery technology. In addition to its electric vehicle application, the Company is focusing efforts in developing and commercializing its battery technology for consumer electronics, defense and safety applications. The Company is developing a zinc-oxygen battery for torpedoes, is developing an advanced portable zinc-air battery for the US Army's Communications-Electronics Command (CECOM), has developed and is selling a signal light powered by water activated batteries for use in life jackets and other rescue apparatus (the "Survivor Locator Light"), and is developing a primary battery for hand-held electronic devices, such as cellular telephones, and laptop computers. Other than the Survivor Locator Light, the Company currently has no commercial products available for sale and does not expect to generate sales in commercial quantities in the near term.

In January 1998, the Company announced the creation of three market-related divisions to expand its zinc-air battery technology for wider applications. The three divisions are Electric Vehicle, Consumer Batteries, and Defense and Safety Products.

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

The Company incurred significant operating losses for the years ended December 31, 1997, 1996 and 1995, and expects to continue to incur significant operating losses over the next several years. These losses may increase and be incurred over a longer period of time as the Company expands its research and development activities and establishes production and facilities, and such losses may fluctuate from quarter to quarter. However, if any of its products are successfully commercialized, the Company expects to derive revenues from the sale of components of the Electric Fuel Electric Vehicle System, including refueling and Electric Fuel services, batteries for portable electronic products, defense

and safety products manufactured by the Company, as well as from licensing rights to the Electric Fuel technology to third parties. There can be no assurance that the Company will ever derive such revenues or achieve profitability.

Functional Currency

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

Forward Looking Statements

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

RESULTS OF OPERATIONS

Years Ended December 31, 1997 and 1996

Revenues for the year ended December 31, 1997, totaled \$4.5 million compared with \$5.4 million for the comparable period in 1996. Revenues for 1997 included fees collected in relation to a rights agreement completed with Vattenfall under which Vattenfall exercised its right for a license to establish and operate the Electric Fuel infrastructure for the territory of Sweden, Denmark, Norway, Finland and St. Petersburg, Russia. Additional revenues related to Vattenfall will be recognized only after a definitive license agreement has been signed. Execution of the definitive license agreement will be decided upon by Vattenfall only after completion of the Field Test in May 1998. Additionally, the Company completed recognition of revenues relating to its activities in connection with the Deutsche Post Field Test program. For 1998, the Company and the Deutsche Post have agreed that, subject to the satisfaction of certain conditions, the Deutsche Post will cover direct operating costs of the Bremen plant and the test vehicles until May 1998, up to a maximum amount of DM 2.5 million (\$1.4 million). The Company also completed recognition of revenues from Phase 2 of its agreement with STN Atlas Elektronik GmbH (STN) to develop a high power zinc oxygen battery for torpedoes. In addition, the Company recognized revenues from the supply of batteries and equipment to Edison, as well as from the sale of survivor lights to various customers in the United States, principally in the fourth quarter. Survivor light revenues are expected to increase during 1998. Revenues for the year ended December 31, 1996, were principally derived from activities relating to the Field Test, and the granting of a license to Israel Electric Company for regeneration and refueling in Israel and other neighboring countries. Additionally, the Company completed recognition of revenues related to phase 1 of its development program with STN, and began recognition of Phase 2 of its STN program. The Company also recognized revenues from Edison in connection with the license granted to it.

Research and development expenses and cost of revenues totaled \$12.2 million during 1997 compared with \$13.1 million during 1996. The 1996 research and development expenses and cost of revenues are net of \$1.9 million, representing utilization of a portion of the previously accrued provision for project losses. The Company believes that, given the Company's stage of development, it is not, at this time, meaningful to distinguish between research and development expenses and cost of revenues. The decrease in expenses from 1996 was principally attributable to a reduction of expenses in connection with the Deutsche Post Field Test, particularly the costs of the construction of the

regeneration plant in Bremen, and production costs related to the supply of batteries for the Field Test. This overall decrease was partially offset by increased R&D expenses, both for electric vehicles as well as for batteries for portable electronic devices, and production costs related to Survivor Locator Lights. During the year ended December 31, 1997, the Company recorded \$2.4 million of royalty-bearing grants in connection with the Company's 1997 research and development program, including an increase of \$582,000 in Chief Scientist grants in connection with the Company's 1996 research and development program. For the year ended December 31, 1996, the Company recorded \$1.5 million of Chief Scientist grants. Since the Deutsche Post and the Company have agreed to extend

the operations of the Field Test through May, 1998, expenses related to the Field Test are expected to continue to be incurred through the second quarter of 1998. However, direct Field Test expenses during 1998, in contrast to previous years, will be fully funded by the Deutsche Post. During 1997, the salvage value for the regeneration facility in Bremen was reduced by \$2.2 million to a value of \$1.0 million to reflect the Company's current expectations of the value of the plant at the end of the Field Test. The reduction in salvage value was offset by the elimination of the provision for anticipated program losses in the amount of \$2.2 million. R&D expenses and cost of operations related to consumer battery and defense and safety applications are expected to increase significantly during 1998, as the Company intensifies its efforts in these new areas, while expenses related to electric vehicle development are expected to decrease in 1998.

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

Selling, general and administrative expenses for the year ended December 31, 1997 were \$4.4 million compared with \$4.7 million in 1996. While there was a decrease in the overall amount, there were certain nonrecurring expenses included in 1996, particularly a settlement arrangement with respect to a terminated consultant included in marketing expenses (see Note 5(a)3 to the Consolidated Financial Statements). Excluding the above, there was an increase in selling general and administrative expenses of approximately \$200,000. This was primarily attributable to increased salaries, fees and allocated overhead expenses with respect to the expanded geographic scope of the Company's activities including the United States, Scandinavia, and the Far East, as well as from the Company's diversification into new applications for its zinc-air battery technology. The Company does not expect further increases in selling, general and administrative expenses for 1998.

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

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

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

-22-

Years Ended December 31, 1996 and 1995

Revenues for the year ended December 31, 1996, totaled \$5.4 million compared with \$4.4 million in the comparable period in 1995, an increase of \$1.0 million. Revenues for 1996 were principally derived from activities relating to the Field Test program. The balance of the revenues related to the Field Test are expected to be recognized in 1997. The Company also recognized revenues in connection with the granting of a license to the Israel Electric Company for zinc-air battery refueling and regeneration in Israel and other neighboring countries. Additionally, the Company completed recognition of revenues related to phase 1 of its development program with STN Atlas Elektronik GmbH ("STN") to develop a high power zinc oxygen battery for torpedoes, and began recognition of revenues from Phase 2 of its STN program. Finally, the Company recognized revenues from Edison in connection with the license granted to it. Revenues for the year ended December 31, 1995, were principally derived from activities relating to the Field Test, and a grant of marketing rights and the sale of equipment to Vattenfall AB when Vattenfall and the Swedish Post joined the Field Test as associate partners. In addition, revenues related to phase 1 of the Company's agreement with STN and the completion and delivery of all of the Company's outstanding orders from Edison were recognized in 1995.

Research and development expenses and cost of revenues totaled \$13.1 million during 1996 (net of \$1.9 million utilization of a portion of the previously accrued provision for project losses) compared with \$14.4 million during 1995. These expenses for both 1996 and 1995 include expenses in connection with the Field Test, including costs related to construction of the Bremen regeneration facility and battery production costs, costs associated with the operation of the Company's production facilities in Israel, and the continued development and engineering costs relating to the Electric Fuel System. The Company believes that, given the Company's stage of development, it

is not, at this time, meaningful to distinguish between research and development expenses and cost of revenues. In the year ended December 31, 1996, the Company recorded \$1.5 million of royalty-bearing grants representing substantially all of the expected grants from the Chief Scientist in connection with the Company's 1996 research and development program, including an increase of \$320,000 in Chief Scientist grants in connection with the Company's 1995 research and development program. For the year ended December 31, 1995, the Company recorded \$1.6 million of Chief Scientist grants. Expenses related to the Field Test are expected to continue to be incurred through 1997 as the Company continues to deliver batteries and operates the Bremen regeneration plant. Field Test expenses have substantially exceeded any expected revenues related thereto. Since the plant is currently dedicated to the Field Test, the cost of the plant (net of anticipated residual value) is reflected as a current expense.

Selling, general and administrative expenses for the year ended December 31, 1996 increased to \$4.7 million compared with \$2.8 million in 1995. This increase was attributable to the following: increased salaries, fees and allocated overhead expenses with respect to the Company's expanded activities, particularly in Germany; a settlement arrangement with respect to a terminated consultant included in marketing expenses (see Note 5(a)3 to the Consolidated Financial Statements); increased severance accruals resulting from modifications to certain named executive officers' employment agreements; and increased costs as the Company intensified its marketing efforts into new geographic areas. Further increases in recurring selling, general and administrative expenses are expected as the Company expands and its activities.

The provision for anticipated program losses previously recorded by the Company reflects the program losses related to the Field Test currently estimated by management, and accordingly no increase to the provision was recorded in 1996. In the future, however, the provision may be increased to reflect any revised estimates of project costs. The balance of the provision for the uncompleted portions of the program amounts to \$2.2 million as at December 31, 1996. The overall provision includes cost estimates based on the Company's production experience to date for the supply of batteries and battery-vehicle interface equipment, the estimated service expenses for the Field Test fleet and costs related to the regeneration plant in Bremen, Germany which is supporting the Mercedes-Benz Field Test vehicles in service at December, 1996.

Financial income, net of interest expense, exchange differences, bank charges, and other fees, totaled approximately \$794,000 in 1996 compared to \$665,000 in 1995. Financial income, primarily interest earned in the United States and Israel from both taxable and tax-exempt securities, increased to \$1.1 million in 1996 from \$781,000 in 1995.

-23-

The Company incurred net operating losses or had earnings arising from tax-exempt income during the years ended December 31, 1996 and 1995 and, accordingly, no provision for income taxes was required. Taxes in 1996 and 1995 are primarily composed of United States federal alternative minimum taxes.

The Company reported a net loss of \$10.0 million in 1996 compared with a net loss of \$13.2 million in 1995 due to the factors cited above.

IMPACT OF YEAR 2000

The Company has begun investigating the impact of year 2000 on its computer software. The Company's materials requisition, manufacturing and inventory management software is unaffected by Year 2000 problems. However, its financial accounting and payroll applications are for the most part not year 2000 compliant. The financial and payroll applications are "off the shelf" programs under service contracts with the original vendors. These vendors have indicated that they are adapting their software to be year 2000 compliant, and while there might be certain customization and retraining expenses associated with the upgraded software, the Company does not expect to incur material expenditures to resolve year 2000 issues. The Company has not yet investigated the impact regarding operating software for its manufacturing and analytical equipment. The Company is instituting a program to analyze all software in the Company to ensure year 2000 compliance. This program is expected to be completed prior to December 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

As the Field Test comes to its conclusion in mid 1998, the Company expects a reduction in its expenditures in connection with the engineering and commercialization of the Electric Fuel battery for Electric Vehicles, that will be partially offset by both a significant increase in connection with its efforts to research and develop batteries for consumer electronic devices and various defense contracts, as well as increased production costs related to the Survivor Locator Lights. The Company expects that its overall research and development, operational and selling, general and administrative expenses will be lower in 1998 than in 1997, unless the Company generates additional revenues which will support an increase in such expenses.

During the second quarter of 1997, the Company and Deutsche Post executed a letter of intent agreeing to enter into negotiations for the establishment of a joint venture entity that would provide the necessary financial and technological resources in order to continue to develop and successfully commercialize the Electric Fuel Electric Vehicle System in certain European regions. Pursuant to the Letter of Intent, the parties agreed to negotiate a definitive agreement by September 30, 1997. During September, the parties agreed to extend the timetable for negotiations until December 31, 1997. The Letter of Intent did not resolve the funding problems associated with the Field Test, which were expected to be resolved during the course of, or subsequent to, the negotiations on the joint venture. In addition, the Company expected to resolve

the dispute with respect to the Opel refund as part of these negotiations. As of December 31, 1997 no definitive agreement was reached and the Letter of Intent automatically terminated. In December 1997, the Deutsche Post notified the Company that the technology satisfied all the Deutsche Post requirements and that it, subject to the satisfaction of certain conditions, was extending the Field Test to May 31, 1998. The Deutsche Post has given the Company no indication of what program it might support after this date, and there can be no assurance that there will be any on-going relationship with the Deutsche Post following May 31, 1998. Total net consideration to the Company through December 31, 1997, for the batteries, equipment and services supplied in connection with the Field Test has amounted to approximately \$7.5 million for the fiscal years 1995-1997. This excludes the revenues, currently deferred, in connection with the Company's discussions with the Deutsche Post with respect to the Opel batteries.

As of December 31, 1997, the Company had cash, cash equivalents and financial investments of approximately \$16.7 million compared with \$24.0 million as of December 31, 1996.

The Company used available funds in 1997 primarily for continued research and development expenditures, the advancement of its commitments with regards to the Field Test, and other working capital needs. The Company increased its investment in fixed assets by \$508,000 during the year ended December 31, 1997. Following the reduction in the salvage

-24-

value of the Bremen facility by \$2.2 million, fixed assets amounted to \$7.1 million as at year end. Fixed assets include \$1.0 million related to the value of the Bremen facility after its use in the Field Test, based on recent engineering estimates.

EFL presently has a line of credit with the First International Bank of Israel Ltd. ("FIBI") ("the Credit Facility"). Borrowings under the Credit Facility bear interest at FIBI's prime rate + 2% per annum, are unconditionally guaranteed by the Company and are secured by a pledge of foreign currency deposits in the amount of NIS 750,000 (approximately \$212,000). Additionally the Credit Facility imposes financial and other covenants on EFC and EFL and presently expires on May 31, 1998, at which time the Credit Facility will be reviewed for renewal by FIBI. The Credit Facility provides EFL with a line of credit in the maximum principal amount of NIS 3.8 million (approximately \$1.1 million), which can be used as credit support for various obligations of EFL, and enables EFL to enter into up to US \$4.0 million in currency hedging forward contracts with a 5% collateral requirement. As of December 31, 1997, the bank had issued letters of credit and bank guarantees totaling approximately \$410,000. At the present time, the Company is not engaged in any hedging activities.

The Company has no long term debt outstanding and expects that its cash flow from operations, together with present cash reserves and amounts available under the Credit Facility, will be sufficient to fund the Company's projected activities through the second quarter of 1999. If there is no ongoing program with the Deutsche Post, the Company may decide to further scale back certain of its efforts in its Electric Vehicle division. However, additional strategic alliances may require the establishment or expansion of facilities in Israel or elsewhere. In addition, the Company may determine that it should invest in certain programs, such as additional electric vehicle demonstration programs, which it believes will advance the development and commercialization of the Electric Fuel Electric Vehicle System. The Company is also using its resources to research and develop other applications exploiting its proprietary technology, including batteries for consumer electronic devices. Accordingly, the Company may be required to seek additional funding or pursue other options, such as joint ventures or other strategic relationships. The Company continues to consider financing alternatives when presented and, if financing becomes available on satisfactory terms, including prices, the Company may obtain additional funding, including through the issuance of equity securities.

Approximately 48% of the stock of the Company's Israeli-based subsidiary, EFL, is now owned (directly, indirectly or by application of certain attribution rules) by three United States citizens. If at any time in the future, 50% or more of the shares of EFL are held or deemed to be held by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 48% of the Company) who are United States citizens or residents, EFL would satisfy the foreign personal holding company ("FPHC") stock ownership test under the Internal Revenue Code and the Company could be subject to additional U.S. taxes on any undistributed FPHC income of EFL. For 1997, EFL has no income which would qualify as undistributed FPHC income. However, no assurance can be given that in the future EFL will not have income which qualifies as undistributed FPHC income.

Actual cash requirements will depend in part upon actual and anticipated sales and licenses. The Company may also be able to finance some portion of its fixed asset and equipment needs through Approved Enterprise grants from the Government of Israel.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

Historically, the majority of the Company's revenues have been in U.S. dollars, although a significant proportion of the Company's revenues are currently in Deutsche Marks, primarily related to the Field Test. The United States dollar cost of the Company's operations in Israel, with regard to expenses incurred in NIS, is influenced by the extent to which an increase in the rate of inflation in Israel is not offset by the devaluation of the NIS in relation to the dollar. In most recent years, inflation in Israel has not been

fully compensated by the devaluation of the NIS, and, accordingly, the dollar cost of the Company's NIS expenses has increased. The Company does not believe that continuing inflation in Israel or delays in the devaluation of the NIS are likely to have a material adverse effect on the Company, except to the extent that such circumstances have an impact on Israel's economy as a whole. In the years ended December 31, 1994, 1995, 1996 and in 1997, the annual rates of inflation in Israel were 14.5%, 8.1%, 10.6%, and 7.0%, respectively, compared to the devaluation of the NIS against the dollar during such periods of 1%, 3.9%, 3.7%, and 8.8% respectively. Any decrease in the value of the Deutsche Mark as against the dollar would result in a decrease in the dollar value of such revenues. While in the past,

-25-

the Company has engaged in currency hedging in an effort to decrease the impact of short-term currency fluctuations, the Company is not currently engaging in currency hedging.

EFFECTIVE CORPORATE TAX RATE

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

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

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

As of December 31, 1997 the Company has U.S. net operating loss carry forwards of approximately \$275,000 which are available to offset future taxable income, expiring primarily in 2009 and foreign net operating loss carry forwards of approximately \$40 million which are available to offset future taxable income, indefinitely.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

<TABLE>	
<CAPTION>	
<S>	<C>
Report of Independent Auditors.....	F-2
Consolidated Balance Sheets at December 31, 1996 and 1997.....	F-3
Consolidated Statements of Income (Loss) for the Three Years in the Period Ended December 31, 1997.....	F-5
Consolidated Statements of Changes in Stockholders' Equity for the Three Years in the Period Ended December 31, 1997.....	F-6
Consolidated Statements of Cash Flows for the Three Years in the Period Ended December 31, 1997.....	F-8
Notes to Consolidated Financial Statements.....	F-10
</TABLE>	

-26-

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT MANAGEMENT

EXECUTIVE OFFICERS, DIRECTORS AND SIGNIFICANT EMPLOYEES

Executive Officers and Directors

The Company's executive officers and directors and their ages as of December 31, 1997, are as follows:

NAME	AGE	POSITION WITH THE COMPANY
Robert S. Ehrlich	59	Chairman of the Board of Directors and Chief Financial Officer
Yehuda Harats	46	President, Chief Executive Officer and Director
Joshua Degani	50	Executive Vice President - Technical Operations, Chief Operating Officer
Menachem Korall/(1)/	51	Senior Vice President of Technology
Stewart Edelman	37	Treasurer and Principal Accounting Officer
Dr. Jay M. Eastman	49	Director
Jack E. Rosenfeld	59	Director
Harvey M. Krueger	68	Director
Lawrence M. Miller	51	Director
Leon S. Gross	91	Director

/(1)/ Mr. Korall's employment with the Company terminated on January 31, 1998 (see item 11 for further information).

The Company's By-Laws provide for a Board of Directors of one or more directors, and the number of directors is currently fixed at seven. Under the terms of the Company's certificate of incorporation, the Board of Directors is composed of three classes of similar size, each elected in a different year, so that only one-third of the Board of Directors is elected in any single year. Mr. Harats, Dr. Eastman and Mr. Gross are designated Class I directors and have been elected for a term expiring in 1998 and until their successors are elected and qualified; Messrs. Rosenfeld and Miller are designated Class II directors

-27-

elected for a term expiring in 1999 and until their successors are elected and qualified; and Mr. Ehrlich and Mr. Krueger are designated Class III directors elected for a term which expires in 2000.

ROBERT S. EHRLICH has been Chairman of the Board of the Company since January 1993 and Chief Financial Officer of the Company since May 1991. From May 1991 until January 1993, Mr. Ehrlich was Vice Chairman of the Board. From May 1990 until March 1994, Mr. Ehrlich was also President, Chief Executive Officer and a director of Advanced Materials Technology, Inc. ("Amtec"), a former stockholder which was merged with and into EFC immediately prior to the Closing of the Company's initial public offering. From December 1987 until July 1992 and again since April 1997, Mr. Ehrlich was Chairman of the Board of PSC Inc., a New York corporation ("PSCX"), a manufacturer and marketer of hand-held laser diode bar code scanners. He has served as a director of PSCX since 1987. Mr. Ehrlich received a B.S. and J.D. from Columbia University in New York, New York.

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

DR. JOSHUA DEGANI has been Chief Operating Officer of the Company since January 1998, and has been Executive Vice President for Technical Operations since June 1997 when he joined the Company. From December 1991 through May 1997 Dr. Degani was Vice President for Research Development and Engineering in Laser Industries Ltd. (Sharplan), a world leader in the development and productions of systems and applications of surgical lasers. From November 1989 until August 1991, he was Program Manager of Large Scale Battery Storage, and Vice President of Engineering at LII. From February 1983 through October 1989, Dr. Degani was Director of Research and Development and later Plant Manager for Semiconductor Devices, a company which develops and manufactures advanced Infrared Detectors for thermal vision for military applications. From January 1980 through January 1983, he was employed by Bell Telephone Laboratories in New Jersey, USA, as a Post Doctorate, and later as a Member of the Technical Staff. Dr. Degani received a B.Sc., M.Sc., and Ph.D., in Physics from Hebrew University in Jerusalem Israel.

MENACHEM KORALL's employment with the Company terminated on January 31, 1998. Prior to that Mr. Korall was Senior Vice President of Technology since 1994 and was Vice President of Technology since the Company's inception in 1991. From 1989 until 1991, Mr. Korall was employed by LII as Technical Director of the Advanced Battery Program. Prior to joining LII, Mr. Korall spent six years as General Manager of AVX Israel, a subsidiary of AVX Corporation USA, a manufacturer of electronic components, which is now owned by Kyocera

Corporation. He has also worked in process engineering and production management and has been a lecturer at the Jerusalem College of Technology. Mr. Korall holds a B.Sc. in Mathematics and Physics and an M.Sc. in Materials Science from the Hebrew University in Jerusalem, Israel.

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

DR. JAY M. EASTMAN has been a director of the Company since October 1993. Since November 1991, Dr. Eastman has served as President and Chief Executive Officer of Lucid Technologies, Inc., which is developing laser technology applications for medical diagnosis and treatment. Dr. Eastman has served as a director of PSC, Inc. ("PSCX"), a New York Corporation, since April 1996 and served as Senior Vice President of Strategic Planning from December 1995 through October 1997. From December 1987 through December 1995, Dr. Eastman was Executive Vice President of PSCX. He joined PSCX in 1986 when PSCX acquired Optel Systems, Inc., a corporation which he co-founded and served as Chairman, President and Chief Executive Officer from its formation in 1981. Dr. Eastman is also a director of Chapman Instruments, Inc., which develops

-28-

manufacturers and selling surface profiling instruments, Dimension Technologies, Inc., a developer and manufacturer of 3D displays for computer and video displays, and Centennial Technologies Inc., a manufacturer of PCMCIA cards. From 1981 until January 1983, Dr. Eastman was Director of the University of Rochester's Laboratory for Laser Energetics, where he was a member of the staff from September 1975 to 1981.

JACK E. ROSENFELD has been a director of the Company since October 1993. Mr. Rosenfeld was President and Chief Executive Officer of Hanover Direct, Inc. ("Hanover"), formerly Horn & Hardart Co., which operates a direct mail marketing business from September 1990 until December 1995 and had been President and Chief Executive Officer of its direct marketing subsidiary, since May 1988. From July 1986 until May 1988, Mr. Rosenfeld was a partner in Rosenfeld & Co. (a private investment banking group). Mr. Rosenfeld is also a director of Maurice Corporation and a director of PSCX.

HARVEY M. KRUEGER was elected to the Board of Directors in February 1996. Mr. Krueger has been a Senior Managing Director of Lehman Brothers Inc., an investment banking firm and the lead manager of the Company's recent equity offering, since May 1984. From December 1977 to May 1984, he was Managing Director of Lehman Brothers Kuhn Loeb, Inc. From 1965 to 1977, he was a Partner of Kuhn Loeb & Co. and in 1977, he served as President and Chief Executive Officer of Kuhn Loeb & Co. Mr. Krueger serves as a director on the boards of directors of a number of companies, including Automatic Data Processing, Inc., R.G. Barry Corporation, a manufacturer of footwear, Chau, Inc., a manufacturer of women's apparel, and IVAX Corporation, a generic pharmaceutical manufacturer. In addition, he serves on the International Advisory Board of Club Mediterranee, S.A. and as chairman of the board of directors of Stockton Partners, Inc., the general partner of the manager of the Renaissance Fund LDC, a private closed-end investment fund.

