

Enabling technologies for improved medical care



Annual Report 2000



Oridion

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February

Datascope and Agilent Technologies both receive 510(k) FDA Clearance for Microstream® Capnography.

April

Oridion completes successful IPO on SWX New Market raising net proceeds of approximately USD 41 million.

January

Medtronic Physio-Control launches LIFEPAK 12™ Defibrillator/Monitor Series containing Oridion's Microstream® Capnography.

Oridion and Mallinckrodt sign new private label agreement.

March

Oridion signs OEM agreement with Medical Data Electronics.

Milestones 2000

June

Datascope launches new patient Passport 2™ monitor containing Microstream® Capnography.

Oridion launches FilterLine® Neonatal Airway consumable product following successful clinical trials, enabling the use of capnography monitoring in neonatal clinical environments.

September

Oridion opens new US subsidiary for Breath Testing.

Oridion awarded two new US trademarks for core technology – Microstream® and FilterLine®.

November

Oridion strengthens management and expands capnography business activities in Europe and USA.

May

BreathID™ debuts at annual US Digestive Disease Week Conference.

Oridion awarded US patent for *H. pylori* Breath Test.

July

Oridion completes US clinical trials of new BreathID™ Breath Test System.

October

Oridion and Agilent Technologies sign agreement to offer new Oridion product for use with Agilent's installed base of patient safety monitoring systems.

Oridion and Spacelabs Medical sign agreement to enable use of Oridion's Microstream® capnography monitors with Spacelabs' installed base of Ultraview Care Network™ patient monitoring system via Spacelabs' Flexport™ system interface.

December

Oridion submits 510(k) FDA application for market clearance of BreathID™ system.

Mission Statement

Oridion is committed to pioneering innovative and cost-effective patient care solutions of the highest standard to the medical community.

Analyzing breath – our company offers enabling technologies that in Capnography allow for respiratory patient safety monitoring in all critical care environments and in Breath Testing provides a rapid, point-of-care analysis for the diagnosis of infectious diseases and organ function.



“In the opinion of many experts the **single most important new recommendation** from the [American Heart Association] Guidelines 2000 is long overdue: emergency responders **must confirm tracheal tube position** using nonphysical examination techniques... (including) **capnographic and capnometric devices.**”¹

Santa Fe, New Mexico, USA, July 2000 - A True Story

The Santa Fe County Fire Department ambulance sped towards the hospital as the paramedics fought to stabilize their patient, a 4 year old boy who was having severe seizures due to heat exposure. Worried about the child’s breathing, the paramedics decided to intubate the child – a procedure in which a ventilation-providing tube (also known as a “tracheal tube”) is inserted through a patient’s throat to provide air and oxygen to the patient’s lungs. They then connected the child to a portable Oridion Microstream® monitor and ventilator as the ambulance made the 40-mile trip to the nearest medical center. While traveling at high speeds over what at times was difficult terrain, the ambulance had a blow out of one of the tires causing the ambulance to skid out of control. Even during this difficult situation, the paramedics fought to keep the tracheal tube in place while continuing their attempts to save the boy’s life. They ensured that there was no change in his heart rate and he appeared to be breathing. Although everything seemed normal, moments later, an alarm went off signaling that the child’s lungs were no longer receiving air, seemingly due to a shift in the tracheal tube’s position. Despite the adverse conditions in which the emergency medical team had to provide treatment – the noise, the dust and the constant unstable motion of the vehicle in travel – the monitor was sensitive, stable and sturdy enough to sound an alarm loud enough to alert the medics of this critical situation. This enabled them to immediately ensure the child continued breathing as they re-

adjusted the tracheal tube without losing an extra second of life saving time. A second ambulance was dispatched to the scene and took the child to the hospital where he made a full recovery and was released two days later.

Unfortunately, there are an alarmingly high number of cases like this, in which the tracheal tube either is misplaced or slips. A recent US study² showed that 25% of tracheal tubes are misplaced during emergency treatment. Of those cases in which the tracheal tube was misplaced, 48% of the patients died.

An Oridion capnography monitor can confirm tracheal position, alert paramedics of improper placement and help save patients’ lives.

¹American Heart Association Guidelines 2000 for Cardiopulmonary Resuscitation and Emergency Cardiovascular Care International Consensus on Science. I-87

² Katz SH, Falk JL. “Misplaced Endotracheal Tubes by Paramedics in an Urban Emergency Medical Services System.” Annals of Emergency Medicine.



CEO and President's Report

Dear Shareholder,

Ever since our inception nearly 14 years ago, we at Oridion have understood that technology touches nearly every part of our lives. From helping us conduct business to enjoying our recreation time, it affects almost everything we do and experience. However, beyond that, it enables us to live better lives, and at times, even save lives.



Working closely with doctors and other medical care providers to assess their specific needs, our dedicated team developed Microstream® – Oridion's patented platform technology.

We now apply this technology in the fields of capnography – the non-invasive measurement of carbon dioxide CO₂ contained in exhaled breath – and diagnostic breath tests. Due to Microstream®, not only are we able to offer better solutions than those already existing in these fields, we are able to create enabling solutions for improved medical care.

For example, in the field of patient safety monitoring, capnography monitoring is vital in diagnosing a patient's respiratory status and serves as an early indication of potentially life-threatening situations. However, due to the limitations of existing technologies, the use of capnography had traditionally been limited to the operating room. With our Microstream® capnography products, we are able to offer capnography-monitoring abilities in many new medical care environments, such as emergency medical services, transport monitoring, home care, while at the same time reducing its costs and increasing its accessibility. In addition, we made capnography monitoring possible for both non-intubated patients as well as neonates.

This year we launched a number of new products, including our FilterLine® Neonatal Airway consumable product, aimed to enable the use of capnography in neonatal clinical environments. This is part of our strategy of enabling capnography monitoring for “all patients in all environments” – something that has become even more important as new industry standards and guidelines continue to emerge mandating CO₂ monitoring in a growing number of clinical environments.

We see importance in not only developing our Microstream® capnography products, but also in teaching care providers how to use these products to help save lives. Oridion's highly specialized team of clinical education specialists instruct care providers from different segments of the medical community about the importance of capnography, and the benefits Microstream® capnography offers. This strategy helps us expand our markets while bringing our technology closer to the medical community.

Customers for our Microstream® Capnography include some of the world's leading medical device companies. Their acceptance of our products is a clear message of validation for our technology. In the year 2000, we signed new agreements for our capnography products and a number of our partners launched new products that include our Microstream® Capnography. In addition to the new agreements we signed this year with new capnography partners, we continue to strengthen our ties with our existing partners, as they continue to launch new generations of capnography products that include Microstream® technology.

We also applied Microstream® technology towards diagnostic breath tests with our new patented BreathID™ System. This year our Breath Testing Business Unit successfully completed

US clinical trials and submitted an FDA application for market clearance of this system.

The BreathID™ will offer physicians the unprecedented ability to quickly and non-invasively diagnose and prescribe treatment for the *Helicobacter pylori* (*H. pylori*) bacteria, a leading cause of gastric ulcers and a primary risk factor in gastric cancer disease. This simple procedure diagnoses a sample of the patient's breath – all while at the physician's office, saving the need to send blood, breath or tissue samples to a central laboratory for testing. We believe these advantages will lead to more efficient and better patient care while offering a cost effective alternative to healthcare systems. These are important factors in the fight against and cure of peptic ulcers and gastric cancer.

As Microstream® is a platform technology, we plan to develop and market additional applications for the BreathID™ system in the future, including BreathID™ breath tests to detect lactose intolerance, measure gastric emptying rate, liver function, drug metabolism and more. This year we were awarded a US patent for our *H. pylori* breath test, and as we continue to develop new applications for the BreathID™, we plan to further enhance the intellectual property protection of our innovative technology with additional patent applications.

Financially, Oridion experienced strong growth in the year 2000. Revenues grew by over 70% due to a constant increase in orders for our products. Gross margin also increased to 41% as sales of our single patient consumable products increased and we continued to introduce efficiencies to our manufacturing process.

This growth pattern is encouraging, and in the year 2000, we continued to develop our business plans while achieving many Oridion milestones. We signed strategic cooperative agreements with a number of our partners that will allow for the direct marketing of our capnography products into the installed base of patient safety monitoring systems. We also established the foundation for the commercial launch and direct marketing of our breath testing products, which we expect to begin after we receive FDA market clearance. Additionally, we opened new Oridion offices in the United States, Europe and Japan, and have strengthened our management teams by recruiting experienced executives to head these new offices. Our new offices and team members are a key element in Oridion's strategy of strengthening ties with the Company's partners,

facilitating the direct marketing of the Company's products, developing new markets worldwide, and being there when our customers need us.

To meet our new challenges and goals, in April of this year the Company completed an Initial Public Offering (IPO) on the New Segment of the Swiss Stock Exchange (SWX New Market). In a heavily over-subscribed offer, a total of 4,380,000 shares were sold to the public at a total of approximately USD 76 million. Of the total shares sold, 2,500,000 were new shares offered by the Company.

Like most industries, and perhaps even more so, the field of medical care is constantly evolving. As new standards and industry guidelines for medical care continue to emerge, and new treatments for human ailments become available, new methods for diagnosing diseases are required. Through all this, Oridion meets each new challenge providing enabling solutions for improved medical care.

Both our Capnography and our Breath Testing Business Units have witnessed many positive developments this year. However, none of our achievements would have been possible without the medical community's belief in us, the valued support of our shareholders and of course, the endless efforts of our dedicated family of Oridion employees – the people behind the technology. I sincerely thank all those people and look forward to sharing our future successes together.



George Yariv, CEO and President
Oridion Systems Ltd.
March 30, 2001

“The best technology we have found anywhere in the world... (and) the start of a very important partnership.”

