

Enabling technologies for improved medical care



Oridion Systems Ltd.
Letter to Shareholders
November 2002



- **39% Revenue Growth for Third Quarter 2002 – Net Loss Reduced**
- **New Gastric Emptying Rate Breath Test Launched in Europe**

Dear Shareholder,

With the conclusion of Oridion's third quarter on September 30, the Company is pleased to report continued revenue growth. Below is an overview of the Company's financial results and developments for the third quarter of 2002.

Financial results in Q3, 2002

Revenues—

Company revenues for the third quarter increased by 39% to USD 3.55 million compared to USD 2.55 million for the third quarter of 2001. Revenues for the nine-month period ending September 30, 2002 increased by 39% to USD 9.37 million compared to USD 6.70 million, for the same period last year. Growth in the Company's revenues continues to be driven by the increased sales of Oridion's OEM capnography products in both existing and new markets.

Gross margin for the third quarter of 2002 remained constant at 44% compared to the third quarter of 2001. The gross margin for the nine-month period ending September 30, 2002 was 43% compared to 42% for the same period last year.

Sales of the Company's consumable products continued to increase.

Research and Development—

R&D expenses increased to USD 1.0 million for the third quarter of 2002 compared to USD 0.9 million for the third quarter of 2001. R&D expenses for the third quarter of 2002 include development activity for breath testing as well as the ongoing development of a new and improved OEM capnography module.

Sales and Marketing—

Sales and marketing expenses decreased to USD 2.2 million for the third quarter of 2002 compared to USD 2.4 million for the third quarter of 2001, mostly related to timing of expenses.

In the *Capnography Business Unit*, sales and marketing expenses include the activities of the Company's US direct sales team. This team, who also help support Oridion's OEM partners and manage the Company's growing distributor activities worldwide, was established by the Company to help increase

the adoption and penetration rate of its consumable products. The team's activities have been a strong factor in the constant increase in sales of Oridion's consumable products. Sales and marketing expenses also include the activities of Oridion's clinical consultants, whose efforts are aimed at educating the medical community on how Oridion's products can help improve patient care and save lives. The clinical consultant team and direct sales team work closely together, each complimenting and supporting the activities of the other.

In the *Breath Testing Business Unit*, sales and marketing expenses include European marketing activities for Oridion's BreathID™ GI Breath Testing Platform and ¹³C urea *H. pylori* breath test and initial marketing activities for Oridion's new gastric emptying rate (GER) BreathID™ test, currently for investigational purposes only in the US. Further expenses included are breath testing market assessment studies conducted for certain European countries and the Company's participation in numerous gastroenterology conferences and tradeshows worldwide. These events are important opportunities to enhance Oridion's breath testing marketing efforts, especially as the Company prepares for the US launch Oridion's BreathID™ GI Platform - planned to begin after the Company receives final FDA approval.

General and Administration—

G&A expenses increased to USD 0.8 million for the third quarter of 2002 compared to USD 0.7 million in the third quarter of 2001.

Net Financial Income—

Net financial income decreased to USD 0.1 million for the third quarter of 2002 compared to USD 0.2 million for the third quarter of 2002 in light of falling USD interest rates.

Operating Loss—

Net operating loss decreased to USD 2.3 million for the third quarter of 2002 compared to USD 2.7 million for the third quarter of 2001. The operating loss for the nine-month period was reduced to USD 7.2 million compared to USD 9.5 million for the same period last year.

Achievements and Events in Q3, 2002

The Company is pleased to report achieving the following milestones during the third quarter of 2002:

New Board Members

Two distinguished new board members joined the Company during Q3 2002. These new board members bring to Oridion a wealth of academic knowledge and business experience in the healthcare and medical device industry, having served in key positions in world leading medical device companies.

Three New US Patents Issued

The Company was awarded three new patents on its core technology from the United States Patent and Trademarks Office. These patents will help further strengthen Oridion's intellectual property portfolio on which the Company's products are based.

Breath Testing Advisory Board Founded

The Company founded a breath testing advisory board in which a number of world-renowned gastroenterologists serve as members. These prominent physicians are invaluable in helping Oridion identify the actual needs of the medical society and will help shape the focus and mission of Oridion's constantly evolving breath testing business.

Study Released on New BreathID™ Application

A study performed on Oridion's BreathID™ GER application was recently released. The study, performed in conjunction by leading physicians in Switzerland and Israel, found numerous advantages offered by Oridion's new GER application when compared to conventional testing methods, such as high accuracy, ease of use, shorter test durations, and more.

New OEM Agreement Signed

The Company recently signed a new OEM agreement with a new US partner. Product development under this new agreement has already begun and supplies of the OEM product are expected to begin in mid 2003.

Recent Announcement – Company to Re-list its Shares on Main Board of SWX Swiss Exchange

On November 8, 2002, the Company announced that it has proactively initiated a re-listing of its shares to the main board of the SWX Swiss Exchange, effective as of November 18, 2002. This decision follows an announcement earlier this year by the SWX Swiss Exchange to cease all marketing and communication activities for the New Segment of the SWX, as well as a similar decision by other major life science companies formerly listed on the SWX new market to re-list their shares.

Short Term Activities and Outlook

In the capnography division, the Company expects upcoming OEM product launches, and is currently in the process of negotiating a number of new OEM agreements in Japan with leading medical device companies. The Company plans to continue its efforts to penetrate both new markets and new segments in existing markets.

In the breath testing division, the Company is in constant contact with the FDA regarding its BreathID™ *H. Pylori* breath test kit submission. This submission is still under review by the FDA and, under FDA regulations the Company expects to receive an answer regarding this submission by the end of the year.

With the constantly evolving needs of the healthcare community and ways in which medical care is provided, Oridion remains focused on identifying and offering care providers the best solutions for their needs. This is made possible by the relentless efforts of Oridion's employees – who I thank for their hard work. We thank you, our valued shareholders, for your support and look forward to sharing our future successes together.

Best Regards,

George Yariv,
President and CEO
Needham, MA, 11 November 2002

Consolidated Income Statements

in USD 000's (except for share data)	Three months ended Sept 30 2001	Three months ended Sept 30 2002	Nine months ended Sept 30 2001	Nine months ended Sept 30 2002
Revenues from sales	2,554	3,548	6,696	9,365
Gross profit	1,138	1,572	2,818	4,053
Percent of Revenues	44.6%	44.3%	42.1%	43.3%
Operating Expenses	3,859	3,899	12,366	11,291
Operating loss (EBIT)	(2,721)	(2,327)	(9,548)	(7,238)
Financial income net	230	63	1,038	234
Net Loss	(2,530)	(2,192)	(8,660)	(6,932)
EBITDA	(2,459)	(2,026)	(8,826)	(6,328)
Basic loss per share (in actual numbers)	(0.24)	(0.21)	(0.84)	(0.66)

Consolidated Balance Sheet

	Dec 31, 2001	Sept 30, 2002
Assets		
Current Assets	25,777	18,683
Property & Equipment, net	5,015	5,194
Total Assets	30,792	23,877
Liabilities & Shareholders Equity		
Current Liabilities	3,917	3,958
Long Term Liabilities	821	727
Shareholder Equity	26,054	19,192
Total Liabilities & Shareholders Equity	30,792	23,877

Consolidated Cash Flow Statements

	Nine Months ended Sept 30 2001	Nine Months ended Sept 30 2002
Cash flow		
Cash flow from Operating activity	(11,070)	(5,228)
Cash flow from Investing activity	14,336	9,152
Cash flow from Finance activity	1,126	4
Increase net	4,392	3,928