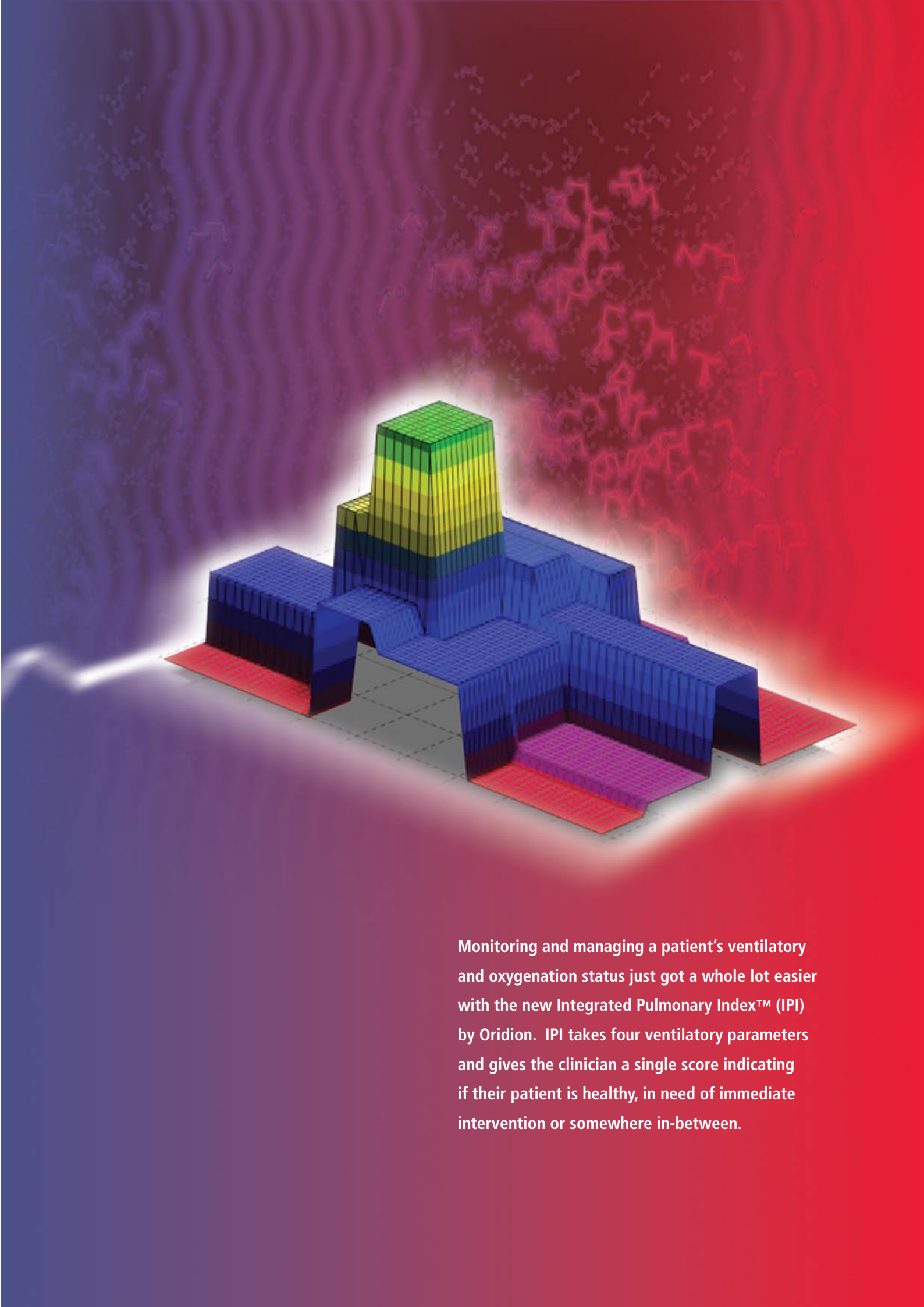
Oridion Systems Ltd.
Annual Report 2008

This year, take a closer look at
innovation...
take a closer look at Oridion.