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

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

Board of Directors

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

VOIING AGREEMENTS

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

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

DIRECTOR COMPENSATION

Non-employee members of the Board of Directors of the Company are paid \$1,000 (plus expenses) for each Board of Directors meeting attended and \$500 (plus expenses) for each meeting of a committee of the Board of Directors attended. In

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

DELINQUENT FILINGS

Under the securities laws of the United States, the Company's directors, certain of its officers, and any persons holding more than ten percent of the Company's Common Stock are required to report their ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to report in this Report any failure to file by these dates during 1997. All of these filing requirements were satisfied by its directors and officers and, to the knowledge of the Company, ten percent holders, except as follows; Mr. Korall was required to file a Form 4 on or prior to November 10, 1997, for his sale of 5000 shares of Common Stock in October 1997, and reported this transaction on a Form 5 filed February 16, 1998; and (ii) Mr. Miller was required to file a Form 4 on or prior to November 10, 1997, for his purchase of 1,200 shares of Common Stock in October 1997, and reported this transaction on a Form 4 filed November 19, 1997.

Significant Employees

The Company's significant employees and their ages as of December 31, 1997 are as follows:

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NAME	AGE	POSITION WITH THE COMPANY
Dr. Inna Gektin	54	Senior Research Associate
Menachem Givon	50	Project Manager - Regeneration
Dr. Jonathan Goldstein	51	Chief Scientist
Binyamin Koretz	40	Vice President - Strategic Planning
Dr. Neal Naimer	39	Vice President - Battery Technology
Jonathan Whartman	43	Vice President - Marketing

</TABLE>

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

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

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

BINYAMIN KORETZ is Vice President of Strategic Planning, responsible for new business development, economic modeling, intellectual property protection, and other planning activities. In addition, since January 1998, Mr. Koretz is responsible for the Company's defense and safety applications. Mr. Koretz was the Company's Treasurer from 1993 until

December 1994. Mr. Koretz previously spent six years at American Telephone and Telegraph, where he was responsible for planning and management of capital investment in that company's long-distance network. He holds a B.Sc. in Civil Engineering/Transportation Systems from the Massachusetts Institute of Technology and an M.B.A. from the University of California at Berkeley.

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

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

-31-

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows the compensation paid and accrued by the Company for services rendered for 1995, 1996 and 1997 to the Chief Executive Officer and the three highest paid executive officers who received more than \$100,000 in salary and bonuses during the year ended December 31, 1997 (collectively the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION AT DECEMBER 31, 1997	ANNUAL COMPENSATION				LONG-TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION
	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING OPTIONS (NUMBER)	
Yehuda Harats/(1)/ President, Chief Executive Officer and Director	1997	\$154,968	\$ 0/(2)/	\$ 10,691/(3)/	0	\$280,748/(4)/
	1996	145,220	47,000	127,558	150,000	372,875
	1995	140,684	40,364	1,742	0	175,309
Robert S. Ehrlich/(1)/ Chairman and Chief Financial Officer	1997	\$154,968	\$ 0/(2)/	\$ 14,193/(3)/	0	\$264,601/(5)/
	1996	145,238	47,000	75,890	150,000	166,628
	1995	140,684	40,364	6,148	0	123,657
Menachem Korall /(1)(6)/ Vice President of Technology	1997	\$117,264	\$(5,000)/(7)/	\$ 7,863/(3)/	0	135,182/(8)/
	1996	110,002	35,000	9,635	0	169,956
	1995	106,491	30,328	1,744	0	102,703
Joshua Degani /(1)/ Executive Vice President, Technical Operations	1997	\$ 59,105	\$ 5,062/(9)/	\$ 3,449/(3)/	122,500	\$ 51,906/(10)/

- </TABLE>
- (1) The amounts reported for each Named Executive Officer were paid in New Israeli Shekels ("NIS") and have been translated into U.S. dollars at the exchange rate of NIS into U.S. dollars at the time of payment or accrual.
 - (2) In lieu of a cash bonus for fiscal year 1997, the Compensation Committee has, in March 1998, approved a grant of options to each of Messrs. Ehrlich and Harats, the number and terms of which are to be determined based on a present value of \$50,000 under a valuation methodology to be performed by an independent third party.
 - (3) Represents the costs of taxes paid by the Executive officer and reimbursed by the Company.
 - (4) Of this amount, \$29,844 represents the Company's accrual for severance pay which would be payable to Mr. Harats upon a "change of control" of the Company or upon the occurrence of certain other events, \$27,201 represents the

-32-

Company's accrual for sick leave and vacation redeemable by Mr. Harats, \$1,061 represents the Company's accrual for severance pay which would be payable to Mr. Harats under the laws of the State of Israel upon the termination of his employment by the Company, \$35,157 consists of the Company's payments and accruals to a pension fund which provides a savings plan, insurance and severance pay benefits and an education fund which provides for the on-going education of employees. Additionally, \$184,486 represents the Company's accrual to fund Mr. Harats' pension and education

funds as well as provide him with certain other post-termination benefits, and \$2,999 represents the value charged for tax purposes for the use of a car provided by the Company.

- (5) Of this amount, \$84,301 represents the Company's accrual for severance pay which would be payable to Mr. Ehrlich upon a "change of control" of the Company or upon the occurrence of certain other events, \$21,519 represents the Company's accrual for sick leave and vacation redeemable by Mr. Ehrlich, \$4,437 represents the Company's accrual for severance pay which would be payable to Mr. Ehrlich under the laws of the State of Israel upon the termination of his employment by the Company, and \$35,157 represents the Company's payments and accruals to pension and education funds. Additionally, \$112,650 represents the Company's accrual to fund Mr. Ehrlich's pension fund as well as provide him with certain other post-termination benefits, and \$6,536 represents the value charged for tax purposes for the use of a car provided by the Company.
- (6) Mr. Korall's employment with the Company terminated on January 31, 1998.
- (7) Represents reversal of previously accrued bonus not paid to Mr. Korall.
- (8) Of this amount, \$104,603 represents the Company's accrual for severance pay and other termination benefits payable to Mr. Korall and agreed to as part of the termination agreement with Mr. Korall, \$(16,053) represents the Company's reduction in the accrual for sick leave and vacation redeemable by Mr. Korall, \$3,443 represents the Company's accrued severance pay which would be payable to Mr. Korall under the laws of the State of Israel upon the termination of his employment by the Company, \$13,826 consisted of payments to Mr. Korall in lieu of vacation, and \$26,365 represents the Company's payments and accruals to pension and education funds. Additionally, \$2,998 represents the value charged for tax purposes for use of a car provided by the Company.
- (9) In lieu of cash for part of his bonus for fiscal year 1997, the Compensation Committee has, in March 1998, approved a grant of options to Dr. Degani, the number and terms of which are to be determined based on a present value of \$10,000 under a valuation methodology to be performed by an independent third party.
- (10) Of this amount, \$36,000 represents the Company's accrual for additional severance pay which would be payable to Dr. Degani if terminated by the Company, \$1,052 represents the Company's accrual for vacation redeemable by Dr. Degani, and \$11,058 represents the Company's payments and accruals to pension and education funds. Additionally, \$3,796 represents the value charged for tax purposes for the use of a car provided by the Company.

-33-

The table below sets forth information with respect to stock options granted to the Named Executive Officers for the fiscal year 1997.

OPTIONS GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

<S> NAME	INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM		
	<C> NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	<C> % OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	<C> EXERCISE OR BASE PRICE (\$/SH)	<C> EXPIRATION DATE	<C> 5% (\$)	<C> 10% (\$)
Yehuda Harats	0 / (1) /					
Robert Ehrlich	0 / (1) /					
Joshua Degani	122,500 / (2) /	82%	5.5	5/8/07	\$423,718	\$1,073,784

- (1) In lieu of a cash bonus for fiscal year 1997, the Compensation Committee has, in March 1998, approved a grant of options to each of Messrs. Ehrlich and Harats, the number and terms of which are to be determined based on a present value of \$50,000 under a valuation methodology to be performed by an independent third party.
- (2) The options granted to Mr. Degani become exercisable as follows: 17,150 options on December 31, 1997, and 35,117 options each, on December 31, 1998, 1999 & 2000. In lieu of cash for part of his bonus for fiscal year 1997, the Compensation Committee has, in March 1998, approved a grant of options to Dr. Degani, the number and terms of which are to be determined based on a present value of \$10,000 under a valuation methodology to be performed by an independent third party.

The table below sets forth information for the Named Executive Officers with respect to fiscal 1997 year-end option values.

<TABLE>
<CAPTION>

NUMBER OF SECURITIES UNDERLYING	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS
---------------------------------	---

UNEXERCISED OPTIONS
AT FISCAL YEAR END

FISCAL-YEAR-END (1)

NAME	UNEXERCISED OPTIONS AT FISCAL YEAR END		FISCAL-YEAR-END (1)	
	EXERCISABLE (NUMBER)	UNEXERCISABLE (NUMBER)	EXERCISABLE (\$)	UNEXERCISABLE (\$)
<S>	<C>	<C>	<C>	<C>
Yehuda Harats	0	150,000	---	---
Robert S. Ehrlich	127,478	150,000	---	---
Menachem Korall	90,000	0	---	---
Joshua Degani	17,150	105,350	---	---

(1) In-the-money options are options for which the fair market value of the underlying securities exceeds the exercise or base price of the option. None of the options held by Named Executive Officers are currently in-the-money.

-34-

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT ARRANGEMENTS

Each of Messrs. Ehrlich, Harats and Korall are parties to employment agreements with the Company (the "Employment Agreements") which can be extended automatically for additional terms of two years each unless terminated sooner by either the executive or the Company. Mr. Korall's Employment was terminated on January 31, 1998 (see below) and each of Messrs. Harats and Ehrlich's Employment Agreements end December 15, 2000. The Employment Agreements provide for a base salary of \$11,736, \$11,736, and \$7,500 per month for Messrs. Ehrlich, Harats and Korall, respectively (the "Base Salary"). On each anniversary of Mr. Korall's Employment Agreement, Base Salary was adjusted in an amount equal to the excess, if any, of any increase in the Israeli Consumer Price Index over any devaluation in currency of Israel compared to the U.S. dollar during the immediately preceding year. The last adjustment to Mr. Korall's base salary was on January 1, 1997 when it was adjusted to \$9,423 per month. With respect to Messrs. Harats and Ehrlich, Base Salary is adjusted in an amount equal to the greater of 3% or in an amount equal to the excess, if any, of any increase in the Israeli Consumer Price Index over any devaluation in currency of Israel compared to the US Dollar, in each case during the immediately preceding year. Accordingly, Base Salary for Messrs. Ehrlich, Harats and Korall is, as of January 1, 1998, \$12,942, \$12,942 and \$9,423 per month, respectively. The Employment Agreements provide for bonuses to be paid in an amount of (a) not less than 50% of Base Salary or (b) 2%, 2% and 1%, respectively, of Net Earnings (defined as net income before taxes and extraordinary and other nonrecurring items) (the "Bonus"), subject to certain conditions, as well as other benefits such as vacation, sick leave, provision of automobiles and insurance contributions. The determination of the amount of Bonus to be paid pursuant to the Employment Agreements is based on attainment of the Company's budgeted results, including Net Earnings. Additionally, the Compensation Committee will set qualitative goals annually as a basis for paying the bonus to each of Messrs. Ehrlich and Harats. During 1997, no bonuses were accrued for Messrs. Ehrlich, Harats and Korall. In lieu of a cash bonus, the Compensation Committee has, in March 1998, approved a grant of options to each of Messrs. Ehrlich and Harats, the number and terms of which to be determined based on a present value of \$50,000 under a valuation methodology to be performed by an independent third party. The Employment Agreements also contain confidentiality and non-competition covenants. Pursuant to the Employment Agreements, each of Messrs. Ehrlich, Harats and Korall was granted demand and "piggyback" registration rights covering shares of the Company's Common Stock held by them. The Employment Agreements may be terminated by the Company in the event of death, disability or for "Cause" (defined as conviction of certain crimes, willful failure to carry out directives of the Company's Board of Directors or gross negligence or willful misconduct). Messrs. Ehrlich and Harats each have the right to terminate their employment for "Good Reason," which is defined to include adverse changes in employment status or compensation, insolvency of the Company, material breaches and certain other events. Upon termination of employment, the Employment Agreements provide for payment of all accrued and unpaid compensation, any Bonus due for the year in which employment is terminated and a termination payment equal to thirty-six times monthly Base Salary at the highest rate in effect within the 90 day period prior to the termination of employment and certain benefits will continue and all outstanding options will be fully vested. In addition, Messrs. Harats and Ehrlich are entitled to an amount equal to the greater of (x) the average of all bonuses paid to the executive during the three most recent full calendar years immediately preceding the Termination Date or (y) all bonuses paid to the executive during the most recent full calendar year immediately preceding the Termination Date. Furthermore, Mr. Harats has the right to terminate his employment even without a "Good Reason", prior to the end of the agreement, and will still be entitled to all the termination benefits indicated above. On January 28, 1998, Messrs Ehrlich and Harats agreed, that for 1998, they would waive 25% of their base salary or \$38,820 for the calendar year. The Compensation Committee, in March 1998, approved a grant of options to each of Messrs. Ehrlich and Harats, the number and terms of which are to be determined based on a present value of \$38,820 under a valuation methodology to be performed by an independent third party. The options vest 1/12th per month over the calendar year. Messrs. Ehrlich and Harats each have the right to cancel the arrangement upon two weeks notification to the Company prior to the beginning of each quarter. Any unvested options would immediately be forfeited. Furthermore, while their base salary was decreased, their social benefits and 1998 bonuses, will still be calculated on the full base salary that they are entitled to by contract.

Dr. Degani entered into an employment agreement with the Company upon joining the Company in June 1997 (the "Degani Employment Agreement"). The Degani Employment Agreement has no fixed termination date, and, subject

to advance notice by either party of two months, may be terminated at will. The Degani Employment Agreement provides for a base salary of \$9,000. This was adjusted to \$9,500, effective January 1998. The Degani Employment Agreement provides for an annual bonus of not less than 1.5 months base salary, in accordance with Dr. Degani's success in the position, as well as other benefits such as vacation, sick leave, provision of an automobile and insurance contributions. Furthermore, Dr. Degani is entitled to a termination payment (in addition to severance pay by law), in an amount between 2-5 months base salary, depending on who gives notice, and how long Dr. Degani has been employed with the Company. The Degani Employment Agreement also contains confidentiality and non-competition covenants. On January 28, 1998, Dr. Degani agreed, that for 1998, he would waive \$500 per month of his base salary, or \$6,000 for the calendar year. The Compensation Committee, in March 1998, approved a grant of options to Dr. Degani, the number and terms of which are to be determined based on a present value of \$6,000 under a valuation methodology to be performed by an independent third party. The options vest 1/12th per month over the calendar year. Dr. Degani may cancel the arrangement upon two weeks notification to the Company prior to the beginning of each quarter. Any unvested options would immediately be forfeited. Furthermore, while his base salary was decreased, the social benefits and 1998 bonuses, will still be calculated on his full base salary.

On March 12, 1998, the Company and Mr. Korall entered into an agreement (the "Termination Agreement") to terminate Mr. Korall's Employment Agreement, and all of each of the Company's and Mr. Korall's right and obligations thereunder effective as of January 31, 1998. Pursuant to the Termination Agreement, the Company paid Mr. Korall all salary, other benefits and legally mandated severance pay due to him through that date. In addition, the Company agreed to pay to Mr. Korall additional severance pay in the amount of \$120,000, payable in 24 equal monthly installments of \$5,000 each, and to extend the date by which options held by Mr. Korall to purchase 90,000 Shares of the Company may be exercised to February 28, 2000. The Termination Agreement also contains mutual general releases between the Company and Mr. Korall. Simultaneously, the Company entered into a consulting agreement (the "Consulting Agreement") with Shampi Ltd., a consulting company with which Mr. Korall is affiliated. Pursuant to the terms of the Consulting Agreement, Mr. Korall will prepare several reports for the Company dealing with the Company's existing vehicle battery product and with a proposal for a new battery project. The Consulting Agreement terminates on April 10, 2000 unless renewed by mutual agreement of the parties. In consideration of these consulting services, the Company will make 24 equal monthly payments of \$6,000 each to Shampi Ltd., in addition to two lump sum payments of \$31,500 each at the beginning and end of the contract period. Furthermore, the Company agreed to provide to it a motor vehicle during such period for the use of Mr. Korall. Pursuant to the Consulting Agreement, Shampi Ltd and Mr. Korall have agreed to a five-year confidentiality provision and an agreement not to compete with the Company nor to solicit customers, suppliers or employees of the Company during the term of the Consulting Agreement and for a period of twelve months thereafter.

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

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

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors for the 1997 fiscal year consisted of Dr. Jay Eastman, Jack Rosenfeld, and Lawrence Miller. None of the members have served as officers of the Company.

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

Committee.

In January 1993, each of Messrs. Ehrlich, Harats and Korall exercised options to purchase 423,116, 719,304 and 343,785 shares of the Company's Common Stock, respectively, at an exercise price of \$0.35 per share. In payment for the option exercise, each of Messrs. Ehrlich, Harats and Korall issued non-recourse promissory notes (the "Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at one point over the applicable United States federal funds rate. In December 1994, the Promissory Notes were amended to change the interest rate to the higher of a United States dollar rate of 7% or the percentage increase in the Israeli CPI between the date of the Promissory Notes and the date interest is calculated, based on the original principal amount of the loan expressed in NIS. Interest is payable at maturity. As of December 31, 1997, the aggregate amount outstanding pursuant to the Promissory Notes for each of Messrs. Ehrlich, Harats and Korall was \$206,686, \$354,774 and \$147,301, respectively (including an aggregate of \$206,057 in accrued interest receivable), which, in the case of Messrs. Ehrlich and Harats, are also the largest aggregate amounts outstanding since the issuance of the Promissory Notes. The Promissory Notes matured on January 3, 1998. The promissory notes of Messrs. Ehrlich and Harats were renewed as recourse notes for a period of 10 years through December 31, 2007. Mr. Korall's note has not been renewed. As part of his termination agreement, Mr. Korall has agreed to sell shares sufficient to pay the remaining balance of the loan. Interest will continue to accrue on the Promissory Notes in accordance with the terms thereof until they are fully paid.

In August 1996, each of Messrs. Ehrlich, Harats exercised options to purchase 80,000, and 170,000 shares of the Company's Common Stock, respectively, at an exercise price of \$5.75 per share. In payment for the option exercise, each of Messrs. Ehrlich, and Harats issued new non-recourse promissory notes (the "New Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at the rate of 6.2% per annum. The income taxes due on the option exercise were also added to the loan balance. Interest accrues at the higher of the abovementioned rate or the percentage increase in the Israeli CPI between the date of the New Promissory Notes and the date interest is calculated, based on the original principal amount of the loan expressed in NIS. Israel Value Added Tax ("VAT") is being added to the interest. Both Interest and the related VAT are payable at maturity. As of December 31, 1997, the aggregate amount outstanding pursuant to the New Promissory Notes for each of Messrs. Ehrlich and Harats was \$542,619 and \$1,153,184, respectively (including an aggregate of \$182,728 in accrued interest and VAT receivable), which are also the largest aggregate amounts outstanding since the issuance of the Promissory Notes. The Promissory Notes mature on August 20, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the security ownership of those persons owning of record or known to the Company to be beneficial owners of more than five percent of the Company's Common Stock as of

-37-

March 16, 1998, each of the Company's Named Executive Officers and directors, and the shares of Common Stock held by all directors and executive officers of the Company as a group.

<TABLE>
<CAPTION>

	SHARES BENEFICIALLY OWNED/(1) (2) /	PERCENTAGE OF TOTAL SHARES OUTSTANDING/(2) /
Five Percent Holders		

<S>	<C>	<C>
Newton D. Becker 2743 Aqua Verde Circle Los Angeles, California	3,510,004/(3) /	12.3%
Named Executive Officers & Directors		

Leon S. Gross	3,510,004/(4) (13) /	24.7%
Robert S. Ehrlich	1,099,979/(5) (9) (13) /	7.6%
Yehuda Harats	1,536,207/(6) (9) (13) /	10.7%
Joshua Degani	17,150/(7) /	*
Menachem Korall	495,632/(8) (9) /	3.5%
Dr. Jay M. Eastman	11,667/(10) /	*
Jack E. Rosenfeld	11,667/(10) /	*
Harvey M. Krueger	14,667/(11) /	*
Lawrence Miller	13,914/(12) /	*
All Directors and Executive Officers of the Company as a group (10 persons)	6,727,721/(4) (5) (6) (7) (8) (10) (11) (12) /	45.40%

</TABLE>

* Less than one percent

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

(2) For purposes of determining beneficial ownership of the Company's Common

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

- (3) All shares are held in the name of the Becker Family Trust of which Mr. Becker is the trustee and sole beneficiary during his lifetime. Excludes 633,350 shares held by the Newton Becker Irrevocable Trust No. 1, as to which Mr. Becker disclaims beneficial ownership. Shares held by the Irrevocable Trust are held for the benefit of members of Mr. Becker's family. David E. Becker and Bryan Gordon, Mr. Becker's son and stepson, respectively, are co-trustees of the Irrevocable Trust.
- 38-
- (4) Based upon a Form 4 dated February 9, 1998. Includes 5,000 shares of Common Stock issuable upon exercise of options exercisable within 60 day, and 160,000 shares held by Leon Gross and Lawrence Miller as Co-Trustees of the Rose Gross Charitable Foundation.
 - (5) Includes 277,478 shares of Common Stock issuable upon exercise of options exercisable, or potentially exercisable, within 60 days.
 - (6) Includes 150,000 shares of Common Stock issuable upon exercise of options exercisable, or potentially exercisable, within 60 days.
 - (7) Includes 17,150 shares of Common Stock issuable upon exercise of options exercisable within 60 days
 - (8) Includes 90,000 shares of Common Stock issuable upon exercise of options exercisable, or potentially exercisable, within 60 days.
 - (9) Messrs. Ehrlich, Harats and Korall are parties to a Stockholders Voting Agreement pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich and Harats (or their designees) as directors of the Company.
 - (10) Includes 11,667 shares of Common Stock issuable upon exercise of options exercisable within 60 days.
 - (11) Includes 11,667 shares of Common Stock issuable upon exercise of options exercisable within 60 days.
 - (12) Includes 5,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days.
 - (13) Messrs. Gross, Ehrlich and Harats are parties to a Voting Rights Agreement pursuant to which each of the parties agrees to vote the shares of the Company's Common Stock held by that person in favor of the election of Messrs. Ehrlich, Harats and Miller for five years following October 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 1993, each of Messrs. Ehrlich, Harats and Korall exercised options to purchase 423,116, 719,304 and 343,785 shares of the Company's Common Stock, respectively, at an exercise price of \$0.35 per share. In payment for the option exercise, each of Messrs. Ehrlich, Harats and Korall issued non-recourse promissory notes (the "Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at one point over the applicable United States federal funds rate. In December 1994, the Promissory Notes were amended to change the interest rate to the higher of a United States dollar rate of 7% or the percentage increase in the Israeli CPI between the date of the Promissory Notes and the date interest is calculated, based on the original principal amount of the loan expressed in NIS. Interest is payable at maturity. As of December 31, 1997, the aggregate amount outstanding pursuant to the Promissory Notes for each of Messrs. Ehrlich, Harats and Korall was \$206,686, \$354,774 and \$147,301, respectively (including an aggregate of \$206,057 in accrued interest receivable), which, in the case of Messrs. Ehrlich and Harats, are also the largest aggregate amounts outstanding since the issuance of the Promissory Notes. The Promissory Notes matured on January 3, 1998. The promissory notes of Messrs. Ehrlich and Harats were renewed as recourse notes for a period of 10 years through December 31, 2007. Mr. Korall's note has not been renewed. As part of his termination agreement, Mr. Korall has agreed to sell shares sufficient to pay the remaining balance of the loan. Interest will continue to accrue on the Promissory Notes in accordance with the terms thereof until they are fully paid.