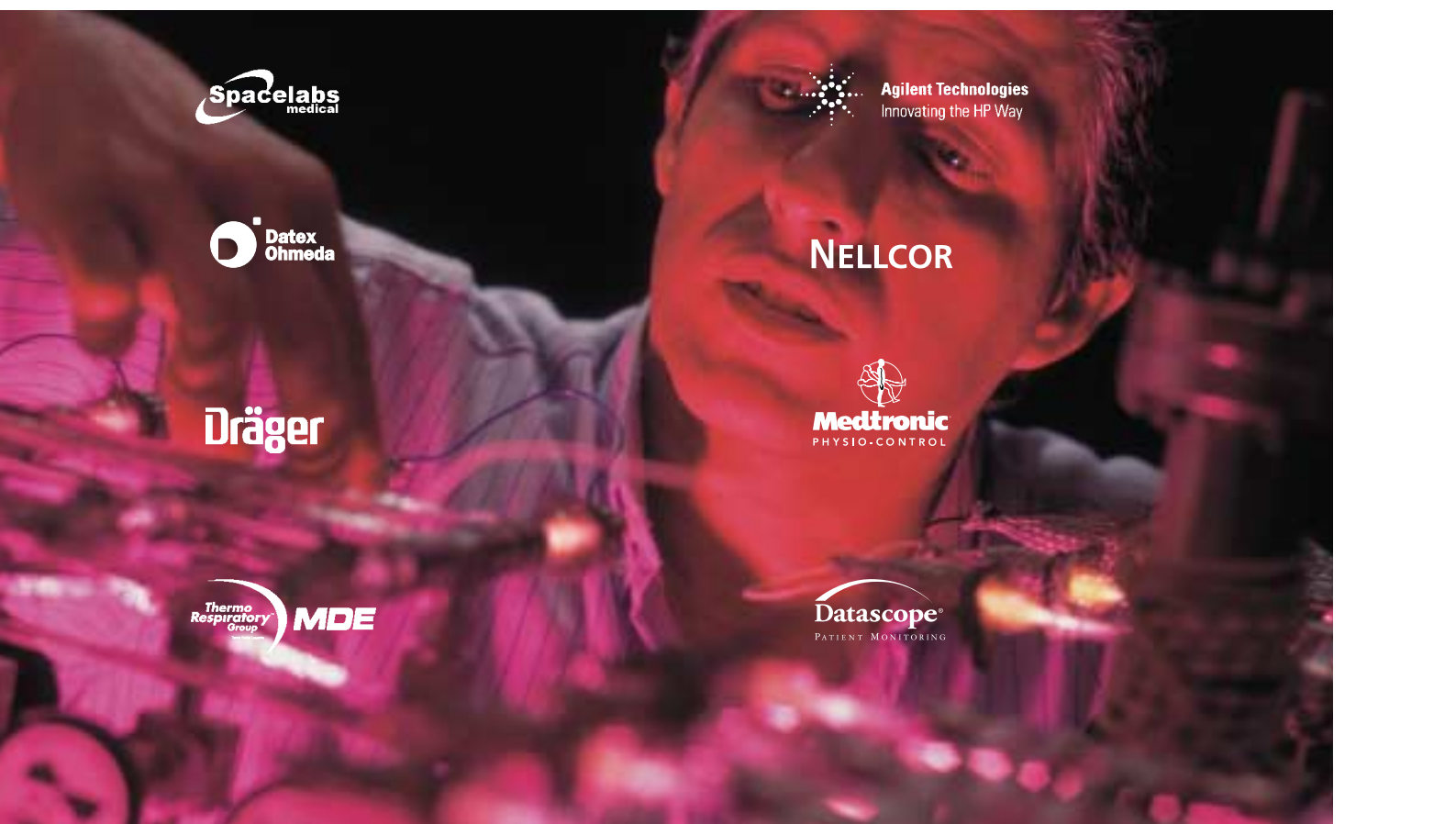
Lewis E. Platt, Former Hewlett-Packard Company Chairman, President and Chief Executive Officer upon signing HP's and Oridion's OEM agreement.

Microstream® Technology

Microstream® is Oridion's patented platform CO₂ measuring and diagnostic technology developed to overcome the limitations of previously existing medical technologies. At the core of Microstream® technology is an extremely sharp spectrum light emitter that generates only CO₂-specific radiation at the precise wavelengths of CO₂ absorption. This prevents anesthetic gases and other agents from overlapping the CO₂ absorption peak. Because of the wavelengths' specificity, there is no need for user intervention, recalibration or software compensation.

Comprised of Oridion's Molecular Correlation Spectroscopy (MCS™) and breath sampling technologies, Microstream® technology is applied in both Oridion's capnography products and diagnostic breath test systems. As a break-through and novel technology, Microstream® is protected by numerous patents worldwide.

Microstream® is an integral part of all Oridion's products. True to its name, Microstream® only requires small amounts of exhaled breath to provide a highly accurate and stable reading in the Company's capnography applications, allowing its use with all



patients in all environments. In addition, Microstream® is so specific, it enables the detection of single molecules within millions of others – an advantage the Company applies in diagnostic breath tests.

After Oridion completed developing this innovative technology, the Company began signing multi-year and large-scale agreements to offer Microstream® technology to some of the world's leading medical device companies. The medical care industry's acceptance of Microstream® was validation of how good and necessary this technology is. Just how good is this technology? A list of Oridion's partners says it all.

Oridion offers Microstream® technology to medical device industry leaders such as Agilent Technologies Inc. (formerly Hewlett-Packard), Nellcor (Tyco), Medtronic Physio-Control Manufacturing Corp., Draegerwerk Medizintechnik GmbH, Datex Ohmeda Inc., Medical Data Electronics Inc., Datascope Corp., and others.

From lower patient care costs to enabling improved medical care in ways that previously did not exist – Microstream® technology results in many healthcare benefits to care providers and end-users. As Microstream® is a platform technology, it allows the Company to continue creating a wide range of different products, each offering unprecedented solutions in a variety of medical care environments.

Oridion's Business Model

To help realize the full potential and true value of Microstream® technology, Oridion has developed a strong business model for offering Microstream® to the medical community.

The relationship with Oridion's customers only begins with the initial sale of the Company's monitoring or diagnostic devices. Each use of the capnography device by the care-provider entails the use of one of Oridion's patented FilterLine® single patient consumables, and each use of the BreathID™ system entails the use of one of Oridion's patented BreathID™ IDkit™ single test consumables. Oridion's business model consists of marketing and creating an installed base of capnography and breath testing devices, after which Oridion continues to offer consumable products for each subsequent use of the installed device.

This business model enables Oridion to offer the devices at affordable prices while adding additional clinical value with the patient-care benefits presented by the Company's consumable products.

Oridion's proprietary FilterLine® family of capnography single patient consumable products include a wide range of consumable circuits. These technologically advanced products are designed to meet the specific needs of each type of patient in various environments and include Oridion's patented Airway Adaptor for intubated patients, Oridion's patented Neonatal Nasal FilterLine® for non-intubated neonates and more. During this past year, Oridion completed clinical trials and launched a number of new FilterLine® products that will further increase the versatility and flexibility of the Company's products. This is an important factor in increasing the use of the Company's capnography products in various medical care settings, including the physician's office, emergency medical care, procedural sedation and more.

Oridion's proprietary IDkit™ single breath test consumable products help assure the highly accurate and specific readings of the Company's new diagnostic breath testing device – the BreathID™. As Oridion plans to continue developing new types of breath tests for use with the BreathID™ breath test system, the Company also plans to offer additional types of single test consumable kits for use with the BreathID™ system.

Oridion's business model enables customers to purchase a consumable product for the different applications and medical care environments they use the devices, even long after its initial purchase. As the subsequent use of the Company's capnography and breath test devices increase, so does the number of consumable products the Company continues to sell.

Combining lower costs with unique solutions, Oridion's business model helps create a long lasting and mutually beneficial relationship with customers.



Microstream[®] Capnography: The Ventilation Vital Sign[™]

Capnography

Capnography is the continuous, non-invasive measurement and graphical display of the carbon dioxide (CO₂) level of a patient's exhaled breath.

The use of capnography started in the operating room where it was recognized as a monitoring technique capable of the early detection of life-threatening problems detected in patient respiration. In the mid-1980's, capnography was determined a standard of care in the United States by the American Association of Anesthesiologists (ASA) for patients under general anesthesia in the operating room. Since then, many other countries around the world, including Germany, France, the United Kingdom, Japan, Australia and more, adopted capnography as a standard of care in the operating room.

Former Technological Limitations

Capnography monitoring is important not only in the operating room. It is essential for supplying care-providers with critical information regarding a patient's respiratory status in environments such as intensive care, emergency care, respiratory care settings, outpatient clinics and more. Unfortunately, due to the cost and technological limitations of the older technology, the use of capnography was very limited and in certain environments unavailable.

Oridion's Solution

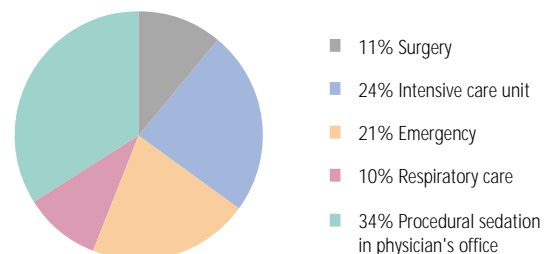
By developing the patented Microstream[®] and FilterLine[®] technologies, Oridion was able to extend the use of capnography to all patients in all environments.

Microstream[®] technology includes a laser-like light emitter that generates only CO₂-specific radiation at the precise wavelengths of CO₂ absorption, preventing anesthetic gases and oxygen from overlapping the CO₂ absorption peak. Because of the wavelength's specificity, there is no need for user intervention or recalibration. Microstream[®] technology used in capnographs allows for a "cold body" infrared source which has low power requirements and allows for a portable, rugged, reliable and less expensive monitor.

The patented FilterLine[®] design removes remaining water vapor from the gas sample while keeping a laminar flow of the gas. The laminar flow does not distort the shape of the CO₂ waveform, which is essential to accurate CO₂ readings. These benefits have helped solve humidity and moisture accumulation problems, allowing for uninterrupted monitoring in all situations.

Capnography – Clinical environments

Total potential sites: 1.2 million world-wide (1999)



Source: The Wilkerson Group, 1999

The Benefits Offered

Setting new industry standards for CO₂ monitoring, Microstream[®] capnography offers the ability to monitor newborns and non-intubated patients, while also offering the ability of capnography monitoring in the widest range of environments possible. These environments include intensive care units, neonatal intensive care units, operating rooms, post anesthesia care units, critical care units, emergency departments, physicians' offices, home care, alternate care, outpatient care, radiology, dental clinics, sleep labs and other settings.