Oridion®

Smart Solutions One Breath at a Time™



Monitoring and managing a patient's ventilatory and oxygenation status just got a whole lot easier with the new Integrated Pulmonary Index™ (IPI) by Oridion. IPI takes four ventilatory parameters and gives the clinician a single score indicating if their patient is healthy, in need of immediate intervention or somewhere in-between.

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CEO Letter to Shareholders

2008: Strong Performance and Major Investments for the Future

Dear Oridion Shareholders,

We are very pleased to report that 2008 was another year of record performance and important achievements at Oridion, with sales growth above 25% to $ 47.1 million and operating income growth of 15% to $ 5.7 million. These results met the performance guidance we provided earlier in the year.

Oridion management viewed 2008 as a year to invest more actively in R&D, sales and marketing after the relative lull in 2007. In fiscal year 2007, due to the unforeseen Physio-Control situation (see below) and the resulting need to contain costs, the Company delayed several planned initiatives in sales, marketing and R&D. Owing to the expectation of strong revenue growth this year, many of these delayed initiatives were undertaken during 2008.

These initiatives have substantially increased our product pipeline in hardware, consumables and in our most recent strategic thrust, Smart Capnography™, and have also substantially strengthened our sales and marketing support programs. These investments in future growth reflect management's positive view of future market opportunities, both to further expand the market and to carve out an increasingly strong leadership position for Oridion.

Capnography – More Progress in Becoming the Ventilation Vital Sign™

Capnography, the Oridion core business, is essential for the measurement of adequacy of ventilation (breathing). Capnography is the non-invasive, continuous measurement of exhaled carbon dioxide (CO_2), which is a by-product of metabolism and a method to determine the effectiveness of the respiratory cycle. Ventilation is the act of bringing fresh air into the body and expelling waste air out of the body. The flow of CO_2 within this process is essential to life. No other measure is as effective as capnography to monitor this process and reduce the risk to patients of unrecognized, life-threatening respiratory distress, which is one of the leading causes of preventable deaths in hospitals and pre-hospital settings (i.e., ambulance services).

For this reason, capnography monitoring has been mandated throughout the developed world for all operating room procedures for over 20 years. It was, however, little known beyond the operating room (OR) until this decade because of accuracy, reliability and convenience obstacles of the prevailing capnography systems. Oridion breakthrough technologies have been able to overcome these problems and, as a consequence, awareness of the need for capnography monitoring is now expanding rapidly into clinical environments outside the OR.

The resulting acceleration in demand is being driven by two main factors. First, patient safety, including methods of reducing patient risk, remains one of the highest priorities for healthcare providers around the globe, and in U.S. hospitals alone, approximately 65,000 preventable deaths per year are respiratory related. Secondly, there is an increasing body of compelling clinical research supporting capnography's importance in improving patient safety in every patient situation in which drugs, disease, medical procedures or accidents compromise a patient's breathing, and this has resulted in a stream of new medical standards in recent years by relevant professional bodies advocating and mandating the use of capnography. Oridion has played the major role in the industry in driving this research.

In 2008, clinical and scientific research specific to Oridion Microstream® capnography continued to escalate. During the year, there were nine medical manuscripts published in medical journals and twenty-four abstracts presented worldwide at medical congresses. This is a huge output that becomes even more meaningful when considering that capnography is not a new field. The explanation for this phenomenon lies in Oridion and its many innovations in recent years, including our growing range of unique breath-sampling products targeted at non-intubated patients and applications, and our new Smart Capnography technologies. These are yielding major increases in clinical utility in a broad range of clinical situations and settings.

Procedural Sedation and Pain Management

Following a series of published safety alerts in 2004 and 2005 by patient-safety professional bodies, and the 2006 Institute of Medicine report citing 1.5 million annual medication errors, both the pain management and the procedural sedation patient settings have been targeted as areas where improved patient monitoring is essential. Research findings are convincingly indicating that capnography is a major part of the solution.

