

Enabling technologies for improved medical care



Oridion Systems Ltd.
Letter to Shareholders
November 2000



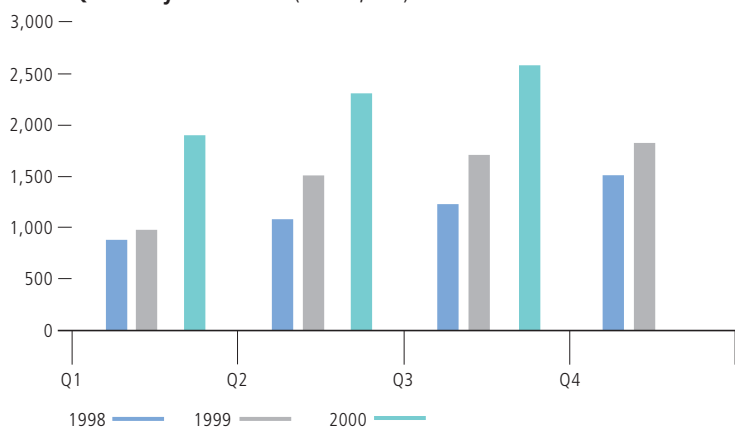
Dear Shareholder,

I am pleased to submit to you the quarterly report for the period ending September 30, 2000. This quarter was witness to many positive developments and achievements.

Strong Financial Results in Q3, 2000

The Capnography Business Unit has continued to increase the installed base of its products. This is due in part to our partners' marketing efforts, and to the efforts of Oridion's team of Clinical Education Consultants to increase the absorption rate of our Capnography products. This resulted in a growth of over 56% in revenues.

Quarterly Revenues (USD 1,000)



Third quarter revenues increased to USD 2,540,000 compared to USD 1,627,000 for the third quarter of 1999. This brings total revenues for the first nine months of 2000 to USD 6,627,000, compared to USD 4,131,000 for the first nine months of 1999, with the sales of single patient consumables representing 15% of total revenues compared to 11% for the first nine months of 1999. These revenues represent the increased acceptance of Microstream® Capnography by the medical community.

Gross margin percentage increased to 43% compared to 25% for the third quarter of 1999. This result represents an increase in the use of the Company's single patient consumables and the low overhead costs maintained in our production process.

Research and development expenses increased to USD 731,000 compared to USD 590,000 for the third quarter of 1999. These expenses include the continuous development of our Capnography FilterLine® family of consumable products, aimed at enabling Capnography monitoring for all patients in all environments. These expenses also include the final stages of development of our new diagnostic product – the BreathID™ system. Using a ¹³C urea breath test, this system detects the presence of the *Helicobacter pylori* microbe, the

main cause of gastric ulcers and a primary risk factor in gastric cancer disease.

Marketing expenses increased to USD 1,454,000 compared to USD 786,000 for the third quarter of 1999. This increase reflects the expansion of business activities in both our business units. In the *Capnography Business Unit*, increased expenses include the expansion of Oridion's US Clinical Education Consultants team who focus on increasing awareness of the importance of CO₂ monitoring. The team demonstrates how Oridion's enabling technologies allow the use of Capnography beyond its traditional settings to "all patients in all environments". In the *Breath Testing Business Unit*, increased expenses include the preparation for the submission of the regulatory approval application for the BreathID™.

General and administration expenses increased to USD 590,000 compared with USD 376,000 in the third quarter of 1999, mainly due to expenses inherent in the conversion to a publicly traded company.

Non-cash compensation expenses resulting from employee stock options decreased to USD 118,000 compared with USD 240,000 in the third quarter of 1999.

The net loss decreased to USD 1,089 compared to USD 1,769,000 before extraordinary expenses in the third quarter of 1999.

Achievements in Q3, 2000

In the *Capnography Business Unit*, a new agreement was signed this quarter (and finalized beginning of October 2000) with Agilent Technologies, a world leader in patient monitoring and an HP subsidiary. Under this agreement, Oridion will offer the VitalCap™ – a new product that will enable customers of Agilent's CMS and V24/V26 patient safety monitoring systems to use Oridion's stand-alone Capnographs with their systems. These systems currently have an installed base of approximately 170,000 units worldwide, but until the VitalCap™, have not been able to benefit from the advantages offered by Microstream® technology. The VitalCap™ is expected to complete development by the end of the year 2000 and be launched in Q1 2001.

To help facilitate the direct marketing of the VitalCap™, further support the sales of our marketing partners and strengthen the Company's relationship with its end users, Oridion announced the appointment of Ms. Patricia A. Hennessey as Vice President of US Field Operations for the Capnography Business Unit. Ms. Hennessey brings to Oridion over 20 years of diverse experience and expertise in the healthcare industry after serving in various sales and marketing positions with world

leading medical device companies. Ms. Hennessey will be based in Boston, USA.