In August 1996, each of Messrs. Ehrlich, Harats exercised options to purchase 80,000, and 170,000 shares of the Company's Common Stock, respectively, at an exercise price of \$5.75 per share. In payment for the option exercise, each of Messrs. Ehrlich, and Harats issued new non-recourse promissory notes (the "New Promissory Notes") secured by the shares of Common Stock purchased, bearing interest at the rate of 6.2% per annum. The income taxes due on the option exercise were also added to the loan balance. Interest accrues at the higher of the abovementioned rate or the percentage increase in the Israeli CPI between the date of the New Promissory Notes and the date interest is calculated,

Value Added Tax ("VAT") is being added to the interest. Both Interest and the related VAT are payable at maturity. As of December 31, 1997, the aggregate amount outstanding pursuant to the New Promissory Notes for each of Messrs. Ehrlich and Harats was \$542,619 and \$1,153,184, respectively (including an aggregate of \$182,728 in accrued interest and VAT receivable), which are also the largest aggregate amounts outstanding since the issuance of the Promissory Notes. The Promissory Notes mature on August 20, 2001.

In September 1996, Mr. Edelman exercised options to purchase 5,333 shares of the Company's Common Stock, at an average exercise price of \$5.83 per share. In payment for the option exercise, Mr. Edelman issued a non-recourse promissory note (the "Promissory Note") secured by the shares of Common Stock purchased, bearing interest at the rate of 6.2% per annum. The income taxes due on the option exercise were also added to the loan balance. Interest accrues at the higher of the abovementioned rate or the percentage increase in the Israeli CPI between the date of the Promissory Note and the date interest is calculated, based on the original principal amount of the loan expressed in NIS. VAT is being added to the interest and is paid currently. Interest is payable at maturity. As of December 31, 1997, the aggregate amount outstanding pursuant to the Promissory Note was \$36,330 (including an aggregate of \$3,512 in accrued interest and VAT receivable), which is also the largest aggregate amount outstanding since the issuance of the Promissory Note. The Promissory Note matures on September 10, 2001.

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

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

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

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

-40-

take any further necessary action, in favor of an increase in shares authorized to be issued upon exercise of options under the Company's 1993 Stock Option and Restricted Stock Purchase Plan.

PART IV

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

- (a) 1. Financial Statements - See Index to Financial Statements attached hereto, page 26.
2. Financial Statements Schedules - See Index to Financial Statements attached hereto, page 26.

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

Exhibit Number -----	Description -----
2	Merger Agreement dated as of March 2, 1994 between the Company and Advanced Materials Technology, Inc.(1)
3.1	Amended and Restated Certificate of Incorporation of the Registrant.(1)
3.2	Amended and Restated By-Laws of the Company.(4)
4	Specimen Certificate for shares of Common Stock, \$.01 par value of the Registrant.(1)
10.1	Option Agreement dated October 29, 1992 between Electric Fuel B.V. ("EFBV") and Electric Storage Advanced Technologies, Sr ("ESAT").(1)
10.2	Sublicense Agreement dated May 20, 1993 between EFBV and ESAT.(1)
10.3	Letter Agreement dated May 20, 1993 between EFBV and ESAT.(1)
10.4	Notice of Edison's assumption of ESAT's obligations under the Sublicense Agreement with EFBV.(1)
10.5	Agreement dated December 16, 1992 between EFL and Technischer Uberwachungsverein Bayern Sachsen e.V. ("TUV").(1)
10.6	Agreement dated July 29, 1992 between EFL and TUV.(1)
10.7	Letter of Intent between the Company and Deutsche Post AG dated November 18, 1993.(1)
10.8	Amended and Restated 1993 Stock Option and Restricted Stock Purchase Plan dated November 11, 1996.+
10.9.1	Form of Management Employment Agreements. (1)+
10.9.2	General Employee Agreements.(1)*+
10.10	Office of Chief Scientist documents.(1)*
10.10.1	Letter from the Office of Chief Scientist to the Company dated January 4, 1995.(4)
10.11	Lease Agreement dated December 2, 1992 between the Company and Har Hotzvim Properties Ltd.(1)*
-41-	
10.12	Letter of Approval by the Investment Center of the Ministry of Trade.(1)*
10.13	Execution Copy of Purchase Agreement dated as of June 9, 1993 among the Company, EFL, Advanced Materials Technology, Inc. and the Trustee of the Chapter 7 Bankruptcy Estate of Luz International Ltd.(1)
10.14	Agreement between EFL and Dr. Walter Trux dated as of March 1, 1993.(1)
10.15	Cooperation Agreement between EFL and Hoechst GmbH dated as of August 22, 1994.(2)
10.16	Agreement between Deutsche Post AG and EFL dated as of September 19, 1994.(2)
10.17	Agreement between Deutsche Post AG and EFL dated as of October 21, 1994.(2)
10.18	Framework Agreement between Vattenfall AB and EFL dated March 27, 1995.(3)
10.19	Summary of the terms of the Lease Agreements dated as of November 11, 1994, November 11, 1994 and April 3, 1995 between EFL and Industries Building Company, Ltd.(4)*
10.20	Amended and Restated 1995 Non-Employee Director Stock Option Plan.(5)+
10.21	Framework Contract between the Company and Stadtwerke Bremen AG ("Stadtwerke") dated July, 1995.(4)
10.22	Assignment Agreement dated December 31, 1995 between EFL, Hoechst GmbH and Uhde GmbH ("Uhde").(4)
10.23	Lease between EFL and Stadtwerke dated _____, 1995.(5)*
10.24	Framework Agreement for Cooperation in Marketing and Establishment of Regeneration Plants between EFL and Uhde dated February 11, 1996.(5)
10.25	Letters of Approval of Lines of Credit from First International Bank of Israel Ltd. dated March 14, 1996 and March 18, 1996.(5)

- 10.26 Stock Purchase Agreement between the Company and Leon S. Gross ("Gross") dated September 30, 1996.(6)
- 10.27 Registration Rights Agreement between the Company and Gross dated September 30, 1996.(6)
- 10.28 Voting Rights Agreement between the Company, Gross, Robert Ehrlich and Yehuda Harats dated September 30, 1996. (6)
- 10.29 Agreement between the Company and Walter Trux dated December 18, 1996. (7)
- 10.30 Cooperation Agreement between The Israel Electric Corporation and EFL dated as of October 31, 1996.(7)
- 10.31 Amended and Restated Employment Agreement, dated as of October 1, 1996 between the Company, EFL and Yehuda Harats+ (7)
- 10.32 Amended and Restated Employment Agreement dated as of October 1, 1996 between the Company, EFL and Robert S. Ehrlich+ (7)
- 10.33 Lease Agreement between Mori Investments Ltd. and EFL dated March 18, 1996. (7)

-42-

- 10.34 Agreement dated February 20, 1997 between STN ATLAS Elektronik GmbH and EFL.(7)
- 10.35 Agreement dated February 2, 1998 between Deutsche Post AG and EFL.
- 10.36 Employment Agreement dated May 13, 1997 between the Company, EFL, and Joshua Degani.+
- 10.37 Termination Agreement dated March 12, 1998 between the Company, EFL and Menachem Korall.+
- 10.38 Consulting Agreement dated March 12, 1998 between the Company, EFL, and Shampi Ltd.
- 10.39 Amendment No. 1 to the Voting Rights Agreement between the Company, Gross, Robert Ehrlich, and Yehuda Harats dated December 10, 1997.
- 10.40 Amendment No. 2 to the Registration Rights Agreement between the Company, Gross, Robert Ehrlich and Yehuda Harats dated December 10, 1997.
- 21 Subsidiaries.(4)
- 23.1 Consent of Kesselman & Kesselman (a member of Coopers & Lybrand International), independent certified public accountants in Israel.
- 27 Financial Data Schedule.
- 27.1 Amended Financial Data Schedule - Nine Months Ended September 30, 1997.
- 27.2 Amended Financial Data Schedule - Six Months Ended June 30, 1997.
- 27.3 Amended Financial Data Schedule - Three Months Ended March 31, 1997.
- 27.4 Amended Financial Data Schedule - Year Ended December 31, 1996.
- 27.5 Amended Financial Data Schedule - Nine Months Ended September 30, 1996.
- 27.6 Amended Financial Data Schedule - Six Months Ended June 30, 1996.
- 27.7 Amended Financial Data Schedule - Three Months Ended March 31, 1996.
- 99. Important factors regarding forward-looking statements.

(b) Reports on Form 8-K

The Company did not file any Current Reports on Form 8K during the last quarter of fiscal year 1997.

* English translation or summary from original.

+ Includes management contracts and compensation plans and arrangements.

- (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-73256), which became effective on February 23, 1994.
- (2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994, as amended.
- (3) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
- (4) Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-97944), which became effective on February 5, 1996.
- (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- (6) Incorporated by reference to the Company's Report on Form 8-K dated October 4, 1996.
- (7) Incorporated by reference to the Company's Annual Report on Form 10-K for

the year ended December 31, 1996, as amended

-43-

ELECTRIC FUEL CORPORATION
1997 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

<TABLE>	
<CAPTION>	
<S>	<C>
REPORT OF INDEPENDENT AUDITORS	2
CONSOLIDATED FINANCIAL STATEMENTS:	
Balance sheets	3-4
Statements of loss	5
Statements of changes in stockholders' equity	6-7
Statements of cash flows	8-9
Notes to financial statements	10-31
</TABLE>	

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of

ELECTRIC FUEL CORPORATION

We have audited the consolidated balance sheets of Electric Fuel Corporation (hereafter - the "Company") and its subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of loss, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1997 and 1996 and the consolidated results of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles in the United States.

Jerusalem, Israel
March 20, 1998

Kesselman & Kesselman
Certified Public Accountants (Israel)

2

ELECTRIC FUEL CORPORATION
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31	
	1997	1996
	U.S. DOLLARS	
<S>	<C>	<C>
A S S E T S		
CURRENT ASSETS (note 7):		
Cash and cash equivalents	11,771,816	12,662,776
Marketable debt securities (note 8a)	3,101,846	11,296,382
Accounts receivable:		
Trade	801,927	369,442
Other (note 8b)	1,711,037	1,915,628
Inventories	538,682	915,032
T o t a l current assets	17,925,308	27,159,260
MARKETABLE DEBT SECURITIES (note 8a)	1,843,326	
FIXED ASSETS (note 2):		

Cost	7,058,716	8,754,771
Less - accumulated depreciation and amortization	2,304,327	1,451,095
	4,754,389	7,303,676
OTHER ASSETS, net of accumulated amortization (note 8c)	49,182	59,182
	24,572,205	34,522,118

</TABLE>

3

<TABLE>
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	DECEMBER 31	
	1997	1996
	U.S. DOLLARS	
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES (note 7):		
Accounts payable and accruals:		
Trade	1,169,371	1,079,284
Other (note 8d)	1,786,163	3,505,594
Advances from customers	1,014,948	926,599
Total current liabilities	3,970,482	5,511,477
LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT, net of amount funded (note 3)	1,842,749	1,141,030
COMMITMENTS AND CONTINGENT LIABILITIES (note 4)		
Total liabilities	5,813,231	6,652,507
STOCKHOLDERS' EQUITY (note 5):		
Common stock - \$ 0.01 par value; authorized - 28,000,000 shares as of December 31, 1997, and 1996; issued - 14,218,161 shares as of December 31, 1997, and 14,257,508 shares as of December 31, 1996 outstanding - 14,218,161 shares as of December 31, 1997 and 14,185,208 shares as of December 31, 1996	142,182	142,575
Preferred stock - \$ 0.01 par value; authorized - 1,000,000 shares, no shares outstanding		
Additional paid-in capital	57,077,708	57,341,451
Accumulated deficit	(36,020,457)	(26,890,958)
Unrealized gain on available-for-sale securities	436	3,157
Treasury stock, at cost (common stock - 72,300 shares as of December 31, 1996)		(456,394)
Notes receivable from stockholders	(2,440,895)	(2,270,220)
Total stockholders' equity	18,758,974	27,869,611
	24,572,205	34,522,118

</TABLE>

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

4

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF LOSS

<TABLE>
<CAPTION>

	1997	1996	1995
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
REVENUES (notes 4a and 9a)	4,526,216	5,405,303	4,371,610
RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES			
Expenses incurred (note 9b)	12,227,559	13,067,747	14,378,805
Less - royalty-bearing grants (note 4b)	2,381,777	1,505,720	1,560,792
	9,845,782	11,562,027	12,818,013
PROVISION FOR ANTICIPATED PROGRAM LOSSES (notes 1a(4), h and 4a(1))			2,600,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (note 9c)	4,440,194	4,693,008	2,752,033
	14,285,976	16,255,035	18,170,046
OPERATING LOSS	(9,759,760)	(10,849,732)	(13,798,436)
FINANCIAL INCOME - net (note 9d)	775,111	793,853	664,722

LOSS BEFORE TAXES ON INCOME	(8,984,649)	(10,055,879)	(13,133,714)
TAXES ON INCOME (note 6)	144,850	(38,261)	35,210
LOSS FROM THE OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES	(9,129,499)	(10,017,618)	(13,168,924)
SHARE IN LOSS OF INVESTEE COMPANY (note 1g)			52,134
LOSS	(9,129,499)	(10,017,618)	(13,221,058)
LOSS PER SHARE - basic and diluted (note 9e)	(0.73)	(0.91)	(1.86)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (note 9e)	12,502,330	10,961,765	7,103,872

</TABLE>

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

5

(CONTINUED) - 1

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL	ACCUMULATED
	SHARES	AMOUNT	PAYED-IN CAPITAL	DEFICIT
U.S. DOLLARS				
<S>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1995	11,183,550	111,836	24,059,587	(3,652,282)
CHANGES DURING 1995:				
Shares issued in connection with the exercise of options	144,560	1,446	108,521	
Purchase of treasury stock (8,700 shares)				
Accrued interest on notes receivable from stockholders				
Payments of interest and principal on notes receivable from stockholders				
Unrealized gain on available-for-sale securities				
Loss				(13,221,058)
BALANCE AT DECEMBER 31, 1995	11,328,110	113,282	24,168,108	(16,873,340)
CHANGES DURING 1996:				
Shares issued in a public offering (note 5a(1))	3,750,000	37,500	/ (1) / 21,562,647	
Shares issued in a private placement (note 5a(2))	1,538,462	15,384	/ (2) / 9,920,407	
Shares issued in connection with the exercise of options (note 5b(3))	293,099	2,931	1,516,933	
Compensation cost in connection with exercise of options (note 5b(3))			159,834	
Treasury stock retired	(2,652,163)	(26,522)	(166,652)	
Purchase of treasury stock (72,300 shares) and options issued as compensation for services rendered by consultant (note 5a(3))			68,000	
Options issued as compensation for services rendered by consultant (note 5b(3))			9,959	
Loans granted to stockholders			102,215	
Accrued interest on notes receivable from stockholders				
Realization of gain on available-for-sale securities				
Loss				(10,017,618)
BALANCE AT DECEMBER 31, 1996 - forward	14,257,508	142,575	57,341,451	(26,890,958)

<CAPTION>

	UNREALIZED	TREASURY	NOTES	TOTAL
	GAIN ON AVAILABLE FOR SALE SECURITIES	STOCK	RECEIVABLE FROM STOCKHOLDERS	
U.S. DOLLARS				
<S>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1995		(146,187)	(1,370,280)	19,002,674
CHANGES DURING 1995:				
Shares issued in connection with the exercise of options				109,967
Purchase of treasury stock (8,700 shares)		(46,987)		(46,987)
Accrued interest on notes receivable from stockholders			(77,291)	(77,291)
Payments of interest and principal on notes receivable from stockholders			24,629	24,629
Unrealized gain on available-for-sale securities	29,048			29,048
Loss				(13,221,058)
BALANCE AT DECEMBER 31, 1995	29,048	(193,174)	(1,422,942)	5,820,982
CHANGES DURING 1996:				
Shares issued in a public offering (note 5a(1))				21,600,147
Shares issued in a private placement (note 5a(2))				9,935,791

Shares issued in connection with the exercise of options (note 5b(3))		(1,465,978)	53,886
Compensation cost in connection with exercise of options (note 5b(3))			159,834
Treasury stock retired	193,174		
Purchase of treasury stock (72,300 shares) and options issued as compensation for services rendered by consultant (note 5a(3))	(456,394)	815,046	426,652
Options issued as compensation for services rendered by consultant (note 5b(3))			9,959
Loans granted to stockholders		(94,131)	(95,131)
Accrued interest on notes receivable from stockholders		(102,215)	
Realization of gain on available-for-sale securities	(25,891)		(25,891)
Loss			(10,017,618)
BALANCE AT DECEMBER 31, 1996 - forward	3,157	(456,394)	(2,270,220)
			27,869,611

</TABLE>

6

(CONCLUDED) - 2

ELECTRIC FUEL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
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	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATE	UNREALIZED GAIN ON AVAILABLE FOR SALE
	SHARES	AMOUNT	CAPITAL	DEFICIT	SECURITIES
U. S. D O L L A R S					
BALANCE AT DECEMBER 31, 1996 - forward	14,257,508	142,575	57,341,451	(26,890,958)	3,157
CHANGES DURING 1997:					
Shares issued in connection with the exercise of options (note 5b(3))	32,953	330	36,552		
Treasury stock retired	(72,300)	(723)	(455,671)		
Options issued as compensation for services rendered by consultant (note 5b(3))			9,000		
Loans granted to stockholders					
Payment of interest and principal on note receivable from stockholders					
Accrued interest on notes receivable from stockholders			146,376		
Realization of gain on available-for-sale securities					(2,721)
Loss				(9,129,499)	
BALANCE AT DECEMBER 31, 1997	14,218,161	142,182	57,077,708	(36,020,457)	436

<CAPTION>

	TREASURY	NOTES RECEIVABLE FROM	
	STOCK	STOCKHOLDERS	TOTAL
U. S. D O L L A R S			
BALANCE AT DECEMBER 31, 1996 - forward	(456,394)	(2,270,220)	27,869,611
CHANGES DURING 1997:			
Shares issued in connection with the exercise of options (note 5b(3))			36,882
Treasury stock retired	456,394		
Options issued as compensation for services rendered by consultant (note 5b(3))			9,000
Loans granted to stockholders		(38,395)	(38,395)
Payment of interest and principal on note receivable from stockholders		14,096	14,096
Accrued interest on notes receivable from stockholders		(146,376)	
Realization of gain on available-for-sale securities			(2,721)
Loss			(9,129,499)
BALANCE AT DECEMBER 31, 1997	--	(2,440,895)	18,758,974

</TABLE>

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

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

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

7

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	1997	1996	1995
	U. S. DOLLARS		
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss	(9,129,499)	(10,017,618)	(13,221,058)
Adjustments required to reconcile loss to net cash used in operating activities:			
Share in loss of investee company			52,134
Depreciation and amortization	866,327	951,955	506,895
Amortization of net premium (discount) on marketable debt securities	(44,591)		278,455
Capital loss (gain) from disposal of fixed assets	6,405	7,145	(3,786)
Capital loss from disposal of marketable debt securities, net		30,991	348
Liability for employee rights upon retirement - net	701,719	585,122	260,775
Waiver of loan to stockholder		358,652	
Compensation cost in connection with exercise of options		159,834	
Issue of stock options as compensation for services rendered by consultants	9,000	77,959	
Interest accrued on notes and loan to stockholders			(77,291)
Changes in operating asset and liability items:			
Decrease (increase) in accounts receivable	(233,457)	118,619	268,712
Decrease (increase) in inventories	376,350	(379,824)	(403,458)
Increase (decrease) in accounts payable and accruals	570,656	(4,516,367)	5,718,556
Changes in related parties - net			10,141
Increase (decrease) in advances from customers	88,349	(3,296,467)	4,164,945
Net cash used in operating activities	(6,788,741)	(15,919,999)	(2,444,632)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(507,882)	(2,225,459)	(5,333,875)
Investment grant relating to fixed assets		355,137	
Loans granted to stockholders	(38,395)	(94,131)	
Amounts carried to other asset and deferred charges			(710,552)
Proceeds from disposal of fixed assets		19,731	9,559
Sale or redemption of (purchase of) marketable debt securities - net	6,393,080	(7,137,746)	12,448,903
Net cash provided by (used in) investing activities	5,846,803	(9,082,468)	6,414,035
Forward	(941,938)	(25,002,467)	3,969,403

8

ELECTRIC FUEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	1997	1996	1995
	U. S. DOLLARS		
<S>	<C>	<C>	<C>
Forward	(941,938)	(25,002,467)	3,969,403
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital (including additional paid in capital), net of offering expenses		32,246,490	
Proceeds from exercise of options	36,882	53,886	109,967
Payment on note receivable from stockholders	14,096		24,629
Purchase of treasury stock			(46,987)
Net cash provided by financing activities	50,978	32,300,376	87,609
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(890,960)	7,297,909	4,057,012
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,662,776	5,364,867	1,307,855
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	11,771,816	12,662,776	5,364,867
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH PAID DURING THE YEAR FOR:			
Interest	30,001	28,247	48,810
Income taxes	49,563	92,483	65,448

</TABLE>

SUPPLEMENTARY INFORMATION ON ACTIVITIES NOT INVOLVING CASH FLOWS:

1. As to the writedown, in 1997, of equipment in the amount of \$ 2.2 million, see note 1a(4).
2. As to transaction, in 1996, whereby the Company purchased shares of its common stock from a stockholder, see note 5a(3).

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

9

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows:

A. GENERAL:

1) Nature of operations

Electric Fuel Corporation ("EFC") - a Delaware corporation - together with its subsidiaries, is referred to as the Company. Almost all operating assets of the Company are situated at, and operations of the Company are primarily carried out by, Electric Fuel (E.F.L.) Ltd. ("EFL") - an Israeli wholly-owned subsidiary. The Company is engaged in one business segment - design, development, and commercialization of innovative advanced zinc-air batteries. The Company's products have not reached the commercial stage. Until commencement of commercial product sales occurs, the Company plans to meet its funding requirements through fees from potential users of its technology, sales of pre-production battery systems and equipment, grants from various programs from the State of Israel's Ministry of Industry and Trade and the funds raised from sale of EFC's shares.

The other active subsidiaries are:

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

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

2) Investee company - Coatec Ltd., an Israeli company (3.9% owned as of December 31, 1997 and 1996).

3) Accounting principles

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

4) Use of estimates in the preparation of financial statements

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

10

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During the year ended December 31, 1997, the Company recorded a writedown of equipment relating to the Field Test in Germany in the amount of \$ 2.2 million. This writedown was charged against the provision for anticipated program losses established in prior years (see note 4a(1)).

B. FUNCTIONAL CURRENCY OF SUBSIDIARIES

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

C. PRINCIPLES OF CONSOLIDATION

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

D. MARKETABLE DEBT SECURITIES

These securities are classified as available-for-sale. Accordingly, these securities are stated at fair market value and the changes in their value are carried directly to Stockholders' Equity. Realized gains and losses are carried to the statements of loss.

11

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. INVENTORIES

Composed mainly of raw materials and supplies valued at the lower of cost or market. Cost is determined on the "first-in, first-out" basis.

F. FIXED ASSETS

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

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

Annual rates of depreciation are as follows:

<TABLE>
<CAPTION>

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

</TABLE>

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

G. OTHER ASSETS

Other assets represent know-how purchased in 1994 and an investment in an Israeli company (see note 1a(2)). The know-how is stated at cost and amortized over five years. The investment is stated at cost, as from July 1995 (formerly accounted by the equity method).

H. REVENUE RECOGNITION

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

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

Revenue and costs in connection with the Company's contractual program commitments (see note 4a(1)) are recognized on the "percentage of completion" method. The percentage of completion is determined according to the ratio of amounts already expended

to estimated total cost as projected at balance sheets dates.
Full provision is made for losses arising from these commitments
upon their anticipation.

12

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. RESEARCH AND DEVELOPMENT

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

J. DEFERRED INCOME TAXES

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

K. CASH EQUIVALENTS

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

L. DERIVATIVES

In order to hedge foreign currency exposure on firm commitments, the Company periodically enters into foreign currency forward contracts. Gains and losses from these contracts are deferred and included as part of the measurement of the results from the underlying hedged transaction.