In a meta-study[1] published in early 2008, it was determined that "during analgesia and anesthesia, cases of respiratory depression were 28 times as likely to be detected if they were monitored by capnography as those that were not monitored". Furthermore, the current most common form of monitoring in such situations, pulse oximetry (tissue oxygenation), has been found inadequate. For example, in a large study published in June, 2008, postoperative patients receiving patient-controlled analgesia were monitored with capnography and pulse oximetry. In each respiratory depression event that occurred during the study,"…capnography, but not pulse oximetry, alerted the nurse to impending respiratory depression", and the conclusion was that "capnographic monitoring…improved postoperative outcomes in

1. *Waugh J., Khodneva, Y., Epps, C. Monitoring to Improve Ventilation Safety During Sedation and Analgesia. Supplement to Anesthesia & Analgesia. April 2008; 106:(4S), S-1 – S-39*

situations that could have otherwise been fatal. Use of capnography improved clinician confidence that opioid dosing could be safely continued in postoperative patients for more effective pain management."

With regard to procedural sedation, a study conducted in Israel and presented in the United States, concluded that CO_2 monitoring contributed significantly to the prediction of adverse events from sedation during endoscopy.[2] As a result of findings like this, in 2008 the American Society for Gastrointestinal Endoscopy modified its practice guidelines, stating, "Integrating capnography into monitoring may improve patient safety."[3] This is a significant development when looking at malpractice claims outside the operating room. Half of all claims were in the GI suite; 78% of these, were associated with respiratory events and half were deemed preventable with better monitoring, including capnography.[4]

These developments are not confined to the U.S. For example, Dutch sedation guidelines are being modified this year such that in all hospital-based and office/clinic-based moderate and deep sedations, capnography will be mandated when the sedation is being administered by a non-anesthesiologist.

EMS

Currently, the penetration of capnography monitoring in the EMS sector (pre-hospital emergency services) is also increasing rapidly, driven by the growing number of states in the U.S. and the growing number of ambulance services in both the U.S. (e.g., New York City) and in Europe (e.g., the London Ambulance service—the largest in the world—and all ambulance services in the Netherlands) that are mandating or widely adopting the use of capnography monitoring for all assisted-breathing procedures. As we reported previously, this development largely emanates from a landmark study in Florida[5], whereby of all ambulance patients having endotracheal intubation procedures (a tube placed into the lungs to support ventilation), 23% arrived at the hospital with tubes misplaced or dislodged, often with dire consequences. In contrast, for those patients monitored by capnography, the result was zero tube misplacement.

Just recently, the Task Force from the Scandinavian Society for Anaesthesiology and Intensive Care Medicine recommended new pre-hospital airway

2. *Shaoul R, Yarchi D, Cohen A, Umansky T. Assessment Of End Tidal CO_2 During Pediatric and Adult Sedation for Endoscopic Procedures. Respiratory Care. November 2008; 53:(11).*
3. *ASGE guidelines: Modifications in Endoscopic Practice for Pediatric Patients. Gastrointestinal Endoscopy. 2008; 67:(1).*
4. *Robbertze R., et al. Closed Claims review of Anesthesia for Procedures Outside the Operating Room. Current Opinion in Anaesthesiolgy. August 2006; 19:(4)36-442.*
5. *Sylvestri S, Ralls G, Krauss B, et al. The Effectiveness of Out-of-Hospital Use of Continuous End-Tidal Carbon Dioxide Monitoring on the Rate of Unrecognized Misplaced Intubation Within a Regional Emergency Medical Services System; Annals of Emergency Medicine. May 2005; 45:(5)497-503.*
6. *Berlac P, Hyldmo PK, Kongstad P, Kurola J. et al. Pre-hospital Airway Management: Guidelines from a Task Force from the Scandinavian Society for Anaesthesiology and Intensive Care Medicine. Acta Anaesthesiologica Scandinavica Feb 2008; 52: 897–907.*

"…The Task Force recommends that the use of capnography should be mandatory in connection with pre-hospital advanced airway management."