In addition, Oridion engineered this technology into a rugged, portable, handheld format, further helping to extend the benefits of capnography to patients in difficult patient-care environments, such as transport monitoring and emergency medical services.

The benefits offered by Microstream[®] capnography are especially important considering recent changes in patient care. Technological advances and the constant demand for cost-effective medical treatment have led to a recent migration of surgical procedures from the traditional operating room to out-patient clinics, and at times, even to the physician's office. Likewise, there has been a growth in the amount and types of field procedures performed in emergency medical care situations. These trends have brought new American Society of Anesthesiologists (ASA) Standards and American Heart Association (AHA) Guidelines regarding CO₂ monitoring in these environments. Oridion's products offer care providers an affordable, reliable and convenient tool to comply with these Standards and Guidelines.

Improved patient care, lower costs for healthcare providers, unparalleled versatility, flexibility, accuracy, and more lives saved – these are just some of the reasons that Oridion's Microstream[®] capnography has become the leading choice by the international medical community.

Bringing Microstream[®] capnography closer to the users – an Oridion clinical education specialist explaining the life-saving benefits of Microstream[®] capnography to emergency medical service providers.



Capnography Monitoring

Oridion's Partners and Products

Oridion markets and distributes Microstream® capnography and single patient consumable FilterLine® products through large scale OEM and private label agreements. Oridion's partners and customers for these agreements include some of the world's leading medical device companies, who offer Microstream® capnography in a variety of products. To mention just a few:

- Agilent Technologies (HP) – the world leader in patient monitoring, offers Microstream® capnography in their multi-parameter series of Viridia M3/M4 patient monitors.

- Medtronic Physio-Control – the world leader in emergency medical care systems, offers Microstream® capnography in their multi-parameter series of LIFEPAK 12™ Defibrillators/Monitors.

- Datascope – the world leader in transport monitoring, offers Microstream® capnography in their multi-parameter series of Passport 2™ monitors.

- Nellcor (Tyco) – the world leader in respiratory care monitoring, offers Microstream® capnography in their series of NPB-75 and NPB-70 capnography monitors produced under a private label agreement with Oridion.



Unparalleled monitoring abilities in the operating room and other clinical settings.



Microstream® capnography – enabling unprecedented CO₂ monitoring abilities in the neonatal intensive care unit with Oridion's VitalCap™ and Agilent's CMS patient safety monitoring system.



All patients in all environments – Microstream® capnography monitoring during procedural sedation.



Extending the use of capnography to new environments – Microstream® capnography in the oral surgeon's office.

The VitalCap™ – Oridion's enabling solution for extending the benefits of Microstream® capnography to large installed bases of patient safety monitoring systems.

Additional Oridion OEM and private label partners include leading medical device companies such as Draegerwerk (European leader in anesthesia equipment), Datex Ohmeda (world leader in anesthesia equipment), Nihon Kohden (Japanese leader in patient monitoring), Medical Data Electronics (leader in transport monitoring) and more.

This year Oridion signed two new agreements, the first with Agilent Technologies Inc. – one of Oridion's leading strategic partners – and the second with Spacelabs Medical Inc., a new Oridion partner. Under these agreements, Oridion will offer a new capnography product – the VitalCap™. This product will enable the use of Oridion's capnography monitors with Agilent's installed base of the CMS patient monitoring system via Agilent's Vuelink™ module and to Spacelabs installed base of the Ultraview Care Network™ patient monitoring system via Spacelabs' Flexport™ system interface. The VitalCap™ will extend the ability to use Microstream® capnography with these systems, helping further increase the capabilities and advantages offered to patients and care providers by these systems.

Bringing Microstream® Capnography Closer to the Medical Community

This year Oridion established a new team of clinical education specialists. This expert team of Oridion employees plays a vital role in increasing the adoption rate of the Company's products. By providing on site hands-on demonstrations of all the benefits and advantages offered by Microstream® capnography to care providers in various environments, the clinical education specialists have helped increase both the number of capnography monitors sold and the subsequent use of the FilterLine® single patient consumables.

The Future of Microstream® Capnography

Oridion has established a strongly founded marketing strategy for capnography products. Once an Oridion Capnograph is installed in the field, the Company continues to offer a range of products from Oridion's family of FilterLine® single patient consumables. These technologically advanced and patented consumables add extra clinical value by enabling capnography monitoring in previously inaccessible environments for the widest range of patients – another key factor in increasing both the use of capnography and Oridion's products.

With new patient-care challenges constantly evolving, and the constant demand for improved and economical medical care, Oridion's Research and Development team continues to enhance and further develop both the Company's Microstream® and FilterLine® technologies.



Oridion's patented FilterLine® consumable products – enabling capnography monitoring for all patients in all environments with value added solutions.



Microstream® capnography – portable monitoring solutions for mobile environments.



An OEM Microstream® capnography module for integration into partners' monitors.



The BreathID™ System: Non-invasive Diagnosis at the Physician's Office

As Microstream® technology provides isotopic readings so specific, it has enabled Oridion to move beyond its capnography products and apply this technology towards the enhancement of diagnostic breath testing. These non-invasive tests are aimed at diagnosing a broad range of organ specific medical conditions, all from a sample of the patient's breath.

Using Microstream® technology, Oridion has developed the BreathID™ Breath Test System. This patented system is comprised of the BreathID™ device and accompanying IDkit™ containing Oridion's patented single test consumable products. This unique system provides the physician with the ability to diagnose and prescribe treatment for patients in a single office visit.

Oridion's *H. pylori* Breath Test

The first application for the BreathID™ system is Oridion's patented *Helicobacter pylori* (*H. pylori*) Breath Test – a ¹³C urea breath test that non-invasively detects the presence of the *H. pylori* bacteria. These bacteria are considered to be a leading cause of gastric ulcers and a primary risk factor in gastric cancer disease. The American Gastroenterological Association points out the importance of this test in their guidelines stating, "...[a] urea breath test is the best non-endoscopic test for documenting *H. pylori* infection"¹.

Using Oridion's *H. pylori* Breath Test, the BreathID™ system completed US clinical trials under the supervision of investiga-

tors David L. Carr-Locke, MD and William R. Brugge, MD. The clinical trials were performed at two leading US hospitals, both located in Boston, Massachusetts, and affiliated with the Harvard Medical School.

The BreathID™ system demonstrated excellent results in these trials. While other current laboratory testing methods may give either false positive or false negative results in the detection of *H. pylori*, the BreathID™ system showed 100% sensitivity and 99.2% specificity compared to the current gold standard testing methods.

Towards the end of the year 2000, Oridion began the FDA regulatory process for the BreathID™ system after an examination and statistical analysis of the clinical trials' results by independent regulatory consultants. Oridion expects to launch the BreathID™ system after receiving FDA market clearance and has already begun to lay the foundation for the direct marketing of this system in the United States.

"The advantage of the Oridion Breath Test system is that it is very fast. With other breath tests, it takes between one to five days to send the samples to a central laboratory, analyze them and to receive a result. I think the prospects and market potential for the Oridion Breath Test are indeed very promising."

Professor Dr. Eduard F. Stange, Former Head of Gastroenterology & Vice Director of Medical Clinic, Luebeck, Germany.

¹Howden, CW and Hunt, RH. (1998) Guidelines for the management of *Helicobacter pylori* infection. The American Journal of Gastroenterology; 93(12):2330-2338

The Benefits Offered

The ability to easily detect the presence of *H. pylori* is especially important considering that infection with this bacteria is relatively easy to cure and typically involves a short course of antibiotic therapy. However, test methods currently available are hindered by various disadvantages.

Other non-invasive breath tests used to diagnose *H. pylori* infection are time consuming and expensive since they typically require sending samples to a central laboratory for analysis. Invasive test methods commonly used to diagnose *H. pylori* infection can be extremely uncomfortable and in some instances unsuitable for certain patients. These invasive test methods also require samples to be sent to a central laboratory for analysis, thereby slowing the availability of test results to the physician,

delaying therapeutical intervention for the patient, and leading to an increase in test costs.

The challenge of finding a painless, easy and economical way to detect *H. pylori* has been met and solved with the Oridion BreathID™ system, which continuously analyzes the patient's breath for a number of minutes, detects the presence (or absence) of *H. pylori*, and notifies the physician of the result on an easy-to-read display. The immediate availability of this important information provides physicians with the ability to diagnose and prescribe a course of treatment, **all in a single office visit**. The BreathID™ system's ease of use also helps eliminate the need for specialized training in the diagnosis of *H. pylori*, helping make the BreathID™ system an important tool for physicians.

A physician explaining the advantages of Oridion's rapid point-of-care breath test for the detection of *H. pylori*, a leading cause of gastric ulcers and a primary risk factor in gastric cancer disease.



Breath Testing

Market Potential for the BreathID™ System

Oridion's *H. pylori* breath test, using the BreathID™ system, shows very strong market potential. In a 1999 study conducted in this area, the IBM-Wilkerson market analysis group estimated the potential annual market for Oridion's *H. pylori* Breath Test to be approximately USD 460 million in the United States alone. Japan also has a high incidence of *H. pylori*. This results in a heavy toll on public healthcare and medical insurance resources, and plays a pivotal role in determining the amount of testing for *H. pylori* actually performed.

By providing physicians with the ability to test and treat patients in a single office visit, the Breath ID™ system helps enhance patient care by lessening the burden on scarce healthcare resources and offering a cost effective alternative to diagnosing the presence of the *H. pylori* bacteria.

Oridion's *H. pylori* Breath Test

Oridion's *H. pylori* BreathID™ breath test is a very simple, three step test. Once the physician has determined that a patient should be tested for *H. pylori* using the BreathID™ system, the patient is fitted with one of Oridion's patented BreathID™ FilterLine® nasal cannulas (contained in the accompanying ID-kit-hp™ single test consumable kit).

The patient breathes normally while the BreathID™ device begins collecting basic data from the patient's breath. Once sufficient data has been collected, the BreathID™ device



Oridion's BreathID™ FilterLine® nasal cannula (a nasal breath-sampling consumable product).