In the *Breath Testing Business Unit*, the results of US clinical trials for the BreathID™ system, concluded in Q2 2000, were recently reviewed by independent regulatory consultants who have validated the extreme accuracy of the results.

Following this successful validation, Oridion is currently in the final stages of preparing the application for regulatory approval of this product and plans on submitting this application by the end of Q4 2000 as per schedule.

- Revenue growth over 56%
- Gross margin increases from 25% to 43%
- New agreement signed with Agilent Technologies
- US sales activities and field operations expanded

To help develop and focus Oridion's US marketing activities for the BreathID™ system, Oridion established a new Breath Testing Company, located in New Jersey, USA, and announced the appointment of Mr. Terry Brady as Vice President of Sales and Marketing. Mr. Brady has over 25 years experience in the medical device industry. He has worked in various sales and marketing positions and has served as the CEO for two diagnostic medical device companies.

In both our business units we have continued to promote our enabling technologies and the benefits and advantages they offer. Following our strategy of branding the Company's medical technologies, Oridion was granted two new trademarks this quarter in the United States for two of the Company's core technologies; Microstream® and FilterLine®.

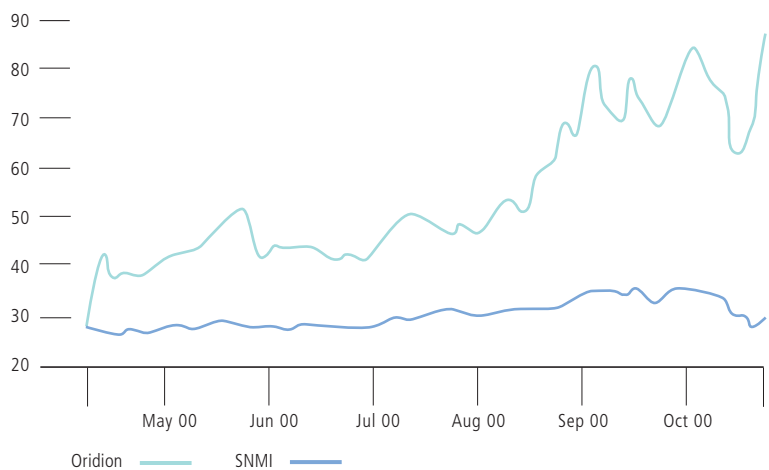
Outlook

With the conclusion of our first full quarter as a publicly traded Company, we are happy to have witnessed a continued growth in the Company's revenues and fields of activities. We expect to see continued growth in the Capnography Business Unit as a result of planned launches of new products and the strengthening of management in the US & Europe. We also expect to see the continued expansion of activities in the Breath Testing Business Unit, in preparation of the planned launch of the BreathID™ system in the year 2001 pending final regulatory approval. In light of the generally positive trend in the trading of our shares on the SWX New Market, we remain

thankful to our high quality and multinational base of shareholders.

As we continue to enhance our position as technological leaders, our goals remain clear: becoming the market leader in both of our business units and achieving long-term growth and positive returns for our shareholders. We look forward to realizing these objectives and reporting to you on many more positive future developments.

Share Price Performance (CHF)



Best regards,

George Yariv,
President and CEO

Jerusalem, November 2000

Consolidated Income Statements

in USD 1,000	Three months ended Sep. 30, 1999	Three months ended Sep. 30, 2000	Nine months ended Sep. 30, 1999	Nine months ended Sep. 30, 2000
Revenues from sales	1,627	2,540	4,131	6,627
Growth		56%		60%
Gross profit	413	1,102	1,150	2,744
Percent of revenues	25%	43%	28%	41%
Operating expenses	1,755	2,775	5,420	7,735
Operating loss (EBIT)	(1,342)	(1,673)	(4,270)	(4,991)
Compensation Expenses	240	118	987	611
Financial income (expenses), net	(187)	702	(384)	519
Extraordinary expenses	(2,186)	–	(2,186)	–
Net loss	(3,955)	(1,089)	(7,827)	(5,083)
EBITDA	(3,352)	(1,532)	(6,087)	(4,361)
Basic loss per share (in USD)	(0.90)	(0.11)	(1.78)	(0.62)

Consolidated Balance Sheet

Assets

Current Assets	6,947	39,041
Fixed Assets	2,188	2,959
Total Assets	9,135	42,000

Liabilities & Shareholders Equity

Current liabilities	6,064	3,754
Long-term liabilities	7,960	724
Shareholder equity (deficiency)	(4,889)	37,522
Total Liabilities & Shareholders Equity	9,135	42,000

Consolidated Cash Flow Statements

Cash flow from operating activity	(1,693)	(2,562)	(3,973)	(6,721)
Cash flow from investing activity	(72)	(5,609)	(296)	(21,401)*
Cash flow from finance activity	5,057	(612)	7,140	39,509
Increase (decrease), net	3,292	(8,783)	2,871	11,387

*Includes USD 20,000,000 long-term deposits.

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