management guidelines: "Capnography…fulfills the criterium of providing the same level of care in the pre-hospital setting as in hospitals. Verification of correct endotracheal tube placement is only one of several benefits provided by capnography. The Task Force recommends that the use of capnography should be mandatory in connection with pre-hospital advanced airway management."[6]

Critical Care

The critical care environments in hospitals were the earliest to use capnography outside of the operating room. Yet the penetration level is far from saturation and new findings and developments continue to spur growth. One of the major recent trends in critical care is the use of non-invasive ventilation (e.g., CPAP and BIPAP) for assisted breathing rather than endotracheal tube ventilation. Research conducted in 2008 at the Brigham and Women's Hospital in Boston, MA, demonstrated that non-invasive ventilation on ICU patients receiving supplemental oxygen, with all standard oxygen appliances, could be accurately monitored when combining Oridion Microstream detection technology and Smart CapnoLine® Plus CO_2 sampling lines. Oridion has the only capnography solution to achieve this. This means that more effective monitoring and weaning of such patients can now be done.

Findings like these, and the new standards that have followed, are resulting in the acceleration in the demand for capnography. It is the Oridion mission to further advance the acceptance of capnography as the universally recognized "ventilation vital sign" in making patient assessments and improving patient safety in the hospital and pre-hospital arenas.

Oridion Leadership Position Strengthens Further

Oridion is now benefiting from the years of dedicated effort and investment as the missionaries for capnography in patient settings other than the operating room. Moreover, we are proud that our breakthrough, proprietary Microstream® technologies, which are supported by a growing portfolio of intellectual property, have played, and continue to play, a crucial role in overcoming the historical accuracy, reliability and convenience barriers that prevented capnography from being routinely used in the various clinical environments outside of the operating room.

Strengthened Channels

As a consequence, Oridion has emerged as the global leader in ventilation monitoring and our Microstream® product line has become the capnography monitoring solution of choice for most of the world's leading patient monitoring and medical device companies. These companies are our OEM partners and, as a group, they represent one of our two main channels to the market. They include Philips Medical Systems, Physio-Control (a wholly owned subsidiary of Medtronic Inc), Covidien-Nellcor, Mindray-Datascope, Cardinal Health, and many others.

In the past year, Oridion signed agreements with new market-leading OEM partners. In August, we announced an agreement with Spacelabs Healthcare, a leading global medical device and service company, who will initially employ Oridion Microstream® capnography technology in its new compact patient monitoring system. And at the very beginning of 2009, we announced a strategically important agreement with a global healthcare company that is the market leader in medication infusion systems. Under this agreement, the Oridion Capnostream™ carbon dioxide (CO2) monitor will be incorporated into a PCA infusion system that allows hospital patients to safely control the flow of their pain medication.

In all, entering 2009, we have over 30 OEM partnerships, and have broadened our product coverage by having over 100 Microstream-enabled products on the market.

In addition, in October 2008 we announced a three-year purchase agreement with the Kaiser Foundation Health Plan, Inc., America's largest non-profit health care provider and the largest non-military medical customer in the world. With this agreement, Oridion becomes Kaiser's sole supplier for Oridion consumable products, thus providing savings for the entire Kaiser system of hospitals and outpatient facilities. The Kaiser network includes more than 30 hospitals and some 400 other health care facilities. The use of our technologies by Kaiser, a recognized leader in healthcare innovation and best practices, is another strong validation for the clinical value of our solutions.

Our other main channel to the market is the Oridion Distribution Network ("ODN"), the group of specialty, consumables-oriented independent distributors that we enlisted in recent years to increase the penetration and usage of Oridion breath-sampling consumable products. In 2008, we were again gratified by the performance of the ODN. Aided by the increasing effectiveness of the ODN, Oridion consumables grew by a robust 41% for the year. The consumables growth rate through the ODN channel was significantly higher than that and the ODN, as a group, now represents almost half of our consumables sales.