M. CONCENTRATION OF CREDIT RISKS

Most of the Company's cash and cash equivalents and marketable debt securities at December 31, 1997 and 1996 are deposited with Israeli and U.S. banks and U.S. brokers. Accordingly, the Company considers the inherent credit risks to be remote.

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

13

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

N. RECENTLY ISSUED ACCOUNTING PRINCIPLES:

1) Loss per share

In February 1997, the FASB issued Statement No. 128, "Earnings per share" ("Statement 128"), which is effective as from 1997. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earning per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earning per share amounts for all periods have been presented and where appropriate restated to conform to the Statement 128 requirements. Consequently, the loss per share for the years ended December 31, 1996 and 1995 increased from \$0.81 and \$1.55 respectively, as previously reported to \$0.91 and \$1.86 as reported in these financial statements, respectively.

2) Reporting comprehensive income

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income". ("Statement 130"). Statement 130 requires the reporting and display of comprehensive income and its components, in a full set of general-purpose financial statements. In addition to net income, comprehensive income includes all non-owner changes in equity. Statement 130 is effective for financial statements

for fiscal years beginning after December 15, 1997, and reclassification of financial statements for earlier periods for comparative purposes is required. The adoption of Statement 130 will have no material impact on the Company's consolidated results of operations, financial position or cash flows.

3) Accounting for segments of an enterprise

In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("Statement 131"). Statement 131 requires publicly-held enterprises to report financial and other information about key revenue-producing segments of the entity for which such information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. It also establishes standards for related disclosures about the revenues derived from the enterprise's products and services, about the countries in which the enterprise earns revenues and holds assets and about major customers. Statement 131 is effective for financial statements for fiscal years beginning after December 15, 1997. Financial statement disclosures for prior periods are required to be restated. The Company will adopt the new requirement retroactively in 1998. Management has not completed its review of the impact of Statement 131, but anticipates that the adoption of this statement may affect the number of segments the Company is required to report.

14

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - FIXED ASSETS:

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

<TABLE>
<CAPTION>

	C O S T *		ACCUMULATED DEPRECIATION AND AMORTIZATION	
	DECEMBER 31		DECEMBER 31	
	1997	1996	1997	1996
	U.S. DOLLARS			
<S>	<C>	<C>	<C>	<C>
Machinery and equipment**	5,030,996	7,109,177	1,494,097	967,050
Computers and related equipment	463,710	292,770	181,582	105,001
Office furniture and equipment	334,821	249,594	80,836	58,922
Vehicles	634,430	539,788	239,213	149,237
Leasehold improvements	594,759	563,442	308,599	170,885
	7,058,716	8,754,771	2,304,327	1,451,095

</TABLE>

* Net of related investment grant in the amount of \$ 919,601 and \$925,164 as of December 31, 1997 and 1996, respectively (see also note 6b).

** Including residual value of equipment relating to the Field Test in Germany in the amount of \$ 953,909 and \$ 3,153,909 as of December 31, 1997 and 1996, respectively (see also notes 1a(4) and 4a(1)).

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

15

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 - EMPLOYEE RIGHTS UPON RETIREMENT:

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

The amounts accrued and the portion funded primarily by purchase of insurance policies (plan assets) for Israeli employees of EFL are composed as follows:

<TABLE>

<CAPTION>

	December 31	
	1997	1996
	U. S. d o l l a r s	
<S>	<C>	<C>
Accrued severance pay	2,726,520	1,803,944
L e s s - plan assets	883,771	662,914
Unfunded balance*	1,842,749	1,141,030

</TABLE>

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

EFL may only make withdrawals from the funds for the purpose of paying severance pay.

- b. Expenses included for employee rights upon retirement for each of the years ended December 31, 1997, 1996 and 1995 amounted to approximately \$ 1,036,000, \$ 1,140,000 and \$ 470,000, respectively.

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES:

A. AGREEMENTS RELATING TO THE COMPANY'S TECHNOLOGY:

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

In 1994, EFL signed agreements with Deutsche Post and other partners for the purpose of conducting a Field Test using EFL's technology ("the Field Test"), which reached completion in 1997.

The anticipated cost of the Company's share in the Field Test was greater than anticipated revenues and accordingly the Company recorded a provision for anticipated losses in prior years. The balance of the provision for anticipated losses amounted to \$ 2.2 million as of December 31, 1996. This amount was applied against the writedown of equipment relating to the Field Test (see notes 1a(4) and 2a).

16

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

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

In 1997, the Company and Deutsche Post agreed to extend the Field Test through May 1998. Deutsche Post will cover the operating expenses of the extension program.

The Field Test extension will enable Deutsche Post to test a series of vans powered by zinc-air technology, which were ordered in September 1997.

Deutsche Post has also notified the Company that it seeks to exercise its option granted in the September 1994 agreement for a non-exclusive license for use of the Company's technology.

The license would allow Deutsche Post to use vehicles powered by the Electric Fuel System and to operate all refueling and regeneration facilities for its fleet. The license does not include production of such equipment but does, however, allow Deutsche Post to offer refueling and regeneration services to third parties, provided that agreed upon royalties are paid to Electric Fuel.

- 2) Edison

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

- 3) Vattenfall AB

During 1997, EFL signed a rights agreement with Vattenfall AB, (Vattenfall), a Swedish utility company. Vattenfall exercised its right for a license to establish and operate regeneration facilities and sell Electric Fuel in the Nordic region. Although a final agreement has not been signed, the rights agreement covers the main elements of a 25 year license in consideration of royalties and other considerations to the Company. It is currently anticipated that a final agreement will be decided only after the completion of the field test in May 1998.

17

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

4) Israel Electric Corporation

During 1996, EFL signed an agreement with the Israel Electric Corporation (hereafter "IEC") granting a license for production, distribution and marketing of Electric Fuel in Israel and certain Middle East countries.

The agreement called for a payment of \$ 960,000 to the Company which was included in 1996 revenues. IEC has also agreed to pay royalties of 3% to 5%, based on future gross revenues from the sale, lease or any revenue, in connection with the EFL technology.

5) Other

(a) The Company is currently developing, in cooperation with a German defense and marine industry contractor, a high power zinc-oxygen battery for torpedoes. The Company has granted the contractor exclusive rights to sell torpedoes with the Company's zinc-oxygen batteries until 2001, subject to automatic extension if full-scale production commences, as well as certain rights with respect to the application of the Company's proprietary technology for batteries.

(b) The Company has also developed Survivor Locator Light ("SLL"), a signal light powered by a water activated magnesium-cuprous chloride battery, used to locate survivors of airplane or boat accidents in the water. The Company received an initial order to produce 60,000 SLLs over a two year period commencing in August 1996. The Company fulfilled the balance of this order during 1997.

B. ROYALTY COMMITMENTS

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

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

Total commitments to pay royalties to the Chief Scientist at the 100% rate (if the R&D projects are successful) are in the approximate amount of \$ 7.1 million as of December 31, 1997.

At the time the grants were received, successful development of the related products was not assured.

18

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

C. LEASE COMMITMENTS

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

The rental payments under the above leases, at rates in effect at December 31, 1997, are as follows:

<TABLE>
<CAPTION>

U.S. DOLLARS IN
THOUSANDS

<S>	-----	<C>
Year ending December 31:		
1998	242	
	=====	
1999	174	
	=====	
2000	39	
	=====	

</TABLE>

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

As security in connection with these agreements, the Company has given a lessor a letter of credit in the approximate amount of \$ 58,000.

Rental expenses totaled approximately \$ 515,000, \$ 525,000 and \$ 360,000 in 1997, 1996 and 1995, respectively.

D. EMPLOYMENT CONTRACTS:

- 1) Two senior employees (related parties) have employment agreements with the Company expiring in 2000. Base salary presently payable by the Company under these agreements amounts to \$ 301,000 annually, with further amounts payable as bonuses of not less than 50% of base salary or in the aggregate 5% of net income as defined, subject to certain conditions, including attainment of the Company's budgeted goals. Base salaries are to be adjusted for the increase in the Israeli inflation rate over the devaluation of the shekel, but not less than 3% per annum.

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

19

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES (continued):

- 2) In 1997, the Company decided to terminate the employment of a senior employee holding an employment agreement similar to those described in (1) above. Subsequent to December 31, 1997 the Company reached an agreement with the employee regarding the terms of the termination. Management is of the opinion that amounts provided both in prior years and in 1997, will fully cover all amounts which will ultimately be paid to this employee.

NOTE 5 - STOCKHOLDERS' EQUITY:

A. CAPITAL TRANSACTIONS:

- 1) In February and March 1996, the Company completed a public offering of 3,750,000 shares of its common stock of par value of \$ 0.01 per share, at an offering price of \$ 6.50 per share.
- 2) In October 1996, the Company issued 1,538,462 shares of its common stock of \$ 0.01 par value in a private placement at an offering price of \$ 6.50 per share.
- 3) During 1996, the Company purchased 72,300 shares of its common stock from a consultant, in consideration of the following:
 - a) Partial waiver of a loan granted to the consultant in 1994 in the amount of \$ 720,000, bearing 6% interest per annum and payable on December 31, 1996.
 - b) Sale to the consultant of the Company's 80% interest in Erbato GmbH in consideration of DM 1.
 - c) Granting to the consultant 5-year options to purchase 20,000 shares of the Company's stock at \$ 6.25 per share.

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

- 4) In 1993, the purchase of approximately 1,500,000 shares of common stock by related parties, upon exercise of employee options, was financed by the Company's acceptance of non-recourse notes due in

January 1998.

Subsequent to December 31, 1997 the terms of the notes were extended and they were converted into recourse notes.

20

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

B. COMMON STOCK OPTION PLANS:

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

- (a) 1991 Employee Plan - 2,115,600 shares reserved for issuance.
- (b) 1993 Employee Plan - as amended - 2,700,000 shares reserved for issuance.

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

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

2) As of December 31, 1997, the total number of options authorized under the plans is 5,315,600, and 1,721,848 options are available for future grant. Under these plans, options usually expire no later than 10 years from the date of grant.

21

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

3) A summary of the status of the Company's plans as of December 31, 1997, 1996 and 1995, and changes during the years ended on those dates, is presented below:

<TABLE>
<CAPTION>

	1997		1996		1995	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
		\$		\$		\$
<S>	<C>	<C>	<C>	<C>	<C>	<C>
OPTIONS OUTSTANDING AT BEGINNING OF YEAR	1,472,381	5.24	1,173,033	4.71	1,094,348	3.60
CHANGES DURING THE YEAR:						
Granted / (2) / (4) /	187,085	5.79	617,286	6.30	245,200	7.37
Exercised / (3) /	(32,953)	1.12	(293,099)	5.19	(144,560)	0.76
Forfeited or cancelled	(10,150)	6.64	(24,839)	7.05	(21,955)	5.16
OPTIONS OUTSTANDING AT END OF YEAR	1,616,363	5.38	1,472,381	5.24	1,173,033	4.71
OPTIONS EXERCISABLE AT YEAR-END	784,800	4.35	657,181	3.66	694,864	4.36
WEIGHTED AVERAGE FAIR VALUE OF OPTIONS GRANTED DURING THE YEAR / (1) /	2.71		\$3.33		\$2.66	

</TABLE>

(1) The fair value of each option grant is estimated on the date of grant using the Black & Scholes option-pricing model with the following weighted average assumptions: Dividend yield of 0% for all years; expected standard deviation of 55%; risk-free interest rates of 6% to 8%; and expected lives of up to 10 years.

(2) Includes options issued to consultants as compensation for services rendered: 1997 - 3,273 options; 1996 - 22,286 options.

The compensation cost that has been charged against income in the years ended December 31, 1997 and 1996 is \$ 9,000 and \$ 77,959, respectively.

- (3) Included in the options exercised during 1996, were 255,333 options exercised by related parties. The purchase of the common stock upon exercise of these options and the related taxes payable by the employee were financed by the Company's acceptance of 5 year non-recourse notes receivable due in 2001 and bearing interest at the higher of the increase in the Israeli CPI or linkage to the dollar + 6.2% interest. The notes are collateralized by a pledge on the shares issued. The notes receivable, including accrued interest, are reflected as a reduction of Stockholders' Equity in the financial statements. As a result of this transaction, compensation in the amount of \$ 159,834 was recorded in 1996.
- (4) Includes 300,000 options which were granted in 1996 to related parties. The exercise date may be accelerated based on the share price of EFC's common stock.

22

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

- 4) The following table summarizes information about options outstanding at December 31, 1997:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1997	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1997	WEIGHTED AVERAGE EXERCISE PRICE
\$		Years	\$		\$
<S>	<C>	<C>	<C>	<C>	<C>
0-2	263,009	0.43	0.82	263,009	0.82
4-6	781,006	6.92	5.74	386,588	5.73
6-8	562,348	6.34	6.96	135,203	7.28
8-10	10,000	9.75	9.06		
	-----			-----	
0-10	1,616,363	5.68	5.38	784,800	4.35
	=====			=====	

</TABLE>

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

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

In October 1995, the FASB issued Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). This Statement, effective as of the 1996 financial statements, established a fair value based method of accounting for an employee stock option or similar equity instrument, and encourages adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans using the accounting treatment prescribed by APB 25.

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

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

23

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 - STOCKHOLDERS' EQUITY (continued):

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

1997		1996		1995	
AS REPORTED	PRO-FORMA	AS REPORTED	PRO-FORMA	AS REPORTED	PRO-FORMA

<TABLE>
<CAPTION>

	U.S. DOLLARS		U.S. DOLLARS		U.S. DOLLARS	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loss	9,129,499	9,753,337	10,017,618	11,997,287	13,221,058	13,372,902
Loss per share - basic and diluted	0.73	0.78	0.91	1.09	1.86	1.88

</TABLE>

NOTE 6 - TAXES ON INCOME:

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

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

As at December 31, 1997, EFC has operating loss carryforwards for U.S. federal income tax purposes of approximately \$ 275,000, which are available to offset future taxable income, if any, expiring primarily in 2009.

B. ISRAELI SUBSIDIARY (EFL):

- 1) Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereinafter - the "law")

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

24

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - TAXES ON INCOME (continued):

The main tax benefits available to EFL are:

(a) Reduced tax rates

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

(b) Accelerated depreciation

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

(c) Conditions for entitlement to the benefits

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

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

- 2) Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the "inflationary adjustments law")

Under this law, results for tax purposes are measured in real terms, in accordance with the changes in the Israeli CPI. As explained in note 1b, the financial statements are presented in dollars. The

difference between the change in the Israeli CPI and in the Israeli currency/dollar exchange rate - both on annual and cumulative bases - causes a difference between loss for tax purposes and the loss reflected in the financial statements.

25

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - TAXES ON INCOME (continued):

3) Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969

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

4) Tax rates applicable to income from other sources

Income not eligible for approved enterprise benefits mentioned in (1) above is taxed at the regular rate of 36% applicable in 1996 and thereafter (1995 - 37%).

5) Tax rates applicable to income distributed as dividends by EFL

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

6) Tax loss carryforwards

As at December 31, 1997, EFL has operating loss carryforwards for Israeli tax purposes of approximately \$ 40 million, which are available, indefinitely, to offset future taxable income.

C. EUROPEAN SUBSIDIARIES

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

26

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 - TAXES ON INCOME (continued):

D. DEFERRED INCOME TAXES:

<TABLE>
<CAPTION>

	DECEMBER 31	
	1997	1996
	U.S. DOLLAR	
<S>	<C>	<C>
DOMESTIC INCOME TAXES:		
Deferred tax asset	80,000	50,000
Less - valuation allowance	(80,000)	(50,000)
	-----	-----
	--	--
	=====	=====
FOREIGN INCOME TAXES:		
Deferred tax asset*	6,000,000	4,700,000
Less - valuation allowance	(6,000,000)	(4,700,000)
	-----	-----
	--	--
	=====	=====

</TABLE>

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

E. TAXES ON INCOME INCLUDED IN THE STATEMENTS OF LOSS:

These represent current income taxes, as follows:

<TABLE>
<CAPTION>

	1997	1996	1995
	-----	-----	-----
	U.S. DOLLARS		
	-----	-----	-----
<S>	<C>	<C>	<C>
U.S.	39,000	30,000	52,010
Israeli (in respect of prior years)		(68,261)	
European	105,000		(16,800)
	-----	-----	-----
	144,850	(38,261)	35,210
	=====	=====	=====

</TABLE>

F. TAX ASSESSMENTS:

- 1) EFL received final assessment through the year ended December 31, 1994.
- 2) EFC and its other subsidiaries have not been assessed for tax purposes since incorporation.

27

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 7 - MONETARY BALANCES IN NON-DOLLAR CURRENCIES:

<TABLE>
<CAPTION>

	DECEMBER 31, 1997		
	-----	-----	-----
	ISRAELI CURRENCY- UNLINKED	OTHER NON-DOLLAR CURRENCIES	ISRAELI CURRENCY- LINKED TO THE CPI
	-----	-----	-----
	U.S. DOLLARS		
	-----	-----	-----
<S>	<C>	<C>	<C>
ASSETS:			
Current assets:			
Cash and cash equivalents	634,155	174,844	
Accounts receivable	1,234,995	178,378	100,815
	-----	-----	=====
	1,869,150	353,222	100,815
	=====	=====	=====
LIABILITIES -			
current - accounts payable and accruals	1,963,048	363,635	
	=====	=====	

</TABLE>

NOTE 8 - SUPPLEMENTARY BALANCE SHEETS INFORMATION:

A. INVESTMENT IN MARKETABLE DEBT SECURITIES:

<TABLE>
<CAPTION>

	DECEMBER 31, 1997		DECEMBER 31, 1996	
	-----	-----	-----	-----
	COST	FAIR MARKET VALUE	COST	FAIR MARKET VALUE
	-----	-----	-----	-----
	U.S. DOLLARS			
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Commercial paper			3,927,351	3,927,350
Corporate debt securities			7,365,874	7,369,032
Obligations of states and political subdivisions	4,944,736	4,945,172		
	-----	-----	-----	-----
	4,944,736	4,945,172	11,293,225	11,296,382
Less - portion due in one year or less - presented among current assets	3,103,272	3,101,846	11,293,225	11,296,382
	-----	-----	-----	-----
Balance - due in one to two years	1,841,464	1,843,326	--	--
	=====	=====	=====	=====

</TABLE>

Unrealized gain in respect of these securities - at December 31, 1997 and 1996 - aggregates \$ 436 and \$ 3,157, respectively.

28

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

B. ACCOUNTS RECEIVABLE - OTHER:

<TABLE>
<CAPTION>

	December 31	
	1997	1996
	U.S. dollars	
<S>	<C>	<C>
Israeli government departments and agencies:		
Research and development grant receivable	658,055	471,028
Investment grant receivable	400,844	461,937
VAT and other receivables	155,527	180,341
Other	125,474	76,921
	-----	-----
	1,339,900	1,190,227
Employees	35,994	80,139
Prepaid expenses	71,500	84,754
Interest receivable	89,451	411,972
Sundry	174,192	148,536
	-----	-----
	1,711,037	1,915,628
	=====	=====
C. OTHER ASSETS:		
Know-how purchased	50,000	50,000
Less - accumulated amortization	36,667	26,667
	-----	-----
	13,333	23,333
Investee Company	35,849	35,849
	-----	-----
	49,182	59,182
	=====	=====
D. ACCOUNTS PAYABLE AND ACCRUALS - OTHER:		
Employees and employee institutions	849,327	498,465
Provision for vacation pay	286,508	252,644
Income taxes payable	125,518	
Accrued expenses	505,103	545,109
Provision for anticipated program losses (see note 4a(1))		2,200,000
Sundry	19,707	9,376
	-----	-----
	*1,786,163	*3,505,594
	=====	=====
* Including related parties	105,073	234,544
	=====	=====

</TABLE>

29

ELECTRIC FUEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - SUPPLEMENTARY BALANCE SHEET INFORMATION (continued):

E. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement No. 107 of the FASB "Disclosure About Fair Value of Financial Instruments" requires disclosure of information about the fair value of certain financial instruments for which it is practicable to estimate that value.

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

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

NOTE 9 - SELECTED STATEMENTS OF LOSS DATA:

<TABLE>
<CAPTION>

	1997	1996	1995
	U.S. DOLLARS		
<S>	<C>	<C>	<C>
A. REVENUES (see also note 4a)			
1. Classified by geographical distribution:			
Europe	4,052,966	4,358,055	4,367,827
U.S.A.	473,250	74,700	
Israel		972,548	3,783
	-----	-----	-----
	4,526,216	5,405,303	4,371,610
	=====	=====	=====

2. Classified by major customers:

Customer A	1,479,060	3,135,000	3,091,230
Customer B	625,017	722,655	251,288
Customer C	1,364,280		506,420
Customer D	494,825	429,414	423,732
Customer E		960,000	
Others	563,034	158,234	98,940
	-----	-----	-----
	4,526,216	5,405,303	4,371,610
	=====	=====	=====

B. RESEARCH AND DEVELOPMENT

expenses and cost of revenues:

Materials, subcontracted work and

consulting

Salaries and related expenses

Other

3,005,443	4,307,617	8,389,716
6,365,241	5,706,440	3,831,004
2,856,875	3,053,690	2,158,085
-----	-----	-----
12,227,559	13,067,747	14,378,805
=====	=====	=====

</TABLE>

30

ELECTRIC FUEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

<TABLE>

<CAPTION>

	1997	1996	1995
	U.S. dollars		
	-----	-----	-----
<S>	<C>	<C>	<C>
C. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:			
Salaries and related expenses	1,724,498	1,959,664	1,112,574
Consulting and professional fees	1,304,349	1,251,286	736,836
Royalties (note 4b)	106,722	28,800	
Other	1,304,625	1,453,258	902,623
	-----	-----	-----
	(1) (2) 4,440,194	(1) (2) 4,693,008	(1) (2) 2,752,033
	=====	=====	=====
(1) Including advertising and promotion	240,353	216,682	162,950
	=====	=====	=====
(2) Including related parties	43,009	11,865	5,500
	=====	=====	=====
D. FINANCIAL INCOME (EXPENSES) - NET:			
Interest, bank charges and fees	(58,159)	(117,721)	(142,492)
Exchange differences, net	(128,871)	(162,653)	26,090
Interest income	962,141	1,074,227	781,124
	-----	-----	-----
	775,111	793,853	*664,722
	=====	=====	=====
* Including related parties			77,291
			=====

</TABLE>

E. LOSS PER SHARE:

- Loss per share is computed based on the weighted average number of shares outstanding (net of treasury stock) during each year.
- Since the basic earnings per share ("EPS") represents loss per share, the effect of including the options and warrants (see (3) below) in EPS computation is anti-dilutive, and accordingly the basic and diluted EPS are the same amount.
- The shares purchased with non-recourse notes receivable from stockholders are assumed - for per share computation - to be warrants.

31

ELECTRIC FUEL CORPORATION

AMENDED AND RESTATED 1993 STOCK OPTION AND
RESTRICTED STOCK PURCHASE PLAN

1. PURPOSE

The purpose of this Amended and Restated 1993 Stock Option and Restricted Stock Purchase Plan (the "Plan") is to advance the interests of Electric Fuel

Corporation (the "Company") by enhancing the ability of the Company and its

subsidiaries (a) to attract and retain employees who are in a position to make significant contributions to the success of the Company and its subsidiaries; (b) to reward employees for such contributions; and (c) to encourage employees to take into account the long-term interests of the Company and its subsidiaries through ownership of shares of the Company's common stock, \$.01 par value (the "Stock").

Options granted and purchase grants made pursuant to the Plan may, for purposes of the Internal Revenue Code of 1986, as amended (the "Code"), be

incentive stock options as defined in section 422 of the Code (any option that is intended to qualify as an incentive stock option being referred to herein as an "incentive option"), or options that are not incentive options, or both.

Options granted pursuant to the Plan shall be presumed to be non-incentive options unless expressly designated as incentive options.

The following Plan provisions are subject to the special provisions for participants in the Plan who are Israeli residents, attached in Addendum I

hereto.

2. ADMINISTRATION

The Plan shall be administered by the Board of Directors of the Company (the "Board").