A patient fitted with one of Oridion's patented BreathID™ FilterLine® nasal cannulas consuming the enriched urea citric flavored drink.



A physician explaining the real-time results provided by the BreathID™ system.

prompts the person administering the test (which can be either a physician, assistant or even nurse) to provide the patient with a citric flavored drink enriched with ^{13}C urea (also contained in the IDkit-hp™). After the patient consumes the drink, the test administrator presses the "OK" button on the BreathID™ device. The patient continues to breathe normally while the BreathID™ device employs Microstream® technology to detect any changes in the level of ^{13}C contained in the patient's breath. Upon completion of the test (usually less than 10 minutes), the BreathID™ device displays the test's results on an easy-to-read monitor and provides a hard copy printout of the test results.

Due to the rapid availability of the test results, the physician can initiate the appropriate course of treatment during the same office visit. One physician, one button, one test – it is as easy as that!

The Future of Oridion Breath Tests

Oridion's patented *H. pylori* breath test is just the first application for the BreathID™ system.

Since the BreathID™ system is based on Oridion's Microstream® platform technology, the Company plans to develop additional applications for this system including BreathID™ breath tests to detect lactose intolerance, measure gastric emptying rate, liver function and drug metabolism. By developing these additional tests and offering a broad range of test applications, the Company will be able to extend the benefits offered by the BreathID™ system to a variety of medical specialties enhancing their ability for non-invasive diagnosis of medical conditions.

Like Oridion's Microstream® capnography products, each breath test using the BreathID™ system requires the use of one of Oridion's patented consumable products. These highly advanced consumables add extra clinical value by helping make Oridion's BreathID™ breath test the only continuous breath test available for the detection of *H. pylori*.

To help develop and focus future US direct marketing programs and activities for the BreathID™ system, Oridion established Oridion BreathID Inc. – a new breath testing company in the United States. This new subsidiary will support and facilitate the commercialization of the BreathID™ system, which Oridion expects to launch in the US after receiving FDA market clearance.

The BreathID™ system's flexible design.



The BreathID™ system: non-invasive diagnosis at the physician's office.



Oridion's IDkit-hp™ single test consumable kit containing a BreathID™ FilterLine® nasal cannula, citric flavored powder, enriched urea tablet and straw.



Organization



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Walter Tabachnik, CFO

George Yariv, CEO

Yacov Bubis, COO

Board of Directors

Ed Mlavsky, Chairman
George Yariv, President & CEO
Alan Adler
Shimon Eckhouse
Yerahmiel Egert
Jason Fisherman
Daniel Kropf
Raphael Melmed
Chava Shamir
Saul Yemal

Capnography

Patricia Hennessey, Marketing & Sales (USA)
Rolf Dangers, Marketing & Sales (Europe)
Dominic Corsale, OEM Business Development

Corporate

George Yariv, President & CEO
Walter Tabachnik, Chief Financial Officer
Yacov Bubis, Chief Operating Officer
Saul Yemal, Corporate Management
Ephraim Carlebach, Research & Development
Shlomo Ruach, Operations

BreathID

Terry Brady, Marketing & Sales (USA)
Richard Eagling, Business Development (Japan)
Daniel Katzman, Business Development

Financial Review

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of Oridion together with the Notes thereto included elsewhere in this Annual Report. This Annual Report contains certain forward-looking statements that involve risks and uncertainties. Oridion's actual performance, results and the timing of certain events could differ materially from those discussed in the forward-looking statements.

Overview

Oridion designs, manufactures and markets proprietary medical devices and consumables that utilize its core Microstream® technology in patient safety monitoring and point-of-care diagnostic testing. Oridion's patient monitoring devices are used in capnography, the measurement of carbon dioxide contained in human breath to determine the status and adequacy of respiratory function. Since its inception, sales of capnography devices and consumables have accounted for all of Oridion's revenues. In addition to its capnography products, Oridion has developed a proprietary diagnostic breath test to diagnose diseases and physiological conditions. Oridion's breath test device completed clinical trials and the Company submitted an FDA application for market clearance at the end of 2000. As of December 31, 2000, Oridion had generated no revenues from the sales of its breath test device. Oridion markets and distributes its capnography products through sales agreements with OEMs and private label manufacturers specializing in the patient monitoring market in the United States, Europe and Japan. The principal market for the Company's capnography devices is the United States, where approximately 78 percent of the Company's sales were made in the year ended December 31, 2000.

Demand for Oridion's capnography products has often been affected by seasonal trends in hospital purchases. Sales of Oridion's products generally peak in November and December as most hospitals (particularly in Europe) follow a budget cycle based on the calendar year. In addition, sales of Oridion's products have generally fallen in July and August because of the holiday season.

Revenues consist solely of sales of Oridion's products. The cost of revenues consists primarily of cost of materials, labor and labor-related expenses, subcontractors, rent and office maintenance, depreciation, royalties and warranty costs.

Research and development expenses, net, consist primarily of costs relating to the development of products such as cost of

materials, as well as salaries and other related expenses, and are offset to the extent grants are received from the Israeli Office of the Chief Scientist ("OCS"). Selling and marketing expenses, net, consist primarily of marketing expenses related to participation in distributors' promotional campaigns for its capnography products, travel costs, advertising and promotional activities, and salaries of sales and marketing personnel. These expenses are partially offset by grants from the Israeli Fund for Encouragement of Marketing Activities.

General and administrative expenses consist primarily of costs associated with management salaries, professional fees and other expenses, including non-cash compensation expenses in respect of options issued to Oridion's employees and service providers. Financial income, net, comprise interest received on short-term and long-term deposits less bank charges paid.

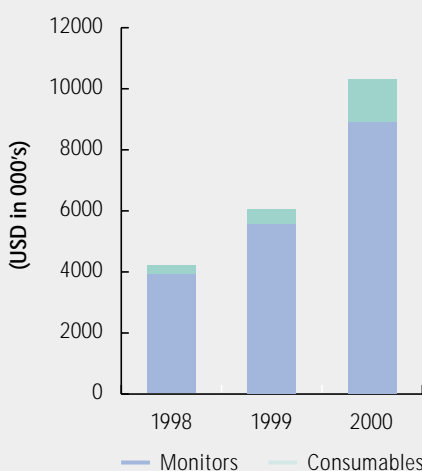
Oridion's Consolidated Financial Statements have been prepared in U.S. dollars in accordance with U.S. GAAP. Almost all of Oridion's sales are made in U.S. dollars. Accordingly, Oridion uses the U.S. dollar as its functional and reporting currency.

Results of Operations

Year ended December 31, 2000 compared to year ended December 31, 1999

Revenues. For the year ended December 31, 2000, revenues increased by approximately USD 4.3 million or 71 percent to USD 10.3 million from USD 6.0 million for the year ended December 31, 1999. The increase resulted from increased volume of sales of new generation capnography products to two of Oridion's existing U.S. customers. For the year ended December 31, 2000, 77 percent of revenues were derived from Oridion's principal three customers, as compared to 87 percent

Capnography Sales Revenues by Year

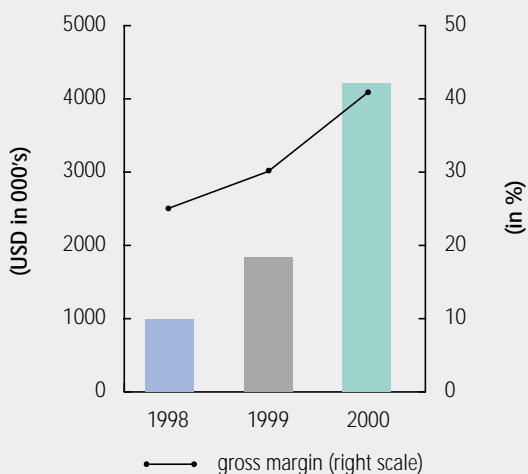


from the same principal three customers in 1999. The 10 percent decline in the percentage of sales to Oridion's principal three customers reflected an increase in the number of Oridion's customers and the increase in revenues in 2000 compared with 1999. For the years ended December 31, 2000 and 1999, sales to customers in the United States accounted for 78 percent and 68 percent of revenues, respectively, and sales to customers in Europe, principally in Germany and France, accounted for 20 percent and 30 percent. In the immediate future, Oridion believes that it will continue to depend on sales to a number of key OEMs and private label manufacturers. The majority of Oridion's revenues have been historically derived from sales in the United States and Europe.

Cost of revenues. Cost of revenues for the year ended December 31, 2000 increased by approximately USD 1.9 million or 45 percent to USD 6.1 million from USD 4.2 million for the year ended December 31, 1999. The increase in cost of revenues resulted from the growth in sales. Gross margin increased to 41 percent for the year ended December 31, 2000 from 31 percent for the year ended December 31, 1999. The increase in gross margin resulted primarily from the continued growth in sales of consumables which generally provide higher margins, and the economies of scale Oridion was able to achieve from overall growth in sales, as Oridion obtained better purchase terms for materials from its existing suppliers, with which it has annually renewable supply contracts.

Research and development expenses, net. Research and development expenses, net, increased to USD 3.1 million for the year ended December 31, 2000 compared to USD 2.7 million for the year ended December 31, 1999 due to an increase in investment in research related to Oridion's breath test technology, in

Gross Profit by Year



particular, technology miniaturization, development of consumables for use outside the operating room and the development of new breath tests to diagnose other disease states and assess organ function. Oridion funded its research and development out of working capital, including from the proceeds of the Company's initial public offering. Research and development expenses, net, represented 30 percent of revenues for the year ended December 31, 2000 compared to 44 percent for the year ended December 31, 1999.

Selling and marketing expenses, net. Selling and marketing expenses, net, for the year ended December 31, 2000 increased to USD 5.9 million compared to USD 3.5 million for the year ended December 31, 1999. This increase resulted primarily from costs incurred in recruiting 16 new employees for Oridion's marketing operations, mainly respiratory therapist specialists employed by Oridion who have the task of working with experts in anaesthesiology, emergency medicine and respiratory medicine, to raise awareness of the benefits of capnography and use of the installed base of Microstream® products in various clinical procedures. Selling and marketing expenses, net, represented 57 percent of revenues for the year ended December 31, 2000 compared to 58 percent for the year ended December 31, 1999.