Improved Support

In 2008, we launched the Oridion Knowledge Center™ (OKC), which provides web-based clinical and sales education programs in support of our channel partners and customers. The OKC is the latest in a long series of support initiatives that have for years earned Oridion top grades in the industry.

Accordingly, we were very gratified to receive this past June the "2008 Manufacturers Partnership Award" from IMDA, the association of medical specialty sales and marketing companies in the U.S. The IMDA Manufacturers Partnership Award is given once a year to a selected manufacturer that offers exceptional clinical and sales support. IMDA also recognized Oridion's excellent marketing programs as well as our active contribution to each of its distributor's increased revenues.

Smart Capnography™

In 2008, we have also been very active and have invested heavily in new product development. Perhaps our most exciting new product program is what we call Smart Capnography. Our Smart Capnography products interpret raw monitoring data and convert it into information that is more helpful to clinicians and nurses in assessing patient status and making better informed clinical decisions, thereby improving patient outcomes and patient safety.

Our first Smart Capnography product was launched at the end of 2007, the FDA-approved SARA™ software (Smart Alarm Respiratory Analysis™), which safely reduces all alarms by 55%. The SARA algorithm

Aided by the increasing effectiveness of the ODN, Oridion consumables grew by a robust 41% for the year.

innovations screen out most nuisance (false positive) alarms while preserving alarms that reflect genuine patient distress. Responding to nuisance alarms is a long-standing and time-consuming patient monitoring problem for doctors and especially nurses. SARA represents a significant and unique advance in minimizing this problem regarding capnography.

We introduced the second in the series of Smart Capnography products, the Integrated Pulmonary Index™ (IPI), this past October at the 2008 Annual Congress of the American Society of Anesthesiologists. The IPI assesses the most useful information from four complicated monitored parameters—CO_2, O_2, Pulse Rate and Respiration Rate—and integrates the result into a single, user-friendly index, the IPI. The IPI provides patient caregivers, such as nurses, with a simple tool that enables them to more rapidly and accurately assess the status and trend of a patient's respiratory condition. The response to the IPI by leading clinicians and OEM partners has been extremely enthusiastic. Now that we have just received FDA approval, the IPI will be offered as a standard feature on the current generation of Oridion OEM modules and on the Oridion Capnostream™ monitor. We believe that the IPI has the potential to have a profound effect on the efficacy of respiratory monitoring.

Other Developments

Production of our capnography devices and consumables had, until 2008, been almost entirely outsourced to contract manufacturers in Israel. These manufacturers have multiple, redundant production facilities within Israel in order to deal with any emergency situations. Oridion maintains significant strategic stocks both in Israel and the U.S. and has, as standard procedure, a business continuity plan should there at any time be a disruption or an identified risk of a disruption to production. In 2008, after a period of successful pilot production runs, we started to source part of our consumables production from an experienced and highly regarded manufacturer in Shenzhen, China. While this is another important step in the implementation of our business continuity strategy, our main objective is to achieve reductions in product costs. We have been very satisfied with the high product quality and substantial cost reductions already achieved and, as a consequence, plan to supply a very significant proportion of our consumable needs from China in 2009.

As reported previously, Physio-Control, announced early in 2007 that it had voluntarily suspended shipments to the U.S. of all its manufactured products, which resulted in an immediate stop of their orders to Oridion of modules that are integrated into their defibrillators (consumables sales were unaffected). Towards the end of 2007, Physio-Control resumed a reduced level of ordering from Oridion, primarily as a consequence of the partial resumption of their shipments of defibrillators to the U.S. market. Physio-Control had indicated that it hoped to fully resume shipments during 2008 but, at the time of this publication, they have still not reached agreement with the FDA for the unrestricted resumption of shipments to all markets. Nevertheless, part of the growth rate Oridion achieved in 2008 was due to the significantly greater sales to Physio-Control last year relative to 2007.