The Board may, in its discretion, delegate its powers with respect to the Plan to a committee (the "Committee"), in which event all references herein to

the Board shall be deemed to be references to the Committee. The Committee shall consist of at least three Directors. A majority of the members of the Committee shall constitute a quorum, and all determinations of the Committee under the Plan may be made without notice or meeting of the Committee by a writing signed by a majority of the Committee members. All members of the Committee shall be disinterested persons within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Board shall have authority, not inconsistent with the express provisions of the Plan, (a) to grant options and make purchase grants to such eligible employees as the Board may select; (b) to determine the time or times when options shall be granted or purchase grants made and the number of shares of Stock subject to each option or purchase grant; (c) to determine which options and purchase grants are, and which options and purchase grants are not, to be treated as incentive options for purposes of the Code; (d) to determine the terms and conditions of each option and purchase grant; (e) to prescribe the form or forms of any instruments evidencing options and purchase grants and any other instruments required under the Plan and to change such forms from time to time; (f) to adopt, amend and rescind rules and regulations for the administration of the Plan; and (g) to interpret the Plan and to decide any questions and settle all controversies and disputes that may arise in connection with the Plan. Subject to Section 8, the Board shall also have the authority, both generally and in particular instances, to waive compliance by an employee

with any obligation to be performed by him or her under an option or purchase grant, to exercise any right of repurchase with respect to Stock issued under the Plan pursuant to a purchase grant, to waive any condition or provision of an option or purchase grant, and to amend or cancel any option or purchase grant (and if an any option or purchase grant is canceled, to grant a new option or purchase grant on such terms as the Board shall specify), except that the Board may not, in the case of an option or purchase grant treated as an incentive option for purposes of the Code, other than in accordance with Section 4(c), (i) increase the total number of shares covered by the option or purchase grant, (ii) extend the term of the option to more than ten years (five years, in the case of an incentive option granted to a "ten-percent shareholder" as defined in Section 6(a) below), or (iii) unless the holder of the option or purchase grant consents, reduce the option exercise price per share or otherwise cause a modification, extension or renewal (within the meaning of section 424(h) of the Code) of the option or purchase grant.

All such determinations and actions of the Board shall be conclusive and shall bind all parties. The Board may delegate to the Chief Executive Officer of the Company the authority to grant options and make purchase grants to employees of the Company who are not officers or directors.

3. EFFECTIVE DATE AND TERM OF PLAN

The Plan shall become effective on the date on which the Plan is approved by the shareholders of the Company. Grants of options and purchase grants under the Plan may be made prior to that date (but after adoption of the Plan by the Board of Directors), subject to approval of the Plan by such shareholders.

No option shall be granted and no purchase grant made under the Plan after the completion of ten years from the date on which the Plan was adopted by the Board of Directors, but options previously granted and purchase grants previously made may extend beyond that date.

-2-

4. SHARES SUBJECT TO THE PLAN

(a) Number of Shares. Subject to adjustment as provided in Section 4(c), the maximum aggregate number of shares of Stock that may be delivered upon the exercise of options and purchase grants granted under the Plan shall be 2,700,000. If any option or purchase grant granted under the Plan terminates without having been exercised in full, or upon exercise is satisfied other than by delivery of Stock, the number of shares of Stock as to which such option or purchase grant was not exercised shall be available for future grants within the limits set forth in this Section 4(a). In addition, if any shares of Stock issued under the Plan pursuant to purchase grants are subsequently repurchased by the Company pursuant to Section 7(g), such shares shall be available for future grants under the Plan.

The maximum number of shares for which options may be granted to any individual over the life of the Plan shall be 1,350,000. The per-individual limitations described in this paragraph shall be construed and applied consistent with the rules and regulations under section 162(m) of the Code.

(b) Shares to be Delivered. Shares delivered under the Plan shall be authorized but unissued Stock or, if the Board so decides in its sole discretion, previously issued Stock acquired by the Company and held in treasury. No fractional shares of Stock shall be delivered under the Plan.

(c) Changes in Stock. In the event of a stock dividend, stock split or combination of shares, reorganization, recapitalization or other change in the Company's capital stock, the number and kind of shares of Stock or securities of the Company subject to options or purchase grants then outstanding or subsequently granted or made under the Plan, the maximum number of shares or securities that may be delivered under the Plan, the exercise price and other relevant provisions shall be appropriately adjusted by the Board, whose determination shall be binding on all persons.

The Board may also adjust the number of shares subject to outstanding options, the exercise price of outstanding options and the terms of outstanding options, to take into consideration material changes in accounting practices or principles, extraordinary dividends, and, except as described in Sections 6(h) and 7(h), consolidations, mergers acquisitions or dispositions of Stock or

property or any other event if it is determined by the Board that such adjustment is appropriate to avoid distortion in the operation of the Plan, provided that no such adjustment shall be made in the case of an incentive option, without the consent of the participant, if it would constitute a modification, extension or renewal of the incentive option within the meaning of section 424(h) of the Code.

(d) Replacement Options. The Board may grant options under the Plan in substitution for options held by employees of another corporation who concurrently become employees of the Company or a subsidiary as a result of a merger or consolidation of the employing

-3-

corporation with the Company or a subsidiary or the acquisition by the Company or a subsidiary of property or stock of the employing corporation. The Board may direct that the replacement options be granted on such terms and conditions as the Board considers appropriate in the circumstances.

5. ELIGIBILITY

Employees eligible to receive options or purchase grants under the Plan shall be those employees of the Company and its subsidiaries who, in the opinion of the Board, are in a position to make a significant contribution to the success of the Company or such subsidiaries. A subsidiary for purposes of the Plan shall be a corporation in which the Company owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock.

Directors who are not employees shall not be eligible to participate in the Plan. Options or purchase grants constituting incentive options for purposes of the Code shall be granted only to "employees" as defined in the provisions of the Code or regulations thereunder applicable to incentive stock options. Receipt of options or purchase grants under the Plan or of awards under any other employee benefit plan of the Company or any of its subsidiaries shall not preclude an employee from receiving options or purchase grants or additional options or purchase grants under the Plan.

6. TERMS AND CONDITIONS OF OPTIONS

(a) Exercise Price. The exercise price of each option shall be determined by the Board but in the case of an incentive option shall not be less than 100% (110%, in the case of an incentive option granted to a ten-percent shareholder) of the fair market value per share of the Stock at the time the incentive option is granted; nor shall the exercise price of any option be less, in the case of an original issue of authorized stock, than par value per share. In the case of employees who are subject to Section 16 of the Exchange Act, the exercise price of an option shall not be less than 50% of the fair market value of the Common Stock on the date of the grant. For this purpose, "fair market value" in the case of incentive options shall have the same meaning as it does in the provisions of the Code and the regulations thereunder applicable to incentive options; and "ten-percent shareholder" shall mean any employee who at the time of grant owns directly, or is deemed to own by reason of the attribution set forth in section 424(d) of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its parent or subsidiary corporations.

(b) Duration of Options. Options shall be exercisable during such period or periods as the Board may specify. In no case shall an option be exercisable more than ten years (five years, in the case of an incentive option granted to a "ten-percent shareholder" as defined in (a) above) from the date the option was granted or such earlier date as the Board may specify at the time the option is granted (the "Final Exercise Date").

-4-

(c) Exercise of Options.

(1) Each option shall be made exercisable at such time or times, whether or not in installments, and upon such conditions as the Board shall prescribe at the time an option is granted.

In the case of an option not immediately exercisable in full, the Board may at any time accelerate the time at which all or any part of the option may be exercised.

(2) The award forms or other instruments evidencing incentive options shall contain such provisions relating to exercise and other matters as are required of incentive options under the applicable provisions of the Code and the regulations thereunder, as from time to time in effect.

(3) Any exercise of an option shall be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (a) the option certificate and any other documents required by the Board and (b) payment in full for the number of shares for which the option is exercised.

(4) In the case of an option that is not an incentive option, the Board shall have the right to require that the individual exercising the option remit to the Company an amount sufficient to satisfy any federal, state, local or foreign withholding tax requirements (or make other arrangements satisfactory to the Company with regard to such taxes) prior to the delivery of any Stock pursuant to the exercise of the option. If permitted by the Board, either at the time of the grant of the option or the time of exercise, the individual may elect, at such time and in such manner as the Board may prescribe, to satisfy such withholding obligation by (i) delivering Stock to the Company (which in the case of Stock acquired from the Company shall have been owned by the individual for at least six months prior to the delivery date) having a fair market value equal to such withholding obligation, or (ii) requesting that the Company withhold from the shares of Stock to be delivered upon the exercise a number of shares of Stock having a fair market value equal to such withholding obligation.

(5) In the case of an incentive option, if at the time the option is exercised the Board determines that under applicable law and regulations the Company could be liable for the withholding of any federal, state or foreign tax, with respect to the exercise or disposition of the Stock received upon exercise or otherwise, the Board may require as a condition of exercise that the individual exercising the option agree (i) to inform the Company promptly of any disposition (within the meaning of section 424(c) of the Code and the regulations thereunder) of Stock received upon exercise, and (ii) to give such security as the Board deems adequate to meet the potential liability of the Company for the withholding of tax, and to augment such security from time to time in any amount reasonably deemed necessary by the Committee to preserve the adequacy of such security.

-5-

(6) If an option is exercised by the executor or administrator of a deceased employee, or by the person or person to whom the option has been transferred by the employee's will or the applicable laws of descent and distribution, the Company shall be under no obligation to deliver Stock pursuant to such exercise until the Company is satisfied as to the authority of the person or persons exercising the option.

(d) Payment For and Delivery of Stock. Stock purchased under the Plan upon the exercise of options shall be paid for as follows: (i) in cash or by certified check, bank draft or money order payable to the order of the Company, or (ii) if so permitted by the Board (which, in the case of an incentive option, shall specify the method of payment at the time of grant), through the delivery of shares of Stock (which, in the case of Stock acquired from the Company, shall have been held for at least six months prior to delivery) having a fair market value on the last business day preceding the date of exercise equal to the purchase price, or (iii) if so permitted by the Board (which, in the case of an incentive option, shall specify the method of payment at the time of grant) by a combination of such types of payment, or (iv) if so permitted by the Board (which, in the case of an incentive option, shall specify the method of payment at the time of grant) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (v) if so permitted by the terms of the option, by delivery of a promissory note of the employee containing such terms and conditions, including without limitation, interest rate and maturity, as the Board may specify in the option (except that the option may provide that the rate of interest on the note will be such rate as is sufficient at all times to avoid the imputation of any interest under the applicable provisions of the Code or of the Israeli Income Tax Ordinance), or by a combination of cash (or cash and Stock) and such a promissory note; provided, that if the Stock delivered

upon exercise of the option is an original issue of authorized Stock, at least so much of the exercise price as represents the par value of such Stock shall be paid in cash or by a combination of cash and Stock.

An option holder shall not have the rights of a shareholder with regard to awards under the Plan except as to Stock actually received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock (a) until, in the opinion of the Company's counsel, all applicable federal, state and foreign laws and regulations have been complied with, and (b) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (c) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Stock has not been registered under the Securities Act of 1933, as amended (the "Securities Act") the Company may

require, as a condition to exercise of the option, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

-6-

(e) Nontransferability of Options. Except as the Board may otherwise determine, no option may be transferred other than by will or by the laws of descent and distribution, and during an employee's lifetime an option may be exercised only by him or her.

(f) Death. If an employee's employment with the Company and its subsidiaries terminates by reason of death, each option held by the employee immediately prior to death shall become immediately exercisable by his or her executor or administrator, or by the person or persons to whom the option is transferred by will or the applicable laws of descent and distribution, at any time within the three-year period ending with the third anniversary of the employee's death, but in no event beyond the Final Exercise Date.

(g) Other Termination of Employment. If an employee's employment with the Company and its subsidiaries terminates for any reason other than death, all options held by the employee that are not then exercisable shall terminate. Options that are exercisable on the date of termination shall continue to be exercisable for a period of three months (subject to Section 6(b)) (or such longer period as the Board may determine, but into event beyond the Final Exercise Date) unless the employee was discharged for cause that, in the opinion of the Board, casts such discredit on him or her as to justify termination of his or her options. In any event, if the employee's employment contract includes a provision that defines termination for cause, and the employee was terminated for cause within the meaning of his or her employment contract, the Board may terminate the employee's options. Furthermore, the Board may terminate the employee's options upon a participant's resignation other than following his or her demotion, loss of title or office or a substantial reduction in his or her salary or a change in his or her place of employment to a location outside of the general area in which he was employed on the date of the grant. After completion of the three-month period following termination, options not otherwise previously terminated or expired shall expire without further action by the Board. For purposes of this Section 6(g), employment shall not be considered terminated (i) in the case of sick leave or other bona fide leave of absence approved for purposes of the Plan by the Board, so long as the employee's right to reemployment is guaranteed either by statute or by contract, or (ii) in the case of a transfer of employment between the Company and a subsidiary or between subsidiaries, or to the employment of a corporation (or a parent or subsidiary corporation of such corporation) issuing or assuming an option in a transaction to which section 424(a) of the Code applies.

(h) Mergers, etc. In the event of a consolidation or merger in which the

Company is not the surviving corporation or which results in the acquisition of substantially all the Company's outstanding Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of substantially all the Company's assets, all outstanding options shall thereupon terminate, provided that all outstanding options shall become exercisable immediately prior to consummation of such merger,

consolidation or sale of assets unless, if there is a surviving or acquiring corporation, the Board has arranged, subject to consummation of the merger, consolidation or sale of assets, for the assumption of the options or the grant to participants of replacement options by that

-7-

corporation or an affiliate of that corporation, which, in the case of incentive options, shall satisfy the requirements of section 424(a) of the Code.

7. TERMS AND CONDITIONS OF PURCHASE GRANTS

(a) Purchase Price. The purchase price of Stock purchased pursuant to purchase grants under the Plan shall be determined in the same manner as the exercise price for options (subject to appropriate adjustment by the Board upon the occurrence of an adjustment made pursuant to Section 4(c), and the Board's determination of such matter shall be final and binding).

(b) Purchase of Stock Pursuant to Grants. An employee receiving a purchase grant under the Plan may purchase the Stock subject to such purchase grant at any time within 60 days after the purchase grant is made (or, in the case of purchase grants made subject to stockholder approval of this Plan, 60 days after such approval). If a purchase grant is exercised by the executor or administrator of a deceased employee, or by the person or persons to whom the purchase grant has been transferred by the employee's will or the applicable laws of descent and distribution, the Company shall be under no obligation to deliver Stock pursuant to such exercise until the Company is satisfied as to the authority of the person or persons exercising the purchase grant.

(c) Payment For and Delivery of Stock. Stock purchased pursuant to purchase grants shall be paid for as follows: (i) in cash or by certified check, bank draft or money order payable to the order of the Company in an amount not less than the par value of the Stock being purchased, determined on the date of purchase, and (ii) by delivery of a nonrecourse promissory note of the employee in a principal amount equal to the balance of such purchase price and containing the following terms and conditions together with such other terms and conditions as the Board may specify at the time of purchase:

(1) The rate of interest on the note will be such rate as is sufficient at all times to avoid the imputation of any interest under the applicable provisions of the Code and the rules and regulations promulgated thereunder, and of the Income Tax Ordinance of Israel and the rules and regulations promulgated thereunder, all as from time to time in effect.

(2) Interest will be payable quarterly, or upon such terms and conditions as the Board may specify at the time of the payment grant, and at the option of the participant, interest which is due and payable will be treated as a new loan to the participant evidenced by the same note.

(3) The principal of the note, and all accrued and unpaid interest, will be due and payable on such date as may be specified by the Board at the time of the

-8-

payment grant, but in no event longer than ten years from the date of issuance of the note.

(4) The note at all times will be secured by all of the Stock issued upon exercise of the purchase grant.

(5) Except as stated in (4) above, the note will be without recourse to the participant or any of his or her assets.

(6) If the participant sells any of the Stock securing the note, all proceeds from such sale will first be applied, to the extent necessary therefor, to the payment in full of the principal of, and all accrued and unpaid interest on, the note.

(7) At any time or from time to time, a participant may specify that 25%, 50%, 75% or 100% of the original principal amount of the note delivered upon purchase of the Stock (plus all accrued and unpaid interest thereon and all accrued interest that has been added to the principal of

the note) shall in the future be with recourse to him or her and to all of his or her assets, in which event the nonrecourse note shall be exchanged for a recourse and a nonrecourse note in the specified amounts, the Stock securing the original nonrecourse note shall be divided pro rata between the two new notes, and otherwise the two new notes shall be identical to the old note (except, in the case of the new recourse note, with respect to recourse to the participant and his or her other assets).

A purchase grantee shall not have the rights of a shareholder with regard to awards under the Plan except as to Stock actually purchased and received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock (a) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, and (b) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (c) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Stock has not been registered under the Securities Act, the Company may require, as a condition to exercise of the purchase grant, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer. Upon delivery, such Stock shall bear a notation in form and substance satisfactory to the Company.

-9-

(d) Nontransferability of Grants. Except as provided in Section 7(b) hereof, no purchase grant may be transferred, and a purchase grant may be exercised only by the employee.

(e) Death. If an employee's employment with the Company and its subsidiaries terminates by reason of death, each unexercised purchase grant held by the employee immediately prior to death shall immediately terminate.

(f) Other Termination of Employment. If an employee's employment with the Company and its subsidiaries terminates for any reason other than death, all purchase grants held by the employee shall immediately terminate. For purposes of this Section 7(f), employment shall not be considered terminated (i) in the case of sick leave or other bona fide leave of absence approved for purposes of the Plan by the Board, so long as the employee's right to reemployment is guaranteed either by statute or by contract, or (ii) in the case of a transfer of employment between the Company and a subsidiary or between subsidiaries.

(g) Call Option. At the time an employee purchases any Stock under the Plan, he shall execute and deliver to the Company a Call Option in substantially the form of Exhibit I hereto. The Board shall specify the terms and conditions

to be contained as a Call Option related to a particular purchase grant at the time of such purchase grant.

(h) Mergers, etc. In the event of a consolidation or merger in which the

Company is not the surviving corporation or which results in the acquisition of substantially all the Company's outstanding Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of substantially all the Company's assets, all outstanding purchase grants shall thereupon terminate, provided that all outstanding purchase grants shall become exercisable immediately prior to consummation of such merger, consolidation or sale of assets unless, if there is a surviving or acquiring corporation, the Board has arranged, subject to consummation of the merger, consolidation or sale of assets, for the assumption of the purchase grants or the grant to participants of replacement purchase grants by that corporation or an affiliate of that corporation.

8. EMPLOYMENT RIGHTS

None of the adoption of the Plan, the grant of options or the making of purchase grants shall confer upon any employee any right to continued employment with the Company or any parent or subsidiary or affect in any way the right of the Company or parent or subsidiary to terminate the employment of an employee

at any time. Except as specifically provided by the Board in any particular case, the loss of existing or potential profit in options granted or purchase grants made under this Plan shall not constitute an element of damages in the event of termination of the employment of an employee even if the termination is in violation of an obligation of the Company to the employee by contract or otherwise.

-10-

9. EFFECTS OF DISCONTINUANCE, CANCELLATION, AMENDMENT AND TERMINATION

None of the adoption of the Plan nor the grant of options or the making of purchase grants to an employee shall affect the Company's right to grant to such employee options that are not subject to the Plan, to issue to such employees Stock or purchase grants as a bonus or otherwise, or to adopt other plans or arrangements under which Stock may be issued to employees.

The Board may at any time discontinue granting options and making purchase grants under the Plan. With the consent of the employee, the Board may at any time cancel an existing option or purchase grant in whole or in part and grant or make to the employee another option or purchase grant for such number of shares as the Board specifies. The Board may at any time or times amend the Plan for the purpose of satisfying the requirements of section 422A of the Code or of any changes in other applicable laws or regulations and the Board of Directors may amend the Plan for any other purpose which may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of options or purchase grants, provided that (except to the extent expressly required or permitted herein above) no such amendment shall, without the approval of the shareholders of the Company, (a) increase the maximum number of shares available under the Plan, (b) change the group of employees eligible to receive options and purchase grants under the Plan, (c) reduce the price at which incentive options may be granted or purchase grants may be made, (d) extend the time within which options may be granted or purchase grants may be made, (e) alter the Plan in such a way that options or purchase grants already granted hereunder would not be considered incentive stock options under Section 422 of the Code, or (f) amend the provisions of this Section 9, and no such amendment shall adversely affect the rights of any employee (without his or her consent) under any option previously granted or purchase grant previously made.

-11-

Addendum I

SPECIAL PROVISIONS FOR PLAN PARTICIPANTS WHO ARE ISRAELI RESIDENTS.

- (a) Anything to the contrary herein notwithstanding, with respect to employees who are Israeli residents, the Plan may also be administered pursuant to the provisions of Section 102 ("Section 102") of the Israeli

Income Tax Ordinance (New Version), 1961, the rules promulgated thereunder and the Israeli Companies Ordinance (New Version), 1983. Details regarding the terms and conditions of options granted and purchase grants made pursuant to the provisions of Section 102 in addition to those set forth herein, will be delivered to the participants who are Israeli residents along with the remaining terms and conditions.

- (b) Anything herein to the contrary notwithstanding, each option and purchase grant, and each share with respect to which an option or purchase grant has been exercised by an employee who is an Israeli resident, may be issued by the Company to, and held in trust (the "Trust") for the benefit

of such employee by a trustee (the "Trustee") designated by the Board of

Directors of the Company or its subsidiaries, as appropriate, pursuant to Section 102. All certificates representing shares issued to the Trustee under the Plan shall be deposited with the Trustee, and shall be held by the Trustee until such time that such shares are released from the Trust as herein provided. The Trustee shall hold the same pursuant to the instructions of Directors of the Company or its subsidiaries, as appropriate, from time to time. The Trustee shall not use the voting

rights vested in such shares and shall not exercise such rights in any way whatsoever, except in cases when at its discretion and after consulting with the Board of Directors of the Company or its subsidiaries, as appropriate, the Trustee believes that the said rights should be exercised for the protection of the option holders and purchase grantees as a minority among the Company's shareholders.

- (c) Anything herein to the contrary notwithstanding, no options granted, purchase grants made or shares purchased pursuant to Section 102 shall be released from the Trust prior to two years after the grant of the options or purchase grant to the Trustee on behalf of the employee (the "Release Date"), or two years from May 13, 1997, the effective date of approval of the 1993 Plan by the Israeli Income Tax authorities, whichever is later. Subject to the terms hereof, at any time after the Release Date with respect to any options, purchase grants or shares, each employee may require (but shall not be obligated to require) the Trustee to release such options, purchase grants or shares, provided that no securities shall be released from the Trust to the employee unless and until such employee shall have deposited with the Trustee an amount of money which, in
- (d) Upon sale by an employee of any securities held in Trust, the Company shall (or shall cause the Trustee to) withhold from the proceeds of such sale all applicable taxes, shall remit the amount withheld to the appropriate Israeli tax authorities, shall pay the balance thereof directly to such employee, and shall report to such employee the amount so withheld and paid to said tax authorities.
- (e) All shares issued upon the exercise of options or purchase grants granted under the Plan shall entitle the employee thereof to receive dividends with respect thereto, and to vote the same at any meeting of the shareholders of the Company. For as long as shares issued to the Trustee on behalf of the employee are held in the Trust, the cash dividends paid with respect thereto shall be remitted to the Trustee for the benefit of such employee, and the Trustee shall vote all such shares in accordance with the instructions of such employee.
- (f) Securities acquired by Israeli residents pursuant to this Plan shall be acquired in the manner provided for in the General Permit promulgated under the Israel Foreign Currency Control Law.
- (g) At the Board's discretion, for purposes of simplicity and in order to ensure compliance with Israel's foreign currency and tax regulations, the exercise of the options and the purchases and sales of shares issued upon the exercise of purchase grants made under the Plan shall be executed by the Company or its subsidiaries, as appropriate.
- (h) With respect to Plan participants who are Israeli residents, the Plan and all instruments issued thereunder or in connection therewith shall be governed by, and interpreted in accordance with, the laws of the State of Israel.
- (i) Any tax consequences arising from the grant or exercise of any options or purchase grants, from the payment for shares covered thereby or from any other event or act (whether of the option holder or purchase grantee or of the Company or its subsidiaries) hereunder, shall be borne solely by the option holder or purchase grantee. Furthermore, such grantee shall agree to indemnify the corporation that employs the option holder or purchase grantee and the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the option holder or purchase grantee.

the Trustee's opinion, is sufficient and necessary for the discharge of such employee's tax obligations with respect to such shares.