General and administrative expenses. For the year ended December 31, 2000, general and administrative expenses remained unchanged at USD 2.6 million. General and administrative expenses represented 25 percent of revenues for the year ended December 31, 2000 compared to 43 percent for the year ended December 31, 1999.

Financial income, net. For the year ended December 31, 2000, financial income, net, increased to USD 1 million from a net financial expense of USD 0.7 million for the year ended December 31, 1999. This substantial increase in income resulted from interest income received on deposits from the unused portion of the proceeds of the initial public offering which the Company completed in April 2000.

Year ended December 31, 1999 compared to year ended December 31, 1998

Revenues. For the year ended December 31, 1999, revenues increased by approximately USD 1.7 million or 41 percent to USD 6.0 million from USD 4.3 million for the year ended December 31, 1998. The increase resulted from increased volume of sales of new generation capnography products to two of Oridion's new U.S. customers. One of the new customers

Management's Discussion and Analysis of Financial Condition and Results of Operations

accounted for 34 percent of revenues for the year ended December 31, 1999. For the year ended December 31, 1999, 87 percent of revenues were derived from Oridion's principal three customers, as compared to 61 percent from its principal three customers in 1998. For the years ended December 31, 1999 and 1998, sales to customers in the United States accounted for 68 percent and 50 percent of revenues, respectively, and sales to customers in Europe accounted for 30 percent and 36 percent, respectively.

Cost of revenues. Cost of revenues for the year ended December 31, 1999 increased by approximately USD 0.9 million or 27 percent to USD 4.2 million from USD 3.3 million for the year ended December 31, 1998. The increase in cost of revenues resulted from the growth in sales. Gross margin increased to 31 percent for the year ended December 31, 1999 from 23 percent for the year ended December 31, 1998. As in the year ended December 31, 2000, the increase in gross margin resulted mainly from the growth in sales of consumables, which provide higher margins, and the development of economies of scale deriving from sales growth.

Research and development expenses, net. Research and development expenses, net, remained unchanged at USD 2.7 million for the year ended December 31, 1999, and comprised expenditure on enhancement and improvement of Oridion's breath test technology and development of consumables. Research and development expenses, net, represented 44 percent of revenues for the year ended December 31, 1999 compared to 62 percent for the year ended December 31, 1998. Research and development was funded from working capital.

Selling and marketing expenses, net. Selling and marketing expenses, net, for the year ended December 31, 1999 increased by 43 percent to USD 3.5 million from USD 2.4 million for the year ended December 31, 1998. This increase resulted principally from costs incurred in recruiting five new employees for Oridion's marketing operations, as well as expenses related to promotional grants of Oridion's proprietary equipment to medical personnel and commencement of clinical trials for the peptic ulcer breath test. Selling and marketing expenses, net, represented 58 percent of revenues for the year ended December 31, 1999 compared to 57 percent for the year ended December 31, 1998.

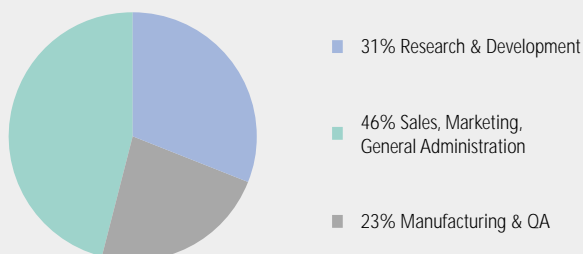
General and administrative expenses. For the year ended December 31, 1999, general and administrative expenses increased by USD 0.6 million to USD 2.6 million from

USD 2.0 million for the year ended December 31, 1998, primarily as a result of an increase in non-cash compensation expense related to increased subscription by employees and management in the Company's two share option plans. General and administrative expenses represented 43 percent of revenues for the year ended December 31, 1999 compared to 47 percent for the year ended December 31, 1998.

Aborted offering expenses. The Company intended to launch an initial public offering on the Neuer Markt segment of the Frankfurt Stock Exchange during September 1999. During September 1999, the Board of Directors decided to postpone the offering due to adverse market conditions. Oridion included the expenses involved with the postponed initial public offering in the amount to USD 1.8 million, comprising mainly fees and expenses of financial, accounting, legal and other professional advisers, in the statement of operations in the item of aborted offering expenses. See "Note 15 – Consolidated Financial Statements".

Financial expenses, net. For the year ended December 31, 1999, financial expenses, net, increased to USD 0.7 million from USD 0.1 million for the year ended December 31, 1998. This substantial increase in expenses resulted from the increase in Oridion's long- and short-term debt to finance increased operating costs and because in 1998 the substantial devaluation of the NIS against the U.S. dollar had reduced Oridion's cost of finance for 1998. Oridion's short- and long-term loans increased to USD 9.3 million as of December 31, 1999 compared to USD 3.5 million as of December 31, 1998, mainly as a result of draw downs under the Credit Facility.

Average Number of Employees by Department for 2000



Ernst & Young


To the Shareholders of Oridion Systems Ltd. and subsidiaries

We have audited the accompanying consolidated balance sheets of Oridion Systems Ltd. and Subsidiaries ("the Company") and its subsidiaries as of December 31, 1998, 1999 and 2000 and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 1998, 1999 and 2000, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Tel-Aviv, Israel
January 4, 2001


KOST FORER & GABBAY
A Member of Ernst & Young International

Consolidated Balance Sheets

U.S. dollars in thousands (except share data)	Notes	31.12.1998	31.12.1999	31.12.2000
Assets				
Current Assets:				
Cash and cash equivalents		1,493	2,336	4,762
Short-term deposits		-	-	26,181
Marketable securities		-	-	1,224
Trade receivables		1,077	1,072	2,405
Other accounts receivable and prepaid expenses	2	225	623	773
Inventories	3	1,126	1,324	2,659
		3,921	5,355	38,004
Severance pay fund		28	36	37
Property and equipment, net	4	1,906	2,039	3,226
Other assets, net	7g	-	243	-
		5,855	7,673	41,267
Liabilities and shareholders' equity (deficiency)				
Current liabilities:				
Short-term bank credit	5	1,780	2,016	166
Current portion of long-term loans from related parties		-	507	-
Trade payables		604	1,115	2,066
Other accounts payable and accrued expenses	6	1,084	2,826	1,992
		3,468	6,464	4,224
Long-term liabilities:				
Long-term loans from related parties	7	477	-	-
Long-term loans from banks	7	1,270	6,793	-
Convertible debentures from related parties	8	167	-	-
Accrued severance pay		497	606	797
		2,411	7,399	797
Contingent liabilities, charges and commitments				
Shareholders' equity (deficiency)				
Share capital	10			
Ordinary shares of NIS 0.01 nominal value –		7 ¹	11 ¹	25 ¹
Preferred shares of NIS 0.01 nominal value –		2 ²	4 ²	- ²
Additional paid-in capital		20,201	23,392	72,193
Accumulated deficit		(20,234)	(29,597)	(35,972)
Total shareholders' equity (deficiency)		(24)	(6,190)	36,246
		5,855	7,673	41,267

¹ Authorized: 18,000,000 shares, 18,000,000 shares and 20,000,000 shares as of December 31, 1998, 1999 and 2000, respectively; Issued: 4,387,774 shares, 7,315,448 shares and 10,124,363 shares as of December 31, 1998, 1999 and 2000, respectively; Outstanding: 4,387,774 shares, 4,426,990 shares and 10,124,363 shares as of December 31, 1998, 1999 and 2000, respectively

² Authorized: 2,000,000 shares as of December 31 1998, 1999 and 2000; Issued and outstanding: 1,413,928 shares, 1,673,654 shares and zero shares as of December 31, 1998, 1999 and 2000, respectively

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

Consolidated Statements of Operations

U.S. dollars in thousands (except share and per share data)	Notes	31.12.1998	31.12.1999	31.12.2000
Revenues	13a	4,277	6,026	10,317
Cost of revenues		3,289	4,178	6,074
Gross profit		988	1,848	4,243
Operating expenses:				
Research and development, net	14a	2,669	*2,668	3,132
Selling and marketing, net	14b	2,438	*3,485	5,872
General and administrative		2,004	2,576	2,577
Aborted offering expenses	15	-	1,831	-
Total operating expenses		7,111	10,560	11,581
Operating loss		(6,123)	(8,712)	(7,338)
Financial income (expenses), net	14c	(78)	(651)	963
Net loss		(6,201)	(9,363)	(6,375)
Basic and diluted net loss per share		(1.42)	(2.12)	(0.73)
Weighted average number of shares used for computing basic and diluted net loss per share				
		4,377,970	4,417,186	8,700,020

*Reclassified

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

Statements of Changes in Shareholders' Equity (Deficiency)

U.S. dollars in thousands (except share data)	Preferred shares (Amount of shares)	Ordinary shares (Amount of shares)	Share capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity (deficiency)
Balance as of January 1, 1998	511,896	4,348,558	8	14,004	(14,033)	(21)
Conversion of debentures	-	39,216	*-	167	-	167
Issuance of Preferred shares, net	902,032	-	1	5,428	-	5,429
Amortization of deferred stock compensation	-	-	-	602	-	602
Net loss	-	-	-	-	(6,201)	(6,201)
Balance as of December 31, 1998	1,413,928	4,387,774	9	20,201	(20,234)	(24)
Conversion of debentures	-	39,216	*-	167	-	167
Issuance of Preferred shares, net	198,570	-	1	1,375	-	1,376
Exercise of warrants, net	61,156	-	*-	428	-	428
Amortization of deferred stock compensation	-	-	-	1,226	-	1,226
Stock split to be effected as a stock dividend (100%)	-	-	5	(5)	-	-
Net loss	-	-	-	-	(9,363)	(9,363)
Balance as of December 31, 1999	1,673,654	4,426,990	15	23,392	(29,597)	(6,190)
Issuance of Preferred shares, net	1,000,000	-	3	6,877	-	6,880
Issuance of Ordinary shares, net	-	2,500,000	7	38,731	-	38,738
Conversion of Preferred shares into Ordinary shares	(2,673,654)	2,673,654	-	-	-	-
Exercise of warrants, net	-	293,719	*-	1,836	-	1,836
Exercise of options, net	-	230,000	*-	697	-	697
Amortization of deferred stock compensation	-	-	-	660	-	660
Net loss	-	-	-	-	(6,375)	(6,375)
Balance as of December 31, 2000	-	10,124,363	25	72,193	(35,972)	36,246