Future Outlook: Oridion Well Positioned to Weather the Storm

The near-term outlook for Oridion, as with virtually all companies, is clouded by the global economic recession and the uncertainty regarding the depth of the ultimate decline and the timing of recovery. We take some comfort from the fact that demand in the healthcare industry in general, and in our area of the medical-device market in particular, is typically less impacted by economic downturns than other sectors. Notwithstanding that, there is now evidence that there has been a dampening of hospital and pre-hospital capital spending with a resulting softening in the demand for our OEM partners' products and systems. This is likely to have an effect on our hardware sales this year. There is also evidence of a reduction in hospital admissions and in elective procedures (typically requiring sedation), which is likely to have some impact on the level of near-term growth in our consumable sales.

For the most part, any such impact on demand should represent delayed, pent-up demand. How

much of an impact and how long it will take for any such pent-up demand to be released is currently unclear. Complicating the picture for Oridion is continued uncertainty as to when Physio-Control will be able to renew unrestricted shipments since this is significant for us regarding hardware sales. These factors have resulted in an unprecedented lack of transparency and make projections of Oridion's performance for 2009 very difficult at this time. Despite this, we are still planning for a year of revenue growth. In addition, we are planning for operating profits at least in line with that of 2008. Regarding specific guidance for 2009, however, we will wait until that time further in the year when we have a much clearer picture than we have now.

Beyond 2009, we continue to be very confident. Oridion's strong growth record has not been based on the growth of the patient monitoring, defibrillator or medication-delivery markets that our partners operate in, as these are all mature markets. Our growth has been based on the penetration of capnography into these markets which, despite our rapid growth, remains for the most part highly under-penetrated.

Moreover, the growth drivers in the capnography market are, if anything, getting stronger. A major reason is the rapidly increasing body of compelling clinical evidence referred to earlier that is demonstrating the significant impact of capnography on patient safety. These findings, and the standards of care they result in, are making consumables the major engine of revenue growth for Oridion. As a consequence, we are continuing to achieve one of our key strategic goals, i.e., the increase of consumables sales (which represent recurring revenues and higher margins) as a proportion of total revenues. In 2008, we reached over 40% for the first time (compared with approximately 10% earlier in the decade), and our aim in the near to medium term is to surpass 50%. We expect 2009 will be another banner year for new independent clinical studies and published findings, and we will continue to actively foster and support such research in the future.

Longer-term forces are also at work driving growth. Aging populations in most developed countries, increasingly severe global pollution and the epidemic-like development of obesity in the U.S. and elsewhere are major factors in causing breathing-related illnesses to be one of the major, growing long-term healthcare problems. These developments, combined with a heightened awareness in the healthcare community of the presence of major patient safety issues that require action, and the emerging critical shortages of anesthesiologists and qualified nurses, are making the need for capnography monitoring solutions greater than ever—a need that we believe will only increase for the foreseeable future.

Oridion, as the clear global market leader, should be the major beneficiary of these positive market drivers. We are continually striving to fortify and sustain that leadership position.

As the technology leader in capnography solutions, we are continuing to innovate and bring new technologies and products to market that further improve patient safety. Our new Smart Capnography™ program is a prime example of this and, in the fourth quarter of 2009, we plan to launch the next Smart Capnography product. In addition, we have an exciting pipeline of new modules, monitors and consumables that we will be launching in 2009 and the coming years.

During 2009, we also plan to further strengthen our channels. We expect to establish several new OEM partnerships, at least one of which will be an important strategic relationship. Moreover, the new OEM partnerships established since 2007 will begin to have a substantial impact on hardware revenues starting in 2010. In parallel, we plan to further strengthen the coverage and abilities of the ODN network in order to ensure the ongoing success of our consumables business. To achieve this, we will continue to provide our partners and customers with the highest level of clinical education materials and programs available in the market, such as the Oridion Knowledge Center™ launched in 2008.

For all of these reasons, we believe our strategic position to be stronger than ever and we expect to achieve strong, sustained revenue growth in the years ahead. With regard to our future profitability, we are also looking to the future with confidence. We believe that the new capacity levels that we reached in 2008 in our operations – i.e., in research & development and sales & marketing will enable us to achieve operating cost leverage as we grow revenues in the coming years (naturally, the external environment is also imposing a very conservative approach to our future operating cost planning and management). Combined with the potential for improving gross margins as a result of expected positive developments in our product mix, we believe there are encouraging prospects for improved future profitability.