FIELD TEST EXTENSION AGREEMENT

EXHIBIT 10.35

Following the decision made at the December 1, 1997, Field Test Partners' Meeting, Deutsche Post AG ("DP AG") and Electric Fuel Ltd., ("EFL") hereby agree as follows:

1. The Field Test as initially defined in the contract between Deutsche Bundespost POSTDIENST and EFL on October 21/27, 1994 (hereinafter referred to as the "Contract") will be extended until and completed by May 31, 1998.
2. EFL agrees to maintain its Bremen regeneration plant activities and to operate, together with DP AG drivers, three Mercedes-Benz Vito vans and three Mercedes-Benz 410E vans per week. The exact number and types of cars will be determined taking into account the expense ceiling authorized by DP AG and the costs attributable to the project as evidenced in detailed cost statements.

For these activities DP AG will pay an amount of no more than DM 2.500.000 net of value added taxes, if any.

The parties agree that following the goal to reach the highest possible number of km in total as agreed upon in the Partners' Meeting of December 1, 1997, the Mercedes-Benz 410E vans involved shall run each 300 km per week or the batteries have to supply an energy of greater than 130 kWh or 450 Ah per drive.

The Mercedes-Benz Vito vans shall reach a range of 250 km per week or the batteries have to deliver an energy supply of greater than 85 kWh or 440 Ah per drive.

The parties agree that one of these conditions has to be reached in order to fulfill this agreement.

If none of these conditions can be reached because of technical problems with the batteries or because of non-delivery of the number of batteries necessary during two successive weeks, DP AG reserves to end the Field Test at any date before May 31, 1998 with 4 weeks notice before the end of the calendric month.

3. Payments shall be made in five installments at the end of each month. Payments shall cover expenses evidenced for each month in detailed cost statements.
4. Payments of DP AG will only be made in order to maintain the Field Test within the scope as outlined in section 2 above until May 31, 1998, following the principles of this Contract.

Cost of projects not attributable to the Filed Test will not be covered by the payments of DP AG but rather be deducted from the total operational costs shown in the detailed cost statements of EFL.

Bonn, 02.02 1998

Bonn, 02.02 1998

Deutsche Post AG
by:

Electric Fuel Ltd.
by:

Wolfgang Buckatin
DP AG Project Manager

J. Barkan
Vice President Sales Europe

EMPLOYMENT AGREEMENT

Made and entered into at Jerusalem on the 13th day of May 1997

- Between: ELECTRIC FUEL (E.F.L.) LTD.
5 Kiryat Hamada, Har Hatzvim
P.O. Box 23073 Jerusalem 91230
(hereinafter: "the Company" or "Electric Fuel")
- And: Name: JOSHUA DEGANI
I.D.: 00048704-1
Address: 28 Haportzim
Jerusalem 92841
Telephone: 02-5664896
(hereinafter: "the Employee")
- WHEREAS: Electric Fuel is a company which owns a plant that engages, inter alia, in the development and production of systems for the storing of energy, which, amongst other things, includes batteries, electric fuel and recharging devices; and
- WHEREAS: The Company requires an employee in the position described below, and the Employee offers himself for employment in the Company in the said position; and
- WHEREAS: The parties agree that the constellation of rights and obligations which will apply in the relationship between them will be as stipulated pursuant to this personal employment agreement and all contacts between them in the future will be direct and without the intervention of any third party; and
- WHEREAS: The Employee's position requires a special degree of personal trust as between him and the Company; and
- WHEREAS: Electric Fuel is a subsidiary of Electric Fuel Corporation (hereinafter: "EFC"), which is a company registered in Delaware, the United States, which is affiliated, or due to be affiliated, to additional subsidiaries/parent companies (hereinafter: "the EFC Group").

NOW THEREFORE IT IS AGREED AND STIPULATED BY THE PARTIES AS FOLLOWS:

1. PREAMBLE

The preamble to this Agreement constitutes an integral part hereof.

2. ACCEPTANCE FOR EMPLOYMENT

EXHIBIT 10.36

The Employee is accepted for employment in the Company commencing from June 15, 1997 in the position of Executive V.P., subordinate to the managing director.

3. PLACE OF WORK

The Employee's place of work will be in Jerusalem, or at such other place as the Company may from time to time specify, provided that the employment of the Employee on a permanent basis at a place which is located more than 60 kilometers from his normal place of work shall be done with the Employee's prior consent.

4. TRANSFER OF THE EMPLOYEE

Notwithstanding the contents of Clause 2 above, but subject to Clause 3 above, Electric Fuel will be entitled to assign the Employee for work in another position, or to transfer the Employee to work for another company under the control of EFC (or under the control of the shareholders who are

the controlling shareholders in EFC), either by placing his services at the disposal of such company or by creating a relationship of employer and employee between the Employee and such company, provided that as a consequence of the transfer to another position or to the other company, his salary and his other rights will not be inferior to his salary and his other rights pursuant to which the Employee is accepted for employment in accordance with Clause 7 below, and provided that this does not prejudice the continuity of his rights vis-a-vis Electric Fuel or vis-a-vis the company to which he is transferred.

5. ORDINARY DAYS OF WORK

The ordinary days of work each week are five days which are, Sundays, Mondays, Tuesdays, Wednesdays and Thursdays. The quota of hours for a full-time job will be according to law.

It is absolutely prohibited for there to be work on Saturdays and on Jewish holidays.

6. OVERTIME WORK AND WORKING IN SHIFTS

- a. Should carrying out the function and position necessitate work during hours beyond the ordinary working hours mentioned in Clause 5 above and/or on a second or third shift, the Employee undertakes to work such hours in accordance with the Company's request.
- b. By virtue of the fact that Employee's job requires a special degree of personal trust, and because the conditions of employment and the circumstances thereof do not allow the Company to have any control over the Employee's hours of work, accordingly the provisions of the Hours of Work and Rest Law, 5711-1951, will not apply to the Employee and to the

2

EXHIBIT 10.36

relationship between the Employee and the Company. Thus, notwithstanding the contents of Clause 5 above, the hours of work and days of work will be according to needs, and the Employee will not be paid any remuneration for overtime or remuneration for work on shifts, even if the Employee worked any number of such hours.

7. SALARY

- a. The combined salary of the Employee will be \$9,000 gross.
- b. In addition to the amount mentioned in sub-clause (a) above, a salary increment will be paid from time to time in accordance with the Company's procedures, and in the Company's discretion (hereinafter: "the Company Increment").
- c. It is hereby agreed and declared that salary increments which are paid to the Employee as stated in sub-clause (b) above will be deemed to be an advance payment and will be reckoned as part of the Cost of Living allowances and all the salary allowances which may be due to the Employee pursuant to the law and/or collective agreements and/or extension orders (hereinafter: "the General Increments"), and under no circumstances will the Employee be entitled both to the Company Increments as well as to the General Increments, but only to the difference, if any, between the Company Increments which are paid to him and the General Increments (hereinafter: "the Difference").
- d. The salary will be paid to the Employee not later than the eighth of the month following the month in which the work was performed. Compulsory payments for which the Employee is liable according to law, as well as the Employee's debts to the Company in accordance with his written undertaking, will be deducted from the salary.

8. REIMBURSEMENT OF EXPENSES

Should the performance of the Employee's function and position require him to stay outside of Electric Fuel's plant in a place which is not his regular abode and/or necessitate traveling to a place outside Electric Fuel's plant

and/or require other expenses which are permitted according to Company procedures, the Employee will be entitled to a reimbursement of these expenses in accordance with a prior written approval of his superior in conformity with the Company's procedures.

9. PENSION SCHEME

Electric Fuel will continue to contribute to an existing pension scheme the Employee has, which is comprised of managers insurance and Mivtachim, under which the Employee is the beneficiary. The following amounts will be deposited in the pension scheme:

3

EXHIBIT 10.36

- a. Contributions in respect of the payment of severance pay, according to the percentage prescribed by law, which will be paid by the Company.
- b. Contributions for the employer's share in the pension scheme, at the percentage prescribed according to law, regulation or order which applies to the Company, which will be paid by the Company.
- c. Contributions in respect of the Employee's share in the pension scheme, at the percentage prescribed according to law, regulation or order or collective agreement which applies to the Company, which will be paid by the Employee. The Employee empowers the Company to deduct from his salary his share in the pension scheme, and to deposit it in the pension scheme.
- d. A contribution for disability insurance.

10. LEAVE

- a. At the start of his employment the Employee will be entitled to annual leave of 24 working days per annum.
- b. An employee who has worked only part of a year will be entitled to days of leave pro rata to the actual period of his work during that year, all in accordance with the law.
- c. The dates on which the Employee goes on leave will be fixed by Electric Fuel in accordance with its possibilities and requirements, but to the extent possible having regard to the Employee's wishes.
- d. Electric Fuel will be entitled to invoke a uniform annual leave for the general body of its employees, in whole or in part, in respect of some or all of the quota of leave, in such manner as it deems fit.
- e. In a case where an employee takes ill during the leave period, the days he is sick will not be taken into account for purposes of the days of leave, subject to his presenting the Company with a medical certificate upon his return to work.
- f. Should an employee not wish to utilize all the leave due to him during any given year of employment, he will be entitled to request the Company not to utilize his days of leave during that year of employment but to accumulate the balance of the leave or to accept payment in lieu thereof, up to a limit of leave in respect of two years employment, save and except for days of leave he is obliged to utilize according to law.

11. SICK LEAVE AND RECUPERATION PAY

4

EXHIBIT 10.36

- a. An employee who is absent from work due to illness shall be obliged to produce to the Company appropriate medical certificates in respect of all the days of his absence, and he will be entitled to his salary in respect of his days of absence up to a maximum of 1.5 days of work per month, with a right to accumulate such sick leave.

- b. An employee who is entitled to payment or compensation from another source in respect of days of illness, such as from the National Insurance Institute, or from personal accident insurance, shall transfer to the Company the payment or compensation immediately upon receipt thereof, up to the limits of the salary he has received from the Company in consequence of such event.
- c. The Employee shall be entitled to payment for recuperation pay in accordance with the law.

12. SAFETY AT WORK

- a. The Employee is required to conform meticulously with the work safety procedures, to obey instructions on the subject, to report and to act in any possible way in order to prevent work accidents of any sort.
- b. Should the Employee be injured at work (work accident or vocational disease), he shall be obliged to report such injury or illness to the Company as soon as possible in accordance with the Company's procedures.
- c. An employee who is absent from work due to an injury at work which is recognized by the National Insurance Institute will be entitled to his salary in respect of the first three days of his absence, in accordance with Clause 11 above, and such days will be deemed to be days of sick leave. Should he be absent for more than three days, the Employee will receive his salary from the Company and he shall transfer to the Company, or shall cause the transfer to the Company of, any payment or compensation he may receive in respect of his injury from the National Insurance Institute or from personal accident insurance, within the limits of the salary he has received from the Company in consequence of such event.

13. OBLIGATION FOR CONFIDENTIALITY

- a. The Employee hereby undertakes to keep completely secret all the details of this Agreement, including the salary conditions, and not to pass on or divulge details in regard thereto to any third party.
- b. For purposes of this clause and for purposes of Clause 14 below, the term "information" includes any know-how which may come into the possession of the Employee in the course of his employment on behalf of Electric Fuel, or another company forming part of the EFC Group of companies, including, inter alia, any knowledge in the technological, technical,

EXHIBIT 10.36

engineering, scientific, economic, commercial, accounting and/or legal field which relates to Electric Fuel, whether or not same is defined as classified information. Such information shall also include knowledge which is received by Electric Fuel on the basis of a confidentiality agreement with a third party.

- c. The Employee hereby declares that he is aware that the information which has been developed in the Company until now, and which will be developed during the course of his employment in the Company, is information of immense value and the importance thereof is very substantial to the success of the Company, and that the passing on of such information to a third party will cause enormous damage to Electric Fuel.
- d. The Employee hereby undertakes to keep all information completely secret and confidential and not to divulge information to any third party, unless the managing director of Electric Fuel has given written approval to the passing on of such information.
 - 1) The obligation for confidentiality pursuant to this clause will not apply to information which has passed into the public domain without the interference or intervention of the Employee, or
 - 2) Information which the Employee has proved in writing at the time of signing of this Agreement that same was in his possession prior to a

relationship being created between him and Electric Fuel (employer-employee, consultant or any other unofficial connection).

- e. The period for the obligation contained in sub-clause (d) above shall be for so long as the employer-employee relationship between the Employee and Electric Fuel exists and for an additional period of five years subsequent thereto, or such longer period in relation to information which came into the possession of Electric Fuel from a third party, if the confidentiality agreement with the third party specifies a longer period, and for such additional period only.

14. COMPETITION

The Employee shall not himself compete with the Company or with the EFC Group, and shall not work for or give service, advice, training or information to any entity likely to be a competitor of, or who has a business similar in essence to, the business in which the EFC Group engages or will engage during the Employee's period of employment, and this prohibition shall continue to apply during the period of employment and for an additional five years after the termination of the period of employment.

15. PUBLICATIONS

6

EXHIBIT 10.36

The Employee shall not publish research in scientific literature or an article connected with the Employee's field of operations in the framework of the Company, until after he has delivered to the Company a copy of the research or the article he wishes to publish, and has received the prior written approval of the managing director of the Company for the publication thereof.

16. INTELLECTUAL PROPERTY

- a. The intellectual property created in Electric Fuel by the Employee, or with his participation in the course of his employment at Electric Fuel, will be the sole property of Electric Fuel, and it will be entitled to make use thereof in its sole discretion.
- b. The Employee shall fully cooperate with the Company for purposes of utilizing its intellectual property, including the registration thereof as a patent or in order to cloak it with rights of copyright or other rights, whether in Israel or abroad, even if this necessitates the preparation of plans, formulas or any other action, and even if the Employee's relationship with the Company has been terminated for any reason prior to his being called upon to do so.

17. DUTY OF CARE

The Employee shall perform his functions in his employment loyally and in the course of safeguarding the interests of the Company, and shall act in accordance with the Company's procedures and in conformity with the safety arrangements. Should he commit a breach of any of the provisions of this clause, the Employee will bear responsibility for any damage which may be caused to the Company as a result of a malicious act or of gross negligence on his part.

18. PROPERTY OF THE COMPANY

The Employee shall not use the property of the Company except for purposes of performing his work in the Company, and shall not remove the property of the Company from the Company's building and/or from the area of premises leased by it, except with prior written approval given by the person authorized to do so.

19. ADDITIONAL WORK

The Employee shall not be entitled to do any additional work over and above his work in the Company.

20. ADVANCE NOTICE

- a. Each party will be entitled to terminate the employment relationship at any time and for any reason, by way of advance notice to the other party, and the period of the advance notice and the total payment of severance pay to

7

EXHIBIT 10.36

which the Employee will be entitled will be as set forth in the Length of Advance Notice Appendix.

- b. The Company shall be entitled to dispense with the Employee's work during the period of advance notice, provided that it pays him his salary.
- c. Notwithstanding the contents of sub-clauses (a) and (b) above, the Employee will not be entitled to advance notice if he is dismissed in circumstances involving a grave breach of discipline or breach of trust vis-a-vis the Company.
- d. An employee who has left the Company without advance notice, or who has not worked properly during the period of advance notice, in whole or in part, will be obliged to compensate the Company for any damage which may be caused to it, and the amount of the compensation will be capable of being set off against any amount which may be due to the employee from the Company.
- e. During the period of advance notice, the Employee shall train his replacement and shall transfer the work and the job in orderly fashion, including any information connected with the job, to his replacement and/or to his superior.

21. TERMINATION OF EMPLOYMENT RELATIONSHIP

- a. When the employment comes to an end, the Employee shall return to the Company all property and documents belonging to the Company, and shall settle all his debts to the Company.
- b. After the Employee has complied with all his obligations pursuant to sub-clause (a) and pursuant to Clause 20(e), and subject to the provision of sub-clauses (c), (d), (e) and (f) below, the Company will transfer to the Employee his pension scheme and payments for the accumulated annual leave at the rate specified according to law, to the extent that a balance of accumulated leave stands to the credit of the Employee.
- c. Should the Employee's employment pursuant to this Agreement be terminated in circumstances which entitle him to severance pay according to the law, or in accordance with the conditions set forth in the Severance Pay Law, 5723-1963, the Company will transfer to the Employee the severance pay due to him, as set forth in sub-clause (d) below.
- d. Should a pension scheme which includes an element of severance pay have been transferred to the Employee, the Employee's rights under such scheme will be in substitution of his rights to severance pay, and will constitute full realization of his rights according to law and under this Agreement, except in cases in which:

8

EXHIBIT 10.36

- 1) The amounts which have accrued in the pension scheme as severance pay are insufficient for the payment of the severance pay at the full rate which is due to the Employee according to law. In such event the Company will top up the shortfall amount.
- 2) The amounts which have accrued in the pension scheme as severance pay are higher than the amount due to the Employee according to law. In such event the Company shall be entitled to withdraw the difference for itself.

- e. Should the Employee's employment be terminated in circumstances which do not entitle the Employee to severance pay, the Company will be entitled not to transfer to the Employee the element of severance pay which has accrued in the pension scheme.
- f. Should the Employee fail to comply with all his obligations pursuant to sub-clause (a), the Employee hereby agrees that the Company will set off the value of the property or the documents, which have not been returned into its possession, and the total amount of the debts which have not been repaid by the Employee, against any amount the Company holds for the Employee. This will be in addition to the Company's right to take any steps against the Employee which are available to it according to law.
- g. Notwithstanding the contents of sub-clause (b) above, the Company will not transfer to the Employee, and the Employee will not be entitled to any payment of whatsoever nature, if the employment relationship is terminated in circumstances of a grave breach of discipline or a criminal offense involving moral turpitude, or a breach of trust against the Company.

22. The following appendices are attached to this Contract and form an integral part hereof:

- Continuing Education Fund Appendix
- Motor Car Appendix
- Termination of Employment Appendix
- Entitlement to receive Options Appendix
- Bonus Appendix
- Length of Advance Notice Appendix

IN WITNESS WHEREOF THE PARTIES HAVE HEREUNTO SIGNED

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Electric Fuel (E.F.L.) Ltd.

The Employee

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EXHIBIT 10.36

CONTINUING EDUCATION FUND APPENDIX

- 1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
- 2. The following sub-paragraph will be added to Clause 7:
 - e. With effect from the date of commencement of his employment, the Company will deposit 7.5% of the Employee's combined salary in a continuing education fund in the name of the Employee, up to the ceiling which is exempt from tax according to law. The Employee authorizes the Company to deduct his share of the continuing education fund from his salary and to deposit same in the continuing education fund.

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Electric Fuel (E.F.L.) Ltd.

The Employee

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EXHIBIT 10.36

MOTOR CAR APPENDIX

- 1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
- 2. The following sub-paragraph will be added to Clause 7:

h. The Employee shall be entitled for purposes of his employment to receive a car according to the conditions and rules set forth in the Company's procedures. The value of the use of the car will be fully grossed-up. The Company will be entitled to revoke this right during the period of advance notice, in the event that the Employee ceases working.

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Electric Fuel (E.F.L.) Ltd.

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The Employee

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EXHIBIT 10.36

TERMINATION OF EMPLOYMENT APPENDIX -
RELEASE OF MANAGER'S INSURANCE POLICY

1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
2. The following sub-paragraph will be added to Clause 21 sub-clause (h) will be replaced by the following sub-clause:

h. In every case of the termination of employment by prior notice from the Employee, subject to the provisions of Clauses 20(e) and 21(f), (g), the Company will transfer the amount which has accumulated to his credit under the pension scheme to the Employee.

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Electric Fuel (E.F.L.) Ltd.

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The Employee

12

EXHIBIT 10.36

ENTITLEMENT TO OPTIONS APPENDIX

1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
2. The Employee shall be entitled to receive 122,500 options of the parent company, Electric Fuel Corporation, at an exercise price of \$5.5 per share. The Employee will be entitled to exercise the options (vesting) in accordance with the following time schedule:

December 31 1997	-	17,150
December 31 1998	-	35,116
December 31 1999	-	35,116
December 31 2000	-	35,117
3. The Employee's entitlement is subject to the Company's scheme which is approved for the grant of options to employees.

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Electric Fuel (E.F.L.) Ltd.

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The Employee

13

EXHIBIT 10.36

BONUS APPENDIX

1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
2. The Employee will be entitled to receive annual bonuses, commencing from the end of the second calendar year of his employment in the Company, to a

minimum extent of 1.5 times his gross monthly salary in accordance with the excellence of his performance in his position.

3. In respect of the first calendar year of his employment (1997), the Employee will be entitled to payment of a bonus in a minimum amount of \$10,000 up to \$18,000, in the event of excellence of performance in fulfilling his functions and position.

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Electric Fuel (E.F.L.) Ltd.

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The Employee

EXHIBIT 10.36

LENGTH OF ADVANCE NOTICE APPENDIX

1. This appendix forms an integral part of an Employment Agreement which was signed on May 13, 1997.
2. In relation to Clause 20(a) - the length of the advance notice and the total payment of severance pay, to which the Employee will be entitled, will be according to the following table:

<TABLE>
<CAPTION>

	Party giving notice	Period of Advance Notice (in months)	Payment of Increased Severance Pay (in months of gross salary)
<S>	<C>	<C>	<C>
In the first year of employment	The Employee	1	2
	The Company	2	4
After first year of employment	The Employee	2	3
	The Company	2	5

</TABLE>

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Electric Fuel (E.F.L.) Ltd.

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The Employee

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT AND RELEASE (this "Agreement") is entered into as of the 12th day of March, 1998 (the "Effective Date") by and among ELECTRIC FUEL CORPORATION, a Delaware corporation ("EFC"); ELECTRIC FUEL LIMITED, an Israeli company ("EFL" and together with EFC, the "Company"), and MENACHEM KORALL, Israel I.D. Number 836454 ("Korall").

WHEREAS, the Company and Korall entered into an Employment Agreement (the "Employment Agreement") on December 15, 1993, and have maintained an employer-employee relationship from such date until the present; and

WHEREAS, the Company and Korall now desire to terminate the Employment Agreement, and the employer-employee relationship; and

WHEREAS, the Company and Korall also desire to enter into a written agreement in order to establish their respective rights, duties, and obligations, resolve all claims and differences that may currently exist, or that in the future may arise and generally release the Company and Korall from any claims or other matters that may not be specifically set forth hereinafter.

NOW, THEREFORE, the parties, intending to be legally bound, hereby agree as follows:

1. TERMINATION OF EMPLOYMENT AGREEMENT

1.1 The Employment Agreement and the employment relationship shall terminate, cease and be of no further force and effect as of January 31, 1998 (the "Termination Date"). Any provisions contained in the Employment Agreement which relate to the manner, method, timing, notification of, or necessity to establish cause for termination, are considered to have been complied with and/or waived.

1.2 Korall undertakes to cooperate with the Company in order to pass on his responsibilities to other employees of the Company in an orderly fashion, and to provide to the Company all information he may have of relevance to the Company's on-going activities.

1.3 Korall acknowledges, confirms and undertakes that, subject to the payment of the amounts due to him under Sections 2 and 3 below, he has no claims against the Company with regard to the Employment Agreement or his employment relationship with the Company or the method of termination of his employment.

2. SALARY

Korall acknowledges that he has received all the Base Salary (as defined in Section 3(a) of the Employment Agreement) owing to him for the period ending on the Termination Date.

3. SOCIAL BENEFITS

3.1 MANAGER'S INSURANCE AND EDUCATION FUND (KEREN HISHTALMUT)

(A) ASSIGNMENT MANAGER'S INSURANCE. Within twenty-one (21) days of Effective Date, the Company shall assign to Korall the rights to the Managers' Insurance Policy established for Korall pursuant to Section 4(a) of the Employment Agreement (the "Manager's Insurance Policy"). Within three (3) days of the Effective Date, the Company shall execute all forms and letters required on its behalf to be executed in connection with such assignment.

(B) ASSIGNMENT OF EDUCATION FUND. Within twenty-one (21) days of Effective Date, the Company shall assign to Korall the rights to receive any

amounts held in the Education Fund established for Korall pursuant to Section 4(b) of the Employment Agreement (the "Education Fund"). Within three (3) days of the Effective Date, the Company shall execute all forms and letters required on its behalf to be executed in connection with such assignment.