*Represents an amount less than USD 1. The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

U.S. dollars in thousands 31.12.1998 31.12.1999 31.12.2000

Cash flows from operating activities:

Net loss	(6,201)	(9,363)	(6,375)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	353	517	811
Amortization of deferred stock compensation	602	1,226	660
Loss on sales of marketable securities, net	-	-	20
Accrued interest on short-term deposits	-	-	(1,018)
Marketable securities, net	-	-	(1,244)
Accrued severance pay, net	(30)	101	190
Decrease (increase) in trade receivables	720	5	(1,333)
Decrease (increase) in other accounts receivable and prepaid expenses	438	(398)	(150)
Decrease (increase) in inventories	613	(198)	(1,335)
Increase (decrease) in trade payables	(1,102)	511	951
Increase (decrease) in accounts payable and other accrued expenses	(19)	1,766	(834)
Other	(7)	6	(2)
Net cash used in operating activities	(4,633)	(5,827)	(9,659)

Cash flows from investing activities:

Proceeds from the sale of property and equipment	9	-	2
Purchase of property and equipment	(750)	(554)	(1,755)
Investment in short-term deposits	-	-	(40,580)
Proceeds from sale of short-term deposits	-	-	15,417
Net cash used in investing activities	(741)	(554)	(26,916)

Cash flows from financing activities:

Proceeds from issuance of Preferred shares, net	5,429	1,376	6,880
Proceeds from issuance of Ordinary shares, net	-	-	38,738
Proceeds from exercise of warrants, net	-	428	1,836
Proceeds from exercise of options, net	-	-	697
Proceeds from long-term loans	1,150	5,308	-
Proceeds from short-term loans	500	700	-
Principal payment of short-term loans	-	(500)	(700)
Principal payment of long-term loans	(51)	(36)	(6,600)
Short-term bank credit, net	(517)	(52)	(1,850)
Net cash provided by financing activities	6,511	7,224	39,001
Increase in cash and cash equivalents	1,137	843	2,426
Cash and cash equivalents at the beginning of the year	356	1,493	2,336
Cash and cash equivalents at the end of the year	1,493	2,336	4,762

(a) Significant non-cash transactions:

Conversion of convertible debentures into share capital	167	167	-
Conversion of Preferred shares into Ordinary shares	-	-	7

(b) Supplemental disclosure of cash flows information:

Cash paid during the year for:			
Interest	93	452	419
Income taxes	53	27	71

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

Notes to Consolidated Financial Statements

U.S. dollars in thousands (except share data)

Note 1: General

Oridion Systems Ltd. and Subsidiaries ("the Company") is a holding company which wholly-owns and controls Oridion Medical 1987 Ltd. ("Oridion") and all of its subsidiaries. All the operational activities are performed by the subsidiaries.

Oridion and its subsidiaries design, manufacture and market proprietary medical devices and consumables that utilize its core Microstream® technology in patient safety monitoring and point-of-care diagnostic testing. Oridion's patient safety monitoring devices are used in its line of capnography products which are utilized by its customers in the U.S., Europe and the Far East in monitoring patients under anesthesia. For the year ended December 31, 2000, 94% of the Company's sales were to five customers, for the year ended December 31, 1999, 87% of the Company's sales were to three customers, and for the year ended December 31, 1998, 61% of the Company's sales were to three customers (See Note 13c). In addition, Oridion has developed a proprietary platform technology to diagnose the adequacy of organ function through diagnosing information found in human breath. The first application of this technology is the Company's point-of-care breath test for peptic ulcer. As of December 31, 2000, there were no sales from this product.

On April 10, 2000, the Company effected an IPO on the SWX Swiss Exchange. The Company completed the issuance of 2,500,000 Ordinary shares at the Price of CHF 29 per share. In addition, an exercise of options to purchase 230,000 shares held by certain employees, directors, and service providers prior to the Offering, and exercise of warrants to purchase 293,719 shares held by certain shareholders, took place. Immediately following the closing of the Offering, the Company had a total of 10,124,363 shares issued and outstanding, all of which are registered on the SWX Swiss Exchange.

Significant accounting policies

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

a. Use of estimates:

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

b. Financial statements in U.S. dollars:

A majority of Oridion and its subsidiaries revenues is made outside Israel in U.S. dollars, and a portion of Oridion and its subsidiaries costs is incurred in U.S. dollars. Accordingly, the Company has determined the U.S. dollar as the currency of its primary economic environment and thus its functional and reporting currency. The Company's wholly-owned subsidiaries, record their transactions in U.S. dollars which is their functional currency.

Transactions and balances denominated in U.S. dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to U.S. dollars in accordance with Statement No. 52 of the Financial Accounting Standards Board ("FASB"). All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and those of the following companies:

	% of ownership
1. Oridion Medical 1987 Ltd.	100
2. Irad Technologies Ltd.*	100
3. Oridion Medical Inc. (through the subsidiary, Oridion Medical 1987 Ltd.)	100
4. Oridion Capnography Inc. (through the subsidiary, Oridion Medical 1987 Ltd.)	100
5. Oridion BreathID Inc. (through the subsidiary, Oridion Medical 1987 Ltd.)	100
6. Oridion Medical Europe BV (through the subsidiary, Oridion Medical 1987 Ltd.)	100
7. Oridion Spain S.L. (through the subsidiary, Oridion Medical 1987 Ltd.)*	100

*Dormant.

Intercompany transactions and balances were eliminated upon consolidation.

d. Cash equivalents:

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

e. Short-term deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term deposits.

f. Marketable securities:

The Company accounts for investments in equity securities (other than those accounted for under the equity method of accounting) in accordance with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Management determines the appropriate classification of its investments in marketable equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classified its marketable securities as trading.

The Company's trading securities are carried at their fair value based upon the quoted market price of those investments. Net realized and unrealized gains and losses on these securities are included in financial expenses (income), net.

g. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined as follows:

Raw materials – by the average cost method.

Work in progress – on the basis of input of materials, labor and indirect manufacturing expenses included therein.

Finished goods – on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

h. Other assets:

Prepaid expenses in respect of long-term loans, are stated at amortized cost. Amortization is calculated using the straight-line method, over the term of the loan.

i. Property and equipment:

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

Notes to Consolidated Financial Statements

2. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are as follows:

	%
Leasehold improvements	Over the lease term
Computers and related equipment	20-33 (mostly 33)
Motor vehicles	15 - 20
Office furniture and equipment	6 - 10
Machinery equipment and installations	10

The Company and its subsidiaries periodically assess the recoverability of the carrying amount of property and equipment and provide for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets. As of December 31, 2000, no impairment losses have been identified.

j. Revenue recognition:

Revenue from sales are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, no significant obligations with regard to implementation remain, the fee is fixed or determinable, and Collectibility is probable.

k. Research and development costs:

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

l. Royalty-bearing grants:

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to USD 715, USD 260, and USD 1,075 in 1998, 1999 and 2000, respectively.

The Company also received royalty-bearing grants from the Fund for Encouragement of Marketing Activity. These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred and included as a deduction of sales and marketing expenses. Such grants amounted to USD 111, USD 0 and USD 13 in 1998, 1999 and 2000, respectively.

m. Provision for warranty:

The provision for warranty is calculated according to the past experience of the Company and management estimation based on a percentage of the Company's sales over 12 months prior to the date of the financial statements.

n. Severance pay:

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

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

Severance expenses for the years ended December 31, 1998, 1999 and 2000 amounted to USD 78, USD 223 and USD 182, respectively.

o. Basic and diluted net loss per share:

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

All convertible Preferred shares, outstanding stock options, convertible debentures, and warrants have been excluded from the calculation of the diluted net loss per Ordinary share because all of these securities are anti-dilutive for all periods presented. The total numbers of shares related to the Preferred shares outstanding options and warrants excluded from the calculations of diluted net loss per share were 2,116,036, 2,375,762 and 1,472,892 for the years ended December 31, 1998, 1999 and 2000, respectively.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade receivables, short-term deposits and marketable securities. The majority of the Company's cash and cash equivalents and short-term deposits are invested in dollar and dollar linked investments and are deposited in major banks in Israel, Europe and in the United States. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The trade receivables of the Company are mainly derived from sales to customers located primarily in the U.S. and Europe. The Company performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts was not determined since the Company has no difficulty in collection.

The Company's marketable securities include investments in Israeli Trust Funds. Management believes that those Trust Funds are financially sound, and accordingly, minimal credit risk exists with respect to these marketable securities.

q. Accounting for stock-based compensation:

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

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

r. Fair value of financial instruments:

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

Cash and cash equivalents, short-term deposits, trade receivables, short-term bank credit and trade payables – The carrying amounts of these items approximate their fair value due to the short-term maturity of such instruments.

The fair value for marketable securities is based on quoted market prices.

Long-term loans and convertible debentures - The carrying amounts of the Company's borrowing arrangements approximate their fair value. Fair values were estimated using discounted cash flows analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

s. Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) 109 "Accounting for Income Taxes". This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based on assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Notes to Consolidated Financial Statements

t. Impact of recently issued accounting standard:

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which is required to be adopted in years beginning after June 15, 2000. Because the Company does not use derivatives, management does not anticipate that the adoption of the new Statement will have an effect on earnings or the financial position of the Company.

u. Reclassification:

Certain prior year amounts have been reclassified in conformity with current years financial statements presentation.

Note 2: Other accounts receivable and prepaid expenses

	31.12.1998	31.12.1999	31.12.2000
Employees ¹	8	122	19
Government authorities	145	432	542
Prepaid expenses	2	40	117
Others	70	29	95
	225	623	773

¹ Including a short-term loan in the year 1999 of USD 109 to the CEO of the Company (linked to the CPI and bears interest at the rate of 2%).