* * *

We continue to thank our shareholders and partners for their ongoing support and belief in Oridion. We are, of course, distressed that during the past year the Oridion share price has suffered a sharp decline along with the general devastation occurring across the board to market valuations. It is small comfort that the price drop seems totally unrelated to Oridion performance and outlook. Nevertheless, we will focus on what we can control, and that is to continue to build an ever more successful company and thereby eventually reward your support with increased shareholder value.

We again thank our dedicated team of employees, who diligently strive to provide medical technologies and products of unparalleled capabilities and quality, and which make substantive improvements to patient safety.

We at Oridion look forward to continuing to make an important contribution to improving the standard of healthcare worldwide and to helping save more and more lives.

Sincerely,

Alan Adler
Chairman of the Board and CEO
March 2, 2009

Innovations in CO_2 Monitoring:

A closer look at the contributions of Dominic Corsale

There are many people who have contributed in a significant way to the development of ventilation monitoring. Interestingly, respiratory gas analysis, originally performed in the operating room with mass spectrometers, provided the springboard for the development of CO_2 monitoring and capnography as we know it today. As you will see, every development and innovation was driven by a desire to improve patient care. A key figure in this story is Dominic Corsale, Senior Vice President of Business Development at Oridion Medical.

1970s: The start of gas monitoring in the Operating Room (OR)

In the 1970s, mass spectrometers were used mostly in research to study physical, chemical, or biological properties of a great variety of compounds. Many anesthesiologists also recognized the potential of these very expensive units to be used in hospital operating rooms for respiratory gas analysis. Some doctors even rigged up a complicated system of drawing gas samples to a single mass spectrometer. These units were very expensive and could only be used in one operating room for a single patient.

During this period Dominic Corsale, a recent electrical engineering graduate, was selling mass spectrometers. From his many hospital visits and talks with different anesthesiologists, Dominic recognized a need for a better solution for monitoring patients' ventilation to ensure their safety in the OR. One evening, he sketched out an idea on a napkin— one mass spectrometer monitoring 10 Operating Room units— it was the beginning of the multiplex mass spectrometer. With the development of Dominic's first SARA, (the System for Anesthetic and Respiratory analysis) gas monitoring in the OR became feasible.

1980/90s: CO_2 becomes a standard of care in the OR

Soon after the availability of a reasonably priced multiplex mass spectrometer system, the first multi-gas infra-red monitoring system became commercially available for individual operating rooms. CO_2 monitoring quickly became a standard of care in the OR and became a mandated practice for all intubated patients. CO_2 monitoring moved out of the OR and into the Critical Care areas of the hospital.

The Society of Critical Care then recommended the use of CO_2 monitoring in the ICU.

Dominic Corsale moved on to found his own company, Marquette Gas Analysis, and took gas monitoring to a new level. Multiplex mass spectrometry moved from a shared system to stand-alone monitoring. Dominic's group at Marquette miniaturized both mass spectrometers and stand-alone systems and developed two new products:

- Smart Anesthesia Module (SAM)
- Random Access Mass Spectrometer (RAMS)

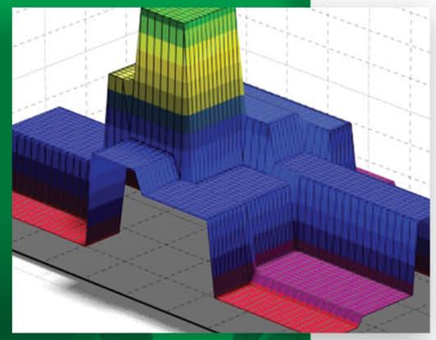
Coinciding with these developments in 1988, Dominic and George Yariv (founder of Oridion) met for the first time. George Yariv tried to interest Marquette in the