(C) CALCULATION OF UNPAID MANAGERS INSURANCE PREMIUMS. The parties hereby acknowledge that there is some confusion with respect to the crediting to Korall's policy of the entire amount of money contributed by the Company to the Managers' Insurance Policy during the period of time on or about the establishment of such policy. The Company agrees to use good faith efforts to determine, within thirty (30) days of the Effective Date, whether additional premiums are owed and if so to pay the amount of all unpaid premiums to the fund within seven (7) days of reaching a determination with respect to the amount of premium owed.

(D) NO FURTHER OBLIGATION. The Company shall make contributions on behalf of Korall to the Managers' Insurance Policy or the Education Fund with respect to the Base Salary paid to Korall pursuant to Section 2 above for the period ending on the Termination Date. Without derogating from Section 3.1(c) above, the Company shall have no additional obligations to make any contributions to the Managers' Insurance Policy or the Education Fund.

3.2 SEVERANCE PAY

(A) The parties acknowledge that Korall, for his employment by the Company through the Termination Date, is entitled by law to severance pay (the "Severance Pay Amount") in the amount of the NIS equivalent \$63,605 (calculated on the basis of 6.75 years of work and a final monthly salary of \$9,423). Within three (3) days of the final determination under Section 3.1(c) above, the Company shall pay to Korall the difference between the Severance Pay Amount and the amount of the portion of the Managers' Insurance Policy earmarked for severance pay.

(B) In addition, as severance payment ("ma'anak prisha"), the Company shall pay to Korall twenty-four (24) equal monthly payment of the NIS equivalent of \$5,000 (five thousand US Dollars). These payments shall be made on the 10th of each calendar month or the first Israeli business day thereafter, commencing on April 10, 1998, until March 10, 2000.

3

3.3 VACATION. Within three (3) days of the Effective Date, the Company shall pay to Korall an amount of the NIS equivalent of \$1,487 (one thousand four hundred eighty seven US Dollars), which constitutes the conversion into cash payments of all vacation days accumulated by Korall pursuant to Section 4(c) of the Employment Agreement for his employment through the Termination Date.

3.4 SICK LEAVE. Within three (3) days of the Effective Date, the Company shall pay to Korall an amount of the NIS equivalent of \$14,352 (fourteen thousand three hundred fifty two US Dollars), which constitutes the conversion into cash payments of all sick days accumulated by Korall pursuant to Section 4(d) of the Employment Agreement for his employment through the Termination Date.

3.5 EDUCATION FUND DIFFERENTIALS. Within three (3) days of the Effective Date, the Company shall pay to Korall an amount of the NIS equivalent of \$10,558 ten thousand five hundred fifty eight US Dollars), which constitutes the payments of Education Fund differentials payable to Korall pursuant to Section 4(b) of the Employment Agreement for his employment through the Termination Date.

3.6 FAILURE TO MAKE TIMELY PAYMENT. Failure by the Company to make payment of any of the amounts due pursuant to Sections 3.2 through 3.5 within four (4) days of the Effective Date, or to make any other payment within thirty (30) days of the due date for such payment, shall be deemed a fundamental breach of this Agreement.

4. KORALL'S SHARE AND SHARE OPTIONS

4.1 OUTSTANDING WARRANTS AND OPTIONS. The parties hereby agree:

(A) to extend until February 28, 2000, the exercise period of the

90,000 options to purchase securities of EFC at an exercise price of \$5.75 per share held by Korall; and

(B) that any options to purchase securities of EFC held by Korall which are not exercised by February 28, 2000, shall expire, terminate and be of no further force and effect; and

(C) that Korall will be entitled to utilize such mechanisms (including notice and manner of payment) as the Company generally makes available to its senior employees in connection with the exercise of all such options.

4.2 RESTRICTIONS ON TRANSFER OF SECURITIES. Korall shall not sell, assign, transfer, pledge, hypothecate, mortgage or dispose of, by gift or otherwise, or in any way encumber (each a "Transfer") all or any of the securities of EFC owned by him (the "Securities") without the prior written approval of Robert Ehrlich, if then a director of the Company, or, if not, of the then Chairman of the Board of the Company, which approval shall not be unreasonably withheld. Notwithstanding the preceding sentence, Korall may, without such written approval:

4

(A) sell any number of shares of EFC necessary to finance the repayment of the principal of \$104,504 (one hundred four thousand five hundred four US Dollars) and interest of \$42,882 (forty-two thousand eight hundred eighty two US Dollars) due under the Non-Recourse Promissory Note, dated January 3, 1993, between EFC and Korall (the "Note"), provided, however, that the proceeds of such sale, net of any applicable taxes, commissions and fees, are transferred directly to EFC, and further provided that the above calculation of interest is acknowledged to be through January 3, 1998, the maturity date of the Note, and such Note shall, bear interest in accordance with its terms on all unpaid balances until it is paid in full; and

(B) in addition to the sale of shares contemplated under (a) above, commencing immediately, sell up to 50,000 shares of EFC per calendar quarter at a price per share of no less than \$0.125 below the closing price of such shares on the last day of trading immediately preceding the sale of such shares; and

(C) if the Note shall not have been repaid in full by March 1, 1999, the Company shall be entitled to set off the unpaid balances against any amounts owed by the Company to Korall or any party affiliated with Korall.

4.3 ESCROW. Within three (3) days of the Effective Date, Korall shall give irrevocable instructions to his broker that the broker shall take all instructions regarding the disposition of Korall's shares in EFC solely from Adv. Michael Gruda (the "Trustee"). The Trustee shall undertake not to transfer the Securities other than in accordance with the terms of this Agreement. If Korall instructs the Trustee to sell any Securities, the Trustee shall withhold from the proceeds of such sale the amount necessary to pay any taxes, fees and commissions applicable to such sale. The remaining proceeds of such sale shall be transferred to EFC to repay the Note. The proceeds of any sale remaining after the payment of all applicable taxes and the repayment of the Note in full, shall be transferred to Korall or his designee. The fees of the Trustee shall be shared equally by Korall and the Company.

5. COVENANTS OF KORALL

5.1 RETURN OF PERSONAL PROPERTY. Korall shall, within five (5) days from the Effective Date, return to the Company all personal property in his possession or under his control, if any, which is owned by the Company.

6. BREACH

6.1 BREACH BY KORALL. In the event of a breach by Korall of any of the terms of this Agreement, the Company shall be entitled, if it shall so elect, to institute legal proceedings to obtain damages for any such breach, or to enforce the specific performance of this Agreement by Korall and to enjoin Korall from any further violation of this Agreement and to exercise such remedies cumulatively or in conjunction with all other rights and remedies provided by law. If the Company prevails in a proceeding for damages or injunctive relief,

Korall agrees that the Company, in addition to other relief, shall be entitled to reasonable attorney fees, costs, and the expenses of litigation incurred by the Company in securing the relief granted by the Court. If Korall prevails in such proceedings, he shall be entitled to reasonable attorney fees, costs and expenses of litigation. Any payments due and owing to

5

Korall, as called for in this Agreement, shall be terminated immediately and shall no longer be due and owing to Korall, upon his violation of any of the terms of this Agreement as confirmed by the Arbitrator described in Section 10.9 below.

6.2 BREACH BY COMPANY. In the event of a breach by the Company of the terms of this Agreement, Korall shall be entitled to institute legal and/or equitable proceedings to obtain damages and/or injunctive relief for any such breach and shall be entitled to recover interest at the legal rate on past due amounts. If Korall prevails in a proceeding for damages or injunctive relief, the Company agrees that Korall, in addition to other relief, shall be entitled to reasonable attorney fees, costs, and the expenses of litigation incurred by Korall in securing the relief granted by the Court. If the Company prevails in such proceedings, it shall be entitled to reasonable attorney fees, costs and expenses of litigation. Any payments due and owing to the Company, as called for in this Agreement, shall be terminated immediately and shall no longer be due and owing to the Company, upon the Company's violation of any of the terms of this Agreement. If the Arbitrator determines that a breach by the Company was made in bad faith, then all the amounts payable by the Company to Korall or any entity controlled by him shall be immediately due and payable.

7. GENERAL RELEASE

7.1 Except with respect to breaches of this Agreement, each party, on its or his own behalf and on behalf of its or his heirs, executors, administrators, successors and assigns, hereby releases, discharges, and acquits the other party, its officers, directors and employees, and its and their successors and assigns, of and from any and all past, present, and future claims, counter-claims, demands, actions, causes of action, liabilities, damages, costs, loss of services, expenses, compensation, third-party actions, suits at law or in equity, of every nature and description, including but not limited to, any claims that have been or might have been asserted as a result of the establishment or termination of the employer-employee relationship, hereinafter collectively referred to as claims. It is the intention of the parties hereto to effect a full and final general release and this Agreement is intended to cover, and does cover, not only now known injuries, losses, and damages, but any future injuries, losses, and damages not now known or anticipated, but which may later develop or be discovered, including all the effects and consequences thereof.

7.2 Korall does hereby declare that he does understand, covenant and agree that he will not make any claims or demands, or file any legal proceedings against the Company, its officers, directors, employees or shareholders, as a party to any claim, demand or legal proceedings nor shall Korall proceed against any other party, person, firm, or corporation on the claims described above except as is necessary in order to enforce the terms and conditions of this Agreement.

7.3 The filing of any claim, demand, or any and all other legal proceedings by Korall, against the Company or its officers, directors, employees or shareholders, shall be deemed to be a material breach of the terms of this Agreement. Such breach shall, immediately, terminate the Company's duty to pay any further sums to Korall and shall also bind Korall to repay any and all sums paid to him under this Agreement. Additionally, Korall shall indemnify and hold harmless the Company

6

from any and all judgments, costs, expenses, or attorney fees whatsoever arising on account of the filing of any such claim, demand or other legal proceedings by Korall.

7.4 It is further understood and agreed that the acceptance of the consideration more fully described above is in full accord and satisfaction of any obligations, claims and/or disputes that Korall may have with the Company.

8. RESERVED

9. NOTICE

For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by registered mail, postage prepaid, addressed to the respective addresses set forth below or last given by each party to the other, except that notice of change of address shall be effective only upon receipt.

The initial addresses of the parties for purposes of this Agreement shall be as follows:

The Company: Electric Fuel Corporation
 c/o Electric Fuel Limited

Attn: Yehuda Harats, President

Electric Fuel Limited
5 Kiryat Mada Street
Har Hotzvim Science Park
P.O. Box 23073
Jerusalem 91230, Israel
Fax: (972-2) 589-0890
Attn: Yehuda Harats, President

Menachem Korall Menachem Korall
 Rechov Porat 14
 Jerusalem, Israel
 Tel: (972-2) 586-0560

10. MISCELLANEOUS

10.1 WAIVER. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Korall and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver or similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7

10.2 GOVERNING LAW; JURISDICTION. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Israel, without giving effect to the rules respecting conflict of law. The parties irrevocably submit to the exclusive jurisdiction of the courts of Jerusalem, Israel, in respect to any dispute or matter arising out of or connected with this Agreement.

10.3 "NIS EQUIVALENT". The phrase "NIS equivalent" as used herein shall mean the equivalent in New Israeli Shekels of a U.S. dollar amount calculated at the representative rate of exchange last published prior to the time of payment.

10.4 SET-OFFS. The Company shall be entitled to set-off any amounts owed to it by Korall or any entity controlled by Korall from any amounts that it owes to Korall or any entity controlled by Korall hereunder or under any other agreement. Korall shall be entitled to set-off any amounts owed to him by the Company from any amounts that it owes to the Company hereunder or under any other agreement.

10.5 ENTIRE AGREEMENT. This Agreement, and the Consulting Agreement with Shampi Ltd., dated the date hereof, constitute the entire agreement between the parties hereto and supersede all prior agreements, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made

either party which are not expressly set forth in this Agreement.

10.6 SUCCESSORS AND ASSIGNEES.

(A) This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors and assigns, and the Company shall require such successor or assign to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The term "successors and assigns" as used herein shall mean a corporation or other entity acquiring all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

(B) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by Korall, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Korall's legal personal representative.

10.7 SURVIVAL. The provisions of Section 5.4 of this Agreement shall survive the rescission or termination, for any reason, of this Agreement.

10.8 SECTION HEADINGS. The section headings contained herein are for reference purposes only and shall not in any way effect the meaning or interpretation of this Agreement.

10.9 ARBITRATION. The parties agree that any dispute arising under or in connection with this Agreement shall be referred as expeditiously as possible, without delay, to arbitration in accordance with Israel's Arbitration law, 1968. Korall shall select Ha'Rav Neuwirth as an arbitrator. The Company shall either agree to have Ha'Rav Neuwirth serve as a sole arbitrator, or shall select another rabbi as its own arbitrator, and such rabbi, together with Ha'Rav Neuwirth, shall select a third rabbi, and the matter will be heard by a panel consisting of the three arbitrators. The arbitrator(s) will not be bound by rules of procedure or substantive law. During the pendency of the arbitration, the Company shall pay amounts owed to Korall into an escrow account to be maintained by Yigal Arnon & Co.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and Korall has executed this Agreement as of the day and year first above written.

ELECTRIC FUEL CORPORATION

MENACHEM KORALL

By: _____

NAME: _____

TITLE: _____

ELECTRIC FUEL LIMITED

By: _____

NAME: _____

TITLE: _____

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (this "Agreement") is entered into as of the 12th day of March, 1998, (the "Effective Date") by and among ELECTRIC FUEL CORPORATION, a Delaware corporation ("EFC"); ELECTRIC FUEL LIMITED, an Israeli company ("EFL" and together with EFC, the "Company"), and Shampi LTD., an Israeli company registered under number 51-236991-9 (the "Consultant").

WHEREAS, Menachem Korall, an employee of the Consultant, has special expertise in connection with matters relevant to the technology and business of the Company; and

WHEREAS, the Company is interested in obtaining certain consulting services from the Consultant, and the Consultant is willing to provide such services, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties, intending to be legally bound, hereby agree as follows:

1. TERM. This Agreement shall commence on the date hereof and shall ----- continue in force until April 10, 2000 (the "Term"). Thereafter, the term of this Agreement may be renewed upon the mutual agreement of the parties.

2. SCOPE OF SERVICES. -----

2.1 THE SERVICES. The Consultant shall, as soon as practicable, prepare two written reports during the term of this Agreement without any assistance, secretarial or otherwise, from the Company. The first report shall describe the operations and maintenance of the Company' existing vehicle battery product. The second report will outline a proposal for a new battery project. The Company hereby declares that it has received and reviewed an outline form of the reports and agrees that this outline will serve as the basis for the reports. The Consultant agrees to be available to provide an oral explanation of the reports to the Company. Notwithstanding the time it takes the Consultant to complete the reports, the Consultant shall be bound by the terms of Sections 4 and 6 during the entire term of this Agreement and for a period of 12 months thereafter.

2.2 INDEPENDENT CONTRACTOR STATUS. The Company and the Consultant agree that the Consultant is an "independent contractor" and that except as otherwise stated in this Agreement, the Company shall have no right to control or direct the manner in which Consultant performs its duties and services under this Agreement. The Consultant understands and agrees that except as specifically provided in this Agreement, the Company does not grant to the Consultant the right or authority to make or give any agreement, statement, representation, warranty or other commitment, or to create any obligation of any kind, on behalf of the Company. This Agreement shall not be construed to create any relationship of employment, association, partnership or joint venture between the Company and the Consultant, nor shall it be construed to create any relationship other than that of principal and independent contractor between the Company and the Consultant. Neither the Consultant nor any of the Consultant's employees is an employee of the

Company, and the Company shall not be obligated to treat the Consultant or any of its employees as an employee.

3. REMUNERATION -----

3.1 PAYMENTS TO CONSULTANT. In consideration for services to be performed by Consultant, the Company shall make the following payments to Consultant:

(A) INITIAL PAYMENT. Within fifteen (15) days of the Effective Date, the Company shall pay to Consultant an initial payment in the amount of the NIS equivalent of \$31,500 (thirty-one thousand five hundred US dollars) plus any

applicable Value Added Tax.

(B) MONTHLY PAYMENTS. The Company shall in addition pay to Consultant twenty-four (24) equal monthly payments of (i) the NIS equivalent of \$6,000 (six thousand dollars) plus (ii) the Lease Fee as defined in Section 3.3 below, plus (iii) any applicable Value Added Tax each. These payments shall be made on the 10th of each calendar month or the first Israeli business day thereafter, commencing on April 10, 1998, until March 10, 2000.

(C) FINAL PAYMENT. On April 10, 2000, the Company shall pay to Consultant an additional and final payment in the amount of the NIS equivalent of \$31,500 (thirty-one thousand five hundred US dollars) plus any applicable Value Added Tax.

3.2 VALUE ADDED TAX. All payments made under Section 3.1 shall be paid in exchange for, and contingent upon the receipt of an appropriate Value Added Tax invoice and receipt.

3.3 MOTOR VEHICLE. The Company hereby leases to Consultant a 1997 Mitsubishi Super Lancer (the "Motor Vehicle"), for a period of twenty-four (24) months from February 1, 1998, subject to the following terms:

(A) During the term of the lease, Consultant shall pay to the Company a monthly leasing fee, on the 10th of each calendar month or the first Israeli business day thereafter, to be determined by the Company but not to exceed \$600 (the "Lease Fee").

(B) From and after February 1, 1998, Consultant shall be responsible for all expenses incurred in connection with the maintenance, repair, operation, insurance and licensing of the Motor Vehicle, and Consultant shall reimburse the Company for the pro rata portion of all expenses related to the lease period that were prepaid by the Company prior to such date, except for mandatory insurance which shall be for the account of the Company. Consultant undertakes to keep the Motor Vehicle in good repair, and to take such steps as a reasonable person would take to preserve the value of the Motor Vehicle.

(C) On February 1, 2000, Consultant shall have the option, which may be exercised by prior written notice to the Company, to purchase the Motor Vehicle for its market price, as listed and calculated in accordance with the Motor Vehicle Guide published by Yitzchak Levi. In the case of the Mitsubishi Super

3

Lancer, such calculation shall include a deduction of 20% as a result of the Motor Vehicle having been registered in the name of the Company. In the case of the Chrysler Voyager, such calculation shall include a discount of 5%.

3.4 CELLULAR PHONE. The Company shall transfer to Consultant the ownership of the mobile phone currently in the use of Consultant (the "Cellular Phone"). Consultant shall be responsible for all expenses incurred in connection with the Cellular Phone after the line is transferred to the name of the Consultant.

3.5 TAXES. The Company will withhold from all payments made pursuant to this Agreement such amounts as are required by law. If the Israeli income tax authorities shall determine that the Company was required to pay additional withholding taxes in connection with any of the payments set forth in this Section 3, Consultant shall indemnify the Company in full for all such additional withholding taxes.

4. CONFIDENTIALITY.

4.1 PROPRIETARY INFORMATION. The Consultant recognizes and acknowledges that the designs, inventions, improvements, business information, customer lists, business strategy, financial information, trade secrets, software systems (including specifications, programs and documentation), the methods and data, and the developments, and works of authorship, which the Company or its subsidiaries uses, owns, plans or develops (whether for their own use or for use by their clients) are confidential and are the property of the Company. All of these materials and information, other than material or information then already in the public domain through no act or omission by the Consultant, will be

referred to below as "Proprietary Information."

4.2 NON-DISCLOSURE. Consultant agrees that, except as directed by the Company, Consultant will not during or after the Consultant's service with the Company disclose to any person or entity or use, directly or indirectly for Consultant's own benefit or the benefit of others, any Proprietary Information, or permit any person to examine or make copies of any documents which may contain or be derived from Proprietary Information.

4.3 CONFIDENTIAL INFORMATION OF OTHERS. Consultant will not use, disclose to the Company, or induce the Company to use, during his service with the Company, any confidential information or documents belonging to others.

4.4 This obligation shall be binding on all employees, officers, subsidiaries, affiliates or successors of the Consultant and shall continue for a period of five (5) years from the date that the Proprietary Information is provided to the Consultant, regardless of whether this Agreement has been terminated.

5. INTELLECTUAL PROPERTY RIGHTS.

5.1 For purposes of this Agreement, "Intellectual Property" means the following items of intangible and tangible property:

(i) Patents, whether in the form of utility patents or design patents and all pending applications for such patents;

4

(ii) Trademarks, trade names, service marks, designs, logos, trade dress, and trade styles, whether or not registered, and all pending applications for registration of the same;

(iii) Copyrights or copyrightable material, including but not limited to books, articles and publications, whether or not registered, and all pending applications for registration of the same;

(iv) Inventions, research records, trade secrets, confidential information, product designs, engineering specifications and drawings, technical information, formulae, customer lists, supplier lists and market analyses;

(v) Computer programs, including, without limitation, computer programs embodied in semiconductor chips or otherwise embodied, and related flow-charts, programmer notes, updates and data, whether in object or source code form; and

(vi) Semiconductor chip designs, whether or not registered as mask works or topographies.

5.2 The Consultant hereby assigns to the Company by way of future assignment all Intellectual Property, originated, conceived, written or made by the Consultant or its employees during the term of his service with the Company, which is developed by the Consultant or its employees in the course of the performance of the Consultant's services for the Company or in any way connected to the products or services of the Company or its subsidiaries, regardless of whether the Intellectual Property was made or acquired (i) during business hours, (ii) at the premises of the Company, (ii) with the assistance of material supplied by the Company or (iv) at the request of the Company.

5.3 In furtherance of the foregoing Sections 5.1 and 5.2, the Consultant agrees that all fruits of the Consultant's and its employees' work in connection with the business of the Company or its subsidiaries, including all Intellectual Property and future products (an "Invention") which are invented or developed by the Consultant during the term of its service with the Company shall be wholly-owned by the Company, and the Company shall be entitled to deal therewith as it desires and register the Invention in its name or in the name of its subsidiaries. The duty of confidentiality in Section 4 shall also apply to any such Invention.

5.4 Upon request, the Consultant or its employee will execute any instrument required to vest in the Company or its subsidiaries complete title and ownership to any Invention. The Consultant or its employee will, at the

request of the Company, execute any necessary instrument to obtain legal protection in Israel and foreign countries for Inventions and for the purposes of vesting title thereto in the Company or its subsidiaries, all at the Company's expense and without any additional compensation of any kind to the Consultant. The Consultant irrevocably appoints the Company as its attorney in his name and on his behalf to execute all documents and do all things required in order to give full affect to the provisions of this Section.

5.5 Consultant will not use, disclose to the Company, or induce the Company to use, during its service with the Company, any Intellectual Property or documents belonging to others.

5

6. COMPETITIVE ACTIVITY.

6.1 COMPETITIVE ACTIVITY. The Consultant undertakes not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise) at any time, during and for twelve (12) months following the termination of this Agreement, to engage in or contribute his knowledge to any work or activity that involves a product, process, service or development which is then directly competitive with the Companies' zinc-air energy systems and the same as or similar to a product, process, service or development specifically related to the Company's air-zinc energy system on which Menachem Korall worked or with respect to which Menachem Korall had access to Proprietary Information while with the Company.

6.2 NO SOLICITATION. During the period specified Section 6.1 hereof, the Consultant will not solicit or encourage any customer or supplier of the Company or of any group, division or subsidiary of the Company, to terminate its relationship with the Company or any such group, division or subsidiary, and the Consultant will not, directly or indirectly, recruit or otherwise seek to induce any employee of the Company or any such group, division or subsidiary to terminate his or her employment or violate any agreement, with or duty to the Company or any such group, division or subsidiary.

6.3 NO BREACH OF PREVIOUS OBLIGATIONS. Consultant represents that his service with the Company will not require the Consultant to violate or breach any obligation to or agreement or confidence with any previous or current employer or third party.

6.4 A breach by Korall of any of the provisions of Sections 6.1 through 6.3 shall be deemed a breach by the Consultant of such provisions.

7. BREACH

7.1 BREACH BY CONSULTANT. In the event of a breach by Consultant of any of the terms of this Agreement, the Company shall be entitled, if it shall so elect, to institute legal proceedings to obtain damages for any such breach, or to enforce the specific performance of this Agreement by Consultant and to enjoin Consultant from any further violation of this Agreement and to exercise such remedies cumulatively or in conjunction with all other rights and remedies provided by law. Consultant acknowledges, however, that the remedies at law for any breach by him of the provisions of this Agreement may be inadequate and that the Company shall be entitled to injunctive relief against him in the event of any breach. If the Company prevails in a proceeding for damages or injunctive relief, Consultant agrees that the Company, in addition to other relief, shall be entitled to reasonable attorney fees, costs, and the expenses of litigation incurred by the Company in securing the relief granted by the Court. Any payments due and owing to Consultant, as called for in this Agreement, shall be terminated immediately and shall no longer be due and owing to Consultant, upon his violation of any of the terms of this Agreement as confirmed by the Arbitrator described in Section 9.9 below. Consultant shall also be liable to repay any and all sums paid to it or paid on its behalf, including any cash or benefits granted to it, if Consultant violates any of the terms of this Agreement, to the extent so determined by the Arbitrator.