Note 3: Inventories

Raw materials	776	778	1,917
Work in progress	100	255	346
Finished goods	250	291	396
	1,126	1,324	2,659

Note 4: Property and equipment

Cost:			
Leasehold improvements	565	734	1,608
Computers and related equipment	802	1,014	1,418
Motor vehicles	59	71	56
Office furniture and equipment	535	620	815
Machinery equipment and installations	1,112	1,188	1,460
	3,073	3,627	5,357
Less – accumulated depreciation	1,167	1,588	2,131
Depreciated cost	1,906	2,039	3,226

Depreciation expenses amounted to USD 353, USD 421 and USD 568 for the years ended December 31, 1998, 1999 and 2000, respectively. As for charges see note 9c.

Note 5: Short-term bank credit

As of December 31, 2000, the Company's actual weighted average withdrawal was approximately USD 50.

	Interest rates					
	1998	1999	2000	31.12.1998	31.12.1999	31.12.2000
Bank credit in NIS	16% - 21.5%	15.5%	12.7%	335	449	49
Bank credit in USD	Libor + 2%	6.8%	7.5% - 11.5%	909	743	117
Short-term bank loan USD	-	7.3%	-	500	700	-
Current portion of long-term loans from banks	-	6.8%	-	36	124	-
				1,780	2,016	166

As of December 31, 2000, the Company has an authorized line of credit in the amount of USD 700. The line of credit bears interest at an annual rate of 12.7% for the credit in NIS, and an annual rate of Libor + 1.32% - Libor + 2.75% for the credit in dollars. For overdrawn amounts in excess of the Company's authorized line of credit, the Company is subject to an annual interest rate of 16% - 22% for the credit in NIS and an annual rate of Libor + 5% - Libor + 10% for the credit in dollars.

The weighted average interest rate at the end of 1998, 1999 and 2000 was 7.5%, 8.9%, and 10.4%, respectively.

Note 6: Other accounts payable and accrued expenses

	31.12.1998	31.12.1999	31.12.2000
Royalties payable	156	341	555
Employees and payroll accruals	625	573	1,003
Accrued expenses and other liabilities	303	1,912	434
	1,084	2,826	1,992

Note 7: Long-term loans from banks and related parties

a. Composition:			
Loans from related parties linked to the dollar (see e. below)	102	112	-
Loans from related parties, linked to the CPI (see d. below)	220	227	-
Loans from related parties (see e. below)	155	168	-
Less – current portion	-	507	-
	477	-	-
b. Loans from banks, linked to the dollar (see f. below)	1,306	6,917	-
Less – current portion	36	124	-
	1,270	6,793	-
c. The loans will mature in the subsequent to the balance sheet date. The aggregate annual maturities of long-term loans are as follows:			
First year – current portion	36	631	-
Second year	36	5,590	-
Third year	419	599	-
Fourth year	419	554	-
Fifth year and thereafter	396	50	-
Repayment date not yet determined	477	-	-
	1,747	6,793	-
	1,783	7,424	-

d. Loans from related parties bear no interest.

Notes to Consolidated Financial Statements

- e. Loans from related parties are linked to the dollar and bear interest at the rate of Libor + 2%.
- f. Loans from banks are linked to the dollar and bear annual interest at variable rate of Libor + 1.75% - 3.5%.
- g. On July 11, 1999, the Company entered into a USD 10,000 credit agreement with a financial institution (the "Lender"). As of December 31, 1999, the Company had withdrawn USD 5,000 from the Lender. The credit agreement was a U.S. dollar floating rate (LIBOR) term loan at 350 basis points. In connection with the credit agreement, the Company paid the Lender an arrangement fee of USD 339, which was recorded as other assets and was amortized over the term of the loan. Amortization expense amounted to USD 96 for the year ended December 31, 1999. Due to an IPO which took place in April 2000, the Company has redeemed the loan, and wrote an amortization expense for the rest of the loan fees, amounting to USD 243.

Note 8: Convertible debentures from related parties

In July 1994, debentures in NIS equivalent to USD 500 convertible into Company's Ordinary shares were issued to two shareholders. The debentures bear interest at the rate of Libor + 1.5% in the first two years and subsequently at Libor + 2.5%.

The conversion terms are as follows: USD 1 debenture is convertible into 0.055 Ordinary share, at any time and under certain conditions, from January 15, 1997.

During 1999, the shareholders converted all the debentures into Ordinary shares, in exchange for the issuance of 39,216 of the Company's Ordinary shares.

According to EITF D-60 there was no beneficial conversion feature.

Note 9: Contingent liabilities, charges and commitments

a. Royalties to the Chief Scientist:

Oridion is committed to pay royalties at the rate of 3% until December 1999 and 3.5% from January 2000 to the Government of Israel, on sales proceeds from products in which the Government participates in the research and development by way of grants. The commitment is determined on a product-by-product basis, in an amount not to exceed the total of the grants received (linked to the U.S. dollar).

Over the period commencing 1987 through December 31, 2000, grants received amounted to USD 5,172, and royalties paid or accrued amounted to USD 1,190. As of December 31, 2000 the subsidiary has a remaining contingent obligation of USD 3,982.

b. Royalties to the Fund for the Encouragement of Marketing Activities:

The Israeli Government, through the Fund for the Encouragement of Marketing Activities, awarded the subsidiary grants for participation in the expenses for overseas marketing. The subsidiary is committed to pay royalties at the rate of 3% of the increase in export sales, up to the amount of the grants received.

Over the period commencing 1994 through December 31, 2000 grants received amounted to USD 488 and royalties paid or accrued amounted to USD 488. As of December 31, 2000, the Company has no remaining contingent obligations.

c. Charges:

As collateral for a credit provided during 2000, a certain subsidiary has placed a floating charge on all of its assets in favor of a bank.

d. Lease commitments:

The facilities of the Company and its subsidiaries are rented under several operating leases for certain periods. Future minimum lease commitments under non-cancelable operating leases for the years ending December 31, are as follow:

2001	328
2002	285
2003	321
2004	321
	<u>1,255</u>

Rent expenses for the years ended December 31, 1998, 1999 and 2000 were USD 237, USD 248 and USD 280, respectively.

Note 10: Share capital

a. Rights conferred by Preferred shares:

All Preferred shares had been converted into ordinary shares on a one to one basis immediately prior to the closing of the Company's initial offering of its Ordinary shares to the public ("IPO").

b. Issuance of share capital:

Following are the changes in the Company's share capital from January 2000:

1. During February 2000, the Company raised USD 6,880 thousand, net from shareholders in exchange for the issuance of 1,000,000 Preferred shares of NIS 0.01 par value each.

According to EITF 98-5, there was no beneficial conversion feature.

2. On April 10, 2000, the Company effected an IPO on the SWX Swiss Exchange. The Company completed the issuance of 2,500,000 Ordinary shares at the Price of CHF 29 per share. In addition, an exercise of options to purchase 230,000 shares held by certain employees, directors, and service providers prior to the Offering, and exercise of warrants to purchase 293,719 shares held by certain shareholders, took place.

Immediately following the closing of the Offering, the Company had a total of 10,124,363 shares issued and outstanding, all of which are registered on the SWX Swiss Exchange.

c. Stock split:

All Ordinary share and per Ordinary share data included in these financial statements for all periods presented have been retroactively adjusted to reflect the 1:1 stock split to be effected as a stock dividend as approved by the Company's shareholders on August 12, 1999.

d. Issuance of options to employees and service providers:

As of December 31, 2000 the Company has four stock option plans: two stock option plans outside Israel, which are an incentive-restricted stock option plans ("the U.S. Plans"), which were adopted by the Board of Directors of the Company during 1995 and 2000, and two share option plans ("the Israeli Plans") which were approved During 1995 and 2000 (the U.S. Plans and the Israeli Plans together: "the Plans"). Under the terms of the Plans, options generally become exercisable after two to four years or after five years with an acceleration provision in the event of an IPO of the Company. All the options have a maximum term of 7 years.

As of December 31, 2000 1,900,000 shares had been made purchasable under the plans of which 1,470,950 had been allocated, including 127,558 which had been exercised.

Notes to Consolidated Financial Statements

In addition to options granted under the plans, under section 3(i) the Company granted options to a director of the Company for the purchase of 160,000 of which 32,000 have been exercised and to the CEO and COO of the Company 70,442 options all of which have been exercised and which have been issued in exchange for the related parties waiver of the Company's debt in amount of USD 284.

All options holders have signed a twelve months lock-up agreement commencing April 10, 2000 not to sell any shares that have been exercised without a prior written consent of the bank's underwriter of the IPO.

The following table is a summary of the activity for the Company's share option plans:

	31.12.1998		31.12.1999		31.12.2000	
	Number	Weighted average	Number	Weighted average	Number	Weighted average
	of	exercise	of	exercise	of	exercise
	options	price	options	price	options	price
Outstanding –						
beginning of the year	136,834	2.61	550,000	3.6	1,195,500	4.1
Granted	419,166	3.9	645,500	4.5	355,200	23.9
Exercised	-	-	-	-	(127,558)	2.6
Forfeited	(6,000)	2.5	-	-	(79,750)	4.4
Outstanding –						
end of the year	550,000	3.6	1,195,500	4.1	1,343,392	9.46

The options outstanding as of December 31, 2000 have been separated into ranges of exercise price, as follows:

Exercise Price	Options outstanding as of December 31, 2000	Weighted average remaining contractual life
2.50	110,442	2
4.50	949,750	4.94
17.74	88,200	6.25
27.95	40,000	6.67
35.15	155,000	6.75
2.5 - 35.15	1,343,392	5.04

Pro-forma information regarding net loss and loss per share is required by SFAS No. 123 (for grants issued after December 1994), and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant, using the Black-Scholes Option Valuation Model, with the following weighted-average assumptions for 1998, 1999 and 2000: risk-free interest rate of 5%, dividend yields of 0%. Volatility of factors of the expected market price of the Company's shares are 0% for 1998, 1999 and 56% for 2000, and a weighted-average expected life of the option of four years.

The weighted-average fair value, at dates of grants, of the options granted below fair value during 1998, 1999 and 2000 were USD 2.26, USD 4.52 and USD 8.1, respectively.