7.2 BREACH BY COMPANY. In the event of a breach by the Company of the terms of this Agreement, Consultant shall be entitled to institute legal and/or

been made either party which are not expressly set forth in this Agreement.

9.6 SUCCESSORS AND ASSIGNEES.

(A) This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors and assigns, and the Company shall require such successor or assign to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The term "successors and assigns" as used herein shall mean a corporation or other entity acquiring all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

(B) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by Consultant.

9.7 SURVIVAL. The provisions of Sections 4, 5 and 6 of this Agreement shall survive the rescission or termination, for any reason, of this Agreement.

9.8 SECTION HEADINGS. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

9.9 ARBITRATION. The parties agree that any dispute arising under or in connection with this Agreement shall be referred as expeditiously as possible, without delay, to arbitration in accordance with Israel's Arbitration Law, 1968. The Consultant shall select Harav Neuwirth as an arbitrator. The Company shall either agree to have Harav Neuwirth serve as a sole arbitrator, or shall select another rabbi as its own arbitrator, and such rabbi, together with Harav Neuwirth, shall select a third rabbi, and the matter will be heard by a panel consisting of the three arbitrators. The arbitrator(s) will not be bound by rules of procedure or substantive law. During the pendency of the arbitration, the Company shall pay all amounts owed to the Consultant into an escrow account to be maintained by Yigal Arnon & Co.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and Consultant has executed this Agreement as of the day and year first above written.

ELECTRIC FUEL CORPORATION

SHAMPI LTD.

BY: _____
NAME: _____
TITLE: _____

BY: _____
NAME: _____
TITLE: _____

ELECTRIC FUEL LIMITED

BY: _____
NAME: _____
TITLE: _____

ELECTRIC FUEL CORPORATION

December 10, 1997

Mr. Leon S. Gross
c/o Enterprises Inc.
River Park House
3600 Conshohocken Avenue
Philadelphia, PA 19131

Re: Amendment No. 1 to Voting Rights Agreement

Dear Leon:

Each of Electric Fuel Corporation, a Delaware corporation (the "Company"),

Robert S. Ehrlich and Yehuda Harats (each, a "Stockholder" and collectively with

you, the "Stockholders") hereby agrees with you as follows:

1. Reference to Voting Rights Agreement; Definitions. Reference is hereby

made to the Voting Rights Agreement dated as of September 30, 1996 by and among
the Company and the Stockholders (the "Voting Rights Agreement"). Terms defined

in the Voting Rights Agreement and not otherwise defined herein are used herein
with the meaning so defined.

2. Amendment to Voting Rights Agreement. The Company and the Stockholders

hereby agree that, effective as of the date hereof, the Voting Rights Agreement
is hereby amended as follows:

(a) Amendment to Section 1. Election of Directors

Section 1 of the Voting Rights Agreement is hereby amended in its entirety
as follows:

"1. Election of Directors. The Company shall use its best efforts to

cause Lawrence M. Miller to be designated as Leon S. Gross' nominee for
election to the Board of Directors of the Company (the "Board"); (i)
immediately upon satisfaction of all applicable governmental and corporate
requirements, which the parties shall use all reasonable efforts to
accomplish as expeditiously as

possible, after the Closing; (ii) after each of Leon S. Gross and Lawrence
M. Miller has executed a confidentiality agreement in the form attached
hereto as Exhibit A; and (iii) for so long as Leon S. Gross or his heirs or
The Rose Gross Charitable Foundation hold in excess of 1,375,000 shares of
Common Stock. In the event Lawrence M. Miller shall cease to serve as a
member of the Board of Directors for any reason, Leon S. Gross, or if Mr.
Gross is then serving as a director of the Company, an individual
designated by Mr. Gross subject to the approval of the Company (the
"Alternate Director") shall be nominated for election and be a successor to
the rights of Mr. Miller in accordance with the terms of this Section 1.
Subject to the terms and conditions hereof, until the later of (i) December
10, 2002 or (ii) the fifth Annual Meeting of Stockholders occurring after
December 10, 1997, each Stockholder agrees to vote all shares of Common
Stock or other voting securities of the Company over which such Stockholder

has voting control, whether directly or indirectly, and to take all other necessary or desirable actions within his control (whether as a stockholder, director or officer of the Company or otherwise, including without limitation attendance at meetings in person or by proxy for purposes of obtaining a quorum and execution of written consents in lieu of meetings), so that each of Lawrence M. Miller (or, if applicable, the Alternate Director), Robert S. Ehrlich and Yehuda Harats (collectively, the "Directors") shall serve as members of the Board."

(b) Amendment to Section 3: Section 3 of the Voting Rights Agreement

is hereby amended in its entirety as follows:

"3. Termination. In addition to the ability to exercise the remedies

provided for in Section 6 hereof, each Director's obligations under this Agreement shall terminate with respect to each other Director if such other Director does not nominate any of the Directors or does not vote his Common Stock for any of the Directors, whether or not such other Director's failure to vote to elect such Director as director of the Company was in violation of this Agreement."

(c) Addition of Foundation as Party. By execution of this Amendment,

Leon S. Gross and Lawrence M. Miller, as Co-Trustees of The Rose Gross Charitable Foundation under Deed of Trust dated May 28, 1997 (the "Foundation") hereby agrees to be joined as a party to the Voting Rights Agreement as a Stockholder as if it were an original Stockholder party thereto and acknowledges and agrees that the shares of Common Stock of the Company held by the Foundation at any time during the term of the Voting Rights Agreement shall be subject to and bound by the Voting Rights

-3-

Agreement, and the other parties hereto agree that it shall have the benefits of the Voting Rights Agreement, to the same extent as the other Stockholders party thereto.

(d) Miscellaneous. Except to the extent specifically amended hereby,

the provisions of the Voting Rights Agreement shall remain unmodified and the Voting Rights Agreement, as amended hereby, is hereby confirmed as being in full force and effect. This Amendment may be executed in any number of counterparts which together shall constitute one instrument, shall be governed by and construed in accordance with the laws of State of Delaware, without regard to any conflicts or choice of law principles which would cause the application of the internal laws of any jurisdiction other than the State of Delaware and shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

[The rest of this page has been intentionally left blank.]

-4-

If the foregoing corresponds with your understanding of the Agreement by and among the Company and you, kindly sign this letter and the accompanying copies hereof in the appropriate space below and return the same to the Company, upon which this letter shall become a binding agreement by and among the Company and you as of the date hereof.

Very truly yours,

ELECTRIC FUEL CORPORATION

By: _____

Name:

Title:

Robert S. Ehrlich

Yehuda Harats

Agreed and accepted:

Leon S. Gross

THE ROSE GROSS CHARITABLE FOUNDATION
UNDER DEED OF TRUST DATED MAY 28, 1997.

By: _____
Leon S. Gross, Co-trustee

By: _____
Lawrence M. Miller, Co-trustee

ELECTRIC FUEL CORPORATION

December 10, 1997

Mr. Leon S. Gross
c/o Enterprises Inc.
River Park House
3600 Conshohocken Avenue
Philadelphia, PA 19131

Re: Amendment No. 2 to Registration Rights Agreement

Dear Leon:

Electric Fuel Corporation, a Delaware corporation (the "Company") hereby

agrees with you as follows:

1. Reference to Registration Rights Agreement; Definitions. Reference is

hereby made to the Registration Rights Agreement dated as of September 30, 1996,
as amended by Amendment No. 1 dated April 15, 1997, by and among the Company and
Leon S. Gross (as so amended, the "Registration Rights Agreement"). Terms

defined in the Registration Rights Agreement and not otherwise defined herein
are used herein with the meaning so defined.

2. Amendment to Registration Rights Agreement. You and the Company hereby

agree that, effective as of the date hereof, the Registration Rights Agreement
is hereby amended as follows:

(a) Amendment to Section 1. Definitions.

(i) The definition of "Holder" is hereby amended to read in its
entirety as follows:

"Holder: collectively, (i) the trustees of The Rose Gross

Charitable Foundation under Deed of Trust dated May 28, 1997 (the
"Foundation"), and (ii) the Purchaser, or upon his death the
executor or personal representative, or similar legal
representative

-2-

of his estate (the "Representative"), and then, after the Shares
have been distributed to the Purchaser's beneficiaries from the
Representative, the single beneficiary who receives the largest
number of Shares under the purchaser's last will and testament."

(ii) The definition of "Transfer Restricted Securities" is hereby
amended to read in its entirety as follows:

"Transfer Restricted Securities. All Shares issued to the

Purchaser hereunder, plus up to 30,000 shares of the Company's

Common Stock purchased by Purchaser from a certain management
stockholder of the Company in a private transaction occurring in
April 1997, plus up to 16,000 shares of the Company's Common

Stock to be purchased by Purchaser from Jonathan Whartman pursuant to a certain Stock Purchase Agreement between Leon Gross and Jonathan Whartman dated December 2, 1997, plus up to 20,000

shares of the Company's Common Stock to be purchased by Purchaser from The Keren Yonah Foundation pursuant to a Stock Purchase Agreement between Leon Gross and the Trustees of the Foundation dated December 10, 1997 until (a) the date of which such shares have been effectively registered under the Securities Act and disposed of in accordance with this Agreement, or (b) the date of which such shares are distributed to the public pursuant to Rule 144 under the Securities Act."

(b) Miscellaneous. Except to the extent specifically amended hereby,

the provisions of the Registration Rights Agreement shall remain unmodified and the Registration Rights Agreement, as amended hereby, is hereby confirmed as being in full force and effect. This Amendment may be executed in any number of counterparts which together shall constitute one instrument, shall be governed by and construed in accordance with the laws of State of Delaware, without regard to any conflicts or choice of law principles which would cause the application of the internal laws of any jurisdiction other than the State of Delaware and shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

[The rest of this page has been intentionally left blank.]

-3-

If the foregoing corresponds with your understanding of the Agreement by and among the Company and you, kindly sign this letter and the accompanying copies hereof in the appropriate space below and return the same to the Company, upon which this letter shall become a binding agreement by and among the Company and you as of the date hereof.

Very truly yours,

ELECTRIC FUEL CORPORATION

By: _____

Name:

Title:

Agreed and accepted:

Leon S. Gross

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Electric Fuel Corporation

We consent to the incorporation by reference in the registration statements (No's 33-81044 and 333-19753) on Form S-8 of Electric Fuel Corporation of our report dated March 20, 1998 relating to the consolidated balance sheets of Electric Fuel Corporation as of December 31, 1997 and 1996 and the related consolidated statements of loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997 which report appears in the December 31, 1997 annual report on Form 10-K of Electric Fuel Corporation.

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Israel)

Jerusalem, Israel
March 27, 1998

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<F1>TOTAL COSTS INCLUDES RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES. BECAUSE OF THE NATURE OF THE COMPANY'S OPERATIONS, MANAGEMENT IS OF THE OPINION THAT IT IS NOT MEANINGFUL TO SEGREGATE THESE COSTS.

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<F1>TOTAL COSTS INCLUDES RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES.
BECAUSE OF THE NATURE OF THE COMPANY'S OPERATIONS, MANAGMENT IS OF THE OPINION
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<FN>
<F1>Total costs includes research and development expenses and cost of revenues. Because of the nature of the company's operations, management is of the opinion that it is not meaningful to segregate these costs.

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<FN>
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<FN>
<F1>TOTAL COSTS INCLUDES RESEARCH AND DEVELOPMENT EXPENSES AND COSTS OF REVENUES.
BECAUSE OF THE NATURE OF THE COMPANY'S OPERATIONS, MANAGEMENT IS OF THE OPINION
THAT IT IS NOT MEANINGFUL TO SEGREGATE THESE COSTS.
</FN>

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<FN>
<F1>TOTAL COSTS INCLUDES RESEARCH AND DEVELOPMENT EXPENSES AND COSTS OF REVENUES.
BECAUSE OF THE NATURE OF THE COMPANY'S OPERATIONS, MANAGEMENT IS OF THE OPINION
THAT IT IS NOT MEANINGFUL TO SEGREGATE THEIR COSTS.
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<FN>
<F1>TOTAL COSTS INCLUDES RESEARCH AND DEVELOPMENT EXPENSES AND COST OF REVENUES.
BECAUSE OF THE NATURE OF THE COMPANY'S OPERATIONS, MANAGEMENT IS OF THE OPINION
THAT IT IS NOT MEANINGFUL TO SEGREGATE THESE COSTS.
</FN>

</TABLE>

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this Report and presented elsewhere by management from time to time. Reference is also made to the "Risk Factors" described in the Company's Prospectus dated February 1, 1996.

COMPANY IS INCURRING OPERATING LOSSES

The Company was incorporated in 1990 and began its operations in 1991. The Company has funded its operations principally from licensing arrangements, research contracts and supply contracts, funds received under research and development grants from the Government of Israel, sales of Survivor Lights and funds raised in each of the initial public offering of the Company's Common Stock in February 1994, the offering of the Company's Common Stock in February 1996 and a private placement of the Company's Common Stock in October 1996. The Company incurred significant operating losses for the years ended December 31, 1995, 1996 and 1997, and expects to continue to incur significant operating losses in the near term. These losses may increase as the Company expands its research and development activities beyond electric vehicles, to consumer batteries and additional defense and safety products and establishes production and regeneration facilities, and such losses may fluctuate from quarter to quarter. There can be no assurance that the Company will ever achieve profitability.

COMPANY IS AT AN EARLY STAGE OF DEVELOPMENT

Other than a signal light powered by water activated batteries for use in life jackets and other rescue apparatus, the Company currently has no commercial products available for sale. Significant additional development will be necessary in order to commercialize the Company's technology and each of the components of the Electric Fuel System for electric vehicles, consumer batteries and defense products. No assurance can be given that the Company will be able to complete such development, engineering or commercialization successfully, or that the Company will be able to develop products for commercial sale or that, if developed, they can be produced in commercial quantities or at acceptable costs or be successfully marketed. The likelihood of the Company's future success must be considered in light of the risks, expenses, difficulties and delays frequently encountered in connection with the operation and development of a relatively early stage business and development activities generally.

COMPANY'S MANUFACTURING EXPERIENCE IS LIMITED

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

ELECTRIC VEHICLE MARKET AND ACCEPTANCE OF THE ELECTRIC FUEL ELECTRIC VEHICLE SYSTEM IS UNCERTAIN

Because vehicles powered by internal combustion engines cause pollution, public pressure has begun to result in legislative and other mandates in Europe, and enacted or pending legislation in the United States, to promote or mandate the use of vehicles with no tailpipe emissions ("zero emission vehicles") or

reduced tailpipe emissions ("low emission vehicles"). The Company believes that in order to create a significant commercial market for electric vehicles in Europe it will be necessary for such public pressure to continue. In addition, the Company believes that in the United States government initiatives are important factors in creating an electric vehicle market. There can be no assurance that such public pressure will continue or that further legislation or other governmental initiatives will be enacted, or that current legislation will not be repealed, amended, or have its implementation delayed, as has recently been the case in California, or that a different form of zero emission or low emission vehicle, or other solutions to the problem of containing emissions created by internal combustion engines, will not be invented, developed and produced, and achieve greater market acceptance than electric vehicles. In addition, the Company believes that acceptance of its Electric Fuel Electric Vehicle System is a key factor with respect to its commercialization efforts in Europe. Deutsche Post has stated that it will decide on the basis of its own requirements, whether it deems the Field Test successful, and whether or not it intends to accept it for use in its fleet. There can be no assurance that the Deutsche Post will accept the Electric Fuel Electric Vehicle System. The lack of a significant market for electric vehicles would have a material adverse effect on the ability of the Company to commercialize its technology. Even if a significant market for electric vehicles develops, there can be no assurance that the Company's technology will be commercially competitive within such a market.

In addition, as to the Electric Fuel Electric Vehicle System, further engineering is required in order to establish the refueling and regeneration infrastructure required for

-2-

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

COMPANY HAS SIGNIFICANT FUTURE CAPITAL REQUIREMENTS

The Company will require substantial funds to conduct the necessary research and development and testing of its products, to establish commercial scale manufacturing facilities and to market its products. The Company believes that the Company's funds available as of the date hereof should be sufficient to fund the Company's currently planned activities through the second quarter of 1999. However, expansion of existing or creation of additional strategic alliances may require the establishment or expansion of facilities in Israel or elsewhere. As a result, the Company may have to obtain additional funding through other financings during this period, particularly if it determines that it should invest in certain programs, projects or products, which it believes will advance the development and commercialization of the Company's technology. Moreover, it is likely that the Company will have to obtain additional financing at the end of this period. There can be no assurance that additional financing will be available when needed or on terms acceptable to the Company. If additional funds are raised by issuing equity securities, stockholders may incur further dilution. If adequate funds are not available, the Company may be required to delay, scale back or eliminate one or more of its development programs or otherwise impede the development, manufacture or sale of the products it is developing. Under certain circumstances, the inability of the Company to secure additional funding could cause the Company to cease operations altogether.

COMPANY IS RELIANT ON OTHERS

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

alliance will be successful.

Prior to obtaining market acceptance, in order to engineer and establish the products for commercial ability of the Electric Fuel System, the commitment of significant additional investment and other resources, including capital, will be required of the Company and other

-3-

parties. There can be no assurance that the funds will be available to allow the Company to complete the development, engineering, production and commercialization of its products.

COMPANY'S FIELD OF BUSINESS IS HIGHLY COMPETITIVE

The competition to develop electric vehicle battery systems, consumer batteries and defense and safety products and to obtain funding for the development of these products is, and is expected to remain, intense. The Company's technology competes with other battery technologies, as well as other zinc-air technologies. The competition consists of development stage companies, major international companies and consortia of such companies, including automobile manufacturers, battery manufacturers, energy production and transportation companies, and defense contractors, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. Many entities, including governmental, quasi-governmental, non-profit and private organizations, are involved in advancing research and development of electric vehicle and low emission vehicle technologies. In addition, several consortia have been formed to fund research on electric vehicle battery technologies which compete with the Company's battery technology, including the United States Advanced Battery Consortium, an organization which has committed to funding a total of \$260 million by 1998, and which is financed by the United States Department of Energy, General Motors Corporation, Ford Motor Company, Chrysler Corporation, and the Electric Power Research Institute; the Advanced Lead-Acid Battery Consortium, funded by North American lead manufacturers; and the New Energy Development Organization, a Japanese consortium funded by the Japanese government and certain Japanese battery manufacturers. Even if a significant market for zero emission vehicles and low emission vehicles develops, the Company will be required to compete against these entities and others and there can be no assurance it will be successful.

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

SAFETY RISKS; DEMANDS OF REGULATORY COMPLIANCE IN THE ELECTRIC VEHICLE INDUSTRY

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

-4-

products and could result in significant production delays or claims for damages resulting from injuries, all of which would materially adversely affect the Company's operations and financial condition.

Regulations in Europe, Israel and the United States impose various controls and requirements relating to potassium hydroxide and zinc metal, as well as other components of the Electric Fuel technology. The Company believes that its current and contemplated operations conform to those regulations. The Company has applied for, but has not yet received, the necessary permits under the Israeli Dangerous Substances Law, 1993, required for the use of potassium

hydroxide and zinc metal. The Company believes that the permits will be granted, but there can be no assurance that such permits will be granted or that changes in regulations will not impose costly compliance requirements on the Company or otherwise subject it to future liabilities. Seeking these approvals could require significant time and resources from the Company's technical staff and, if redesign were necessary, could result in delays in the introduction of the Company's products.

COMPANY IS DEPENDENT ON PATENTS AND PROPRIETARY RIGHTS

The Company's ability to compete effectively will depend on its ability to maintain the proprietary nature of its technology and manufacturing processes through a combination of patent and trade secret protection, non-disclosure agreements and licensing arrangements. The Company holds patents, or patent applications, covering elements of its technology in the United States and in Europe. In addition, the Company has patent applications pending in the United States and in foreign countries, including the European Community, Israel and Japan. The Company intends to continue to file patent applications covering important features of its technology. There can be no assurance, however, that patents will issue from any of these pending applications or, if patents issue, that the claims allowed will be sufficiently broad to protect the Company's technology, or that issued patents will not be challenged or invalidated or that any of its issued patents will afford protection against a competitor. Litigation, or participation in administrative proceedings, may be necessary to protect the Company's patent position. Such litigation can be costly and time consuming and there can be no assurance that the Company would be successful if such litigation were instituted. The invalidation of patents owned by or licensed to the Company could have a material adverse effect on the Company. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States. Thus, there can be no assurance that foreign patent applications related to patents issued in the United States will be granted. Furthermore, even if these patent applications are granted, some foreign countries provide significantly less patent protection than the United States. In the absence of patent protection, and despite the Company's reliance upon its proprietary confidential information, competitors of the Company may be able to use innovations similar to those used by the Company to design and manufacture products directly competitive with the Electric Fuel System. In addition, no assurance can be given that patents issued to the Company will not be infringed upon or designed around by others or that others will not obtain patents that the Company will need to

-5-

license or design around. Moreover, to the extent any of the Company's products are covered by third party patents, development and marketing of such products by the Company could require a license under such patents.

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

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

the Company's trade secrets will not otherwise become known or be independently developed by competitors.

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

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

-6-

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

POTENTIAL INCREASED UNITED STATES TAXATION

The Company believes that EFC and EFL will continue to be treated as personal holding companies for purposes of the personal holding company rules of the Internal Revenue Code of 1986, as amended, due to their satisfaction of the stock ownership test, which is met when five or fewer individuals hold more than 50% of a company's stock, and their satisfaction of the personal holding company income requirement. Approximately 48% of the stock of the Company's Israeli-based subsidiary, EFL, was owned (directly, indirectly or by application of certain attribution rules) as of March 17, 1998 by three United States citizens. If 50% of the shares of the Company is ever acquired or deemed to be acquired by five or fewer individuals (including, if applicable, those individuals who currently own an aggregate of 48% of the Company) who are United States citizens or residents, EFL would satisfy the foreign personal holding company ("FPHC") stock ownership test under the Internal Revenue Code and the Company could be subject to additional U.S. taxes on any undistributed FPHC income of EFL. EFC believes that it satisfied such stock ownership test for earlier periods, but that it had no material undistributed personal holding company income during such periods. For 1997, EFL has not had income which would qualify as undistributed FPHC income. However, no assurance can be given that in the future EFL will not have income which qualifies as undistributed FPHC income. EFC does not expect to have any material source of taxable income, apart from its investment in EFL, and EFC, therefore, does not expect to have any material amount of undistributed personal holding company income; however, no assurance can be given in this regard. It is possible that EFC could be deemed under United States federal income tax rules to have taxable income as a result of such investment in EFL. In this event, EFC's taxable income would be subject to regular United States federal income tax at rates currently ranging up to 35% and could, if the personal holding company stock ownership test were met, be subject to United States personal holding company tax at a current rate of 39.6%, resulting in a combined United States maximum tax rate of approximately 60.7%.

LOCATION IN ISRAEL

The offices and facilities of the Company's principal subsidiary are located in Israel. Although the Company expects that substantially all its sales will be made to customers outside Israel, the Company is nonetheless directly affected by economic, political and military conditions in that country. Accordingly, any major hostilities involving Israel or the

-7-

interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on the Company's operations. Since the establishment of the State of Israel in 1948, a state of hostility has existed, varying in degree and intensity, between Israel and the Arab countries. Historically, Arab states have boycotted any direct trade with Israel and to varying degrees have imposed a secondary boycott on any company carrying on trade with or doing business in Israel. Although in October 1994, the states comprising the Gulf Cooperation Council (Saudi Arabia, the United Arab Emirates, Kuwait, Dubai, Bahrain and Oman) announced that they would no longer adhere to the secondary boycott against Israel, and Israel has entered into certain agreements with Egypt, Jordan and the Palestine Liberation Organization, no prediction can be made as to whether a full resolution of these problems will be achieved or as to the nature of any such resolution.

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

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