The Black-Scholes Option Valuation Model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro-forma disclosure, the estimated fair value of the options is amortized as an expense over the options' vesting period. The Company's proforma information is as follows:

	31.12.1998	31.12.1999	31.12.2000
Net loss, as reported	(6,201)	(9,363)	(6,375)
Pro-forma net loss	(6,318)	(10,245)	(6,625)
Pro-forma basic and diluted net loss per share	(1.445)	(2.32)	(0.76)

Note 11: Income taxes

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

According to the law, one of Oridion's production facilities has been granted an "Approved Enterprise" status.

Pursuant to the aforementioned law, Oridion has chosen the "alternative benefits" – waiver of Government grants in return for tax exemption. Income derived from the "Approved Enterprise" will be tax-exempt for a period of ten years, commencing the first taxable year.

The tax-exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without subjecting the Company to income taxes only upon the complete liquidation of the Company. If these retained tax-exempt profits are distributed in a manner other than in the complete liquidation of the Company, they would be taxed at the corporate tax rate applicable to such profits, as if the Company had not elected the alternative system of benefits (currently, 25% for an "Approved Enterprise"). Through December 31, 2000, Oridion does not have any tax exempt income.

The period of tax benefits detailed above is subject to limits of the earlier of 12 years from commencement of production or 14 years from receiving the approval. Hence, it will expire in the year 2010.

The aforementioned benefits are conditional upon the fulfillment of the terms and regulations prescribed by law, and the approvals according to which the investments are to be carried out. Non compliance with the terms may result in the cancellation of the benefit, in whole, or in part, and the refund of the benefit amounts in addition to accrued interest. As of December 31, 2000, Oridion has complied with the conditions of the law.

During 1998, Oridion received an additional approval for further investments under the "alternative benefits". According to the approval, the scope of the approved investment totals USD 1,225 and the date of implementation is until November 8, 2000. During the reported period, Oridion received an additional approval, according to which, the scope of the investment totals USD 2,316 and the date implementation is November 8, 2000. As of December 31, 2000 the company fulfilled the implementation of the program. The tax benefit period will not exceed 2012.

Due to the accumulated losses, the utilization of the above benefits has not yet commenced.

Should the Company derive income from sources other than the "Approved Enterprise" during the relevant period of benefits, such income will be taxable at the regular corporate tax rate of 36%.

b. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

Oridion is an "industrial company" under the above law and, as such, is entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment.

Notes to Consolidated Financial Statements

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

Results for tax purposes are measured in real terms of earnings in NIS, after certain adjustments for increases in the CPI (Israel Consumer Price Index). As explained in Note 1, the financial statements are presented in U.S. dollars. The differences between the annual change in the CPI and in the NIS/dollar exchange rate causes a difference between taxable income and the income before taxes shown in the financial statements. In accordance with paragraph 9(f) of SFAS No. 109, the Company has not provided deferred income taxes on this difference between the reporting currency and the tax bases of assets and liabilities.

d. Carryforward losses:

As of December 31, 2000, Oridion had approximately USD 27,500 of Israeli net operating loss carryforwards. The Israeli loss carryforwards have no expiration date. Oridion expects that during the period in which these tax losses are utilized, its income would be substantially tax exempt. Accordingly, there will be no tax benefit available from such losses, and no deferred income taxes have been included in these financial statements.

e. Non-Israeli subsidiaries:

Non Israeli subsidiaries are taxed upon tax laws in their countries of domicile.

f. Pre-tax loss:

	31.12.1998	31.12.1999	31.12.2000
Domestic	(6,256)	(9,444)	(6,551)
Foreign	55	81	176
	(6,201)	(9,363)	(6,375)

Note 12: Transactions and balances with related parties

a. Expenses:

Management fees to shareholders	64	40	10
Salaries and wages to related parties	325	295	-

b. Balances with related parties:

Credit balance	477	507	-
Debit balance	-	109	-

NOTE 13: Segment, customers and geographic information

a. The Company has two reportable segments: Capnography and Breath Test.

Capnography - is the business of supplying portable capnography monitors and patented monitoring technology and accessories, under Original Equipment Manufacture Agreements and Private Label Agreements.

Breath Test - is the business of developing and supplying patented breath testing equipment for the diagnosis of H. Pylori and future applications.

The following data presents the revenues, expenditures and other operating data of the Company's operating segments:

	31.12.1998		
	Capnography	Breath Test	Total
Revenues from external customers	4,277	-	4,277
Interest expenses	47	31	78
Depreciation and amortization	694	261	955
Segment loss	3,669	2,532	6,201
Segment assets	4,144	1,711	5,855
Expenditures for segment assets	584	166	750

	31.12.1999		
	Capnography	Breath Test	Total
Revenues from external customers	6,026	-	6,026
Interest expenses	391	260	651
Depreciation and amortization	1,134	513	1,647
Segment loss	4,763	4,600	9,363
Segment assets	5,070	2,603	7,673
Expenditures for segment assets	443	111	554

	31.12.2000		
	Capnography	Breath Test	Total
Revenues from external customers	10,317	-	10,317
Interest income	578	385	963
Depreciation and amortization	835	393	1,228
Segment loss	3,261	3,125	6,375
Segment assets	27,237	14,030	41,267
Expenditures for segment assets	1,229	526	1,755

	31.12.1998		31.12.1999		31.12.2000	
	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues

b. Geographic information:

The Company attributes revenues based on the end customers location as follows:

Israel	1,862	-	2,241	-	3,102	24
United States	44	2,151	41	4,095	124	8,091
Europe	-	1,549	-	1,826	-	2,036
Far East	-	476	-	5	-	12
Other	-	101	-	100	-	154
	1,906	4,277	2,282	6,026	3,226	10,317

Notes to Consolidated Financial Statements

	% of total sales	31.12.1998	31.12.1999	31.12.2000
c. Major customers:				
Customer A		40%	46%	23%
Customer B		11%	-	-
Customer C		10%	-	-
Customer D		7%	-	-
Customer E		-	34%	41%
Customer F		-	7%	13%
Customer G		-	-	11%
Customer H		-	-	6%

Note 14: Selected statements of operations data

	31.12.1998	31.12.1999	31.12.2000
a. Research and development expenses, net:			
Research and development expenses	3,384	2,928	4,207
Less – participation of the Government of Israel	715	260	1,075
	2,669	2,668	3,132
b. Selling and marketing expenses, net:			
Selling and marketing	2,549	3,485	5,885
Less: participation from Government funds	111	-	13
	2,438	3,485	5,872
c. Financial (expenses) income, net:			
Financial expenses in respect of convertible debentures	(19)	(7)	-
Financial expenses in respect of long-term loans	(66)	(535)	(419)
Foreign currency translation differences	114	(47)	(130)
Others	(187)	(90)	(107)
	(158)	(679)	(656)
Financial income:			
Others	80	28	1,619
	(78)	(651)	963

Note 15: Aborted offering expenses

The Company intended to conduct an Initial Public Offering ("IPO") on the Neuer Markt, a segment of the Frankfurt Stock Exchange, during September 1999. During September 1999, the Board of Directors decided to cancel the issuance of its planned format. The Company included the expenses involved with the aborted IPO in the amount of USD 1,831 in the statement of operations in the item of aborted offering expenses.

Note 16: Subsequent events (unaudited)

The Company intends to conduct a secondary public offering on the SWX New Market of the SWX Swiss Exchange ("SWX New Market").

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Capital structure as of end of 2000

Authorized Share capital	20,000,000
Number of issued shares	10,124,363
Nominal value per share NIS	0.01
Registration restrictions	none
Voting restrictions	none

Shareholders by end of 2000

Venture Capital Funds	48%
Management and employees	16%
Public	36%

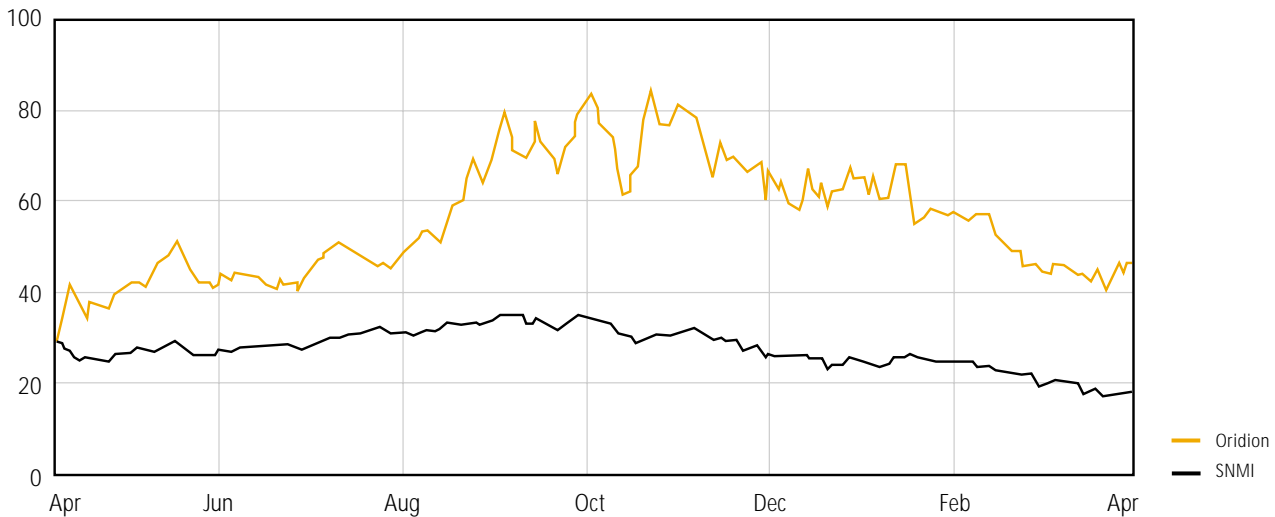
Stock exchange information

SIS Security Number	904373
ISIN	IL0010837818
Common Code	8702578
Reuters	ORIDN.S
Bloomberg	ORIDN SW
Market Segment	SWX New Market

Number of registered shareholders by end of 2000

Number of shares per shareholder	Number of shareholders
0-10	87
11-50	547
51-100	783
101-1,000	1,476
> 1,000	271
Total	3,164

Evolution of share price




Investor Relations Agenda

29.05.2001	General Meeting
August 2001	Report 2 nd Quarter 2001
November 2001	Report 3 rd Quarter 2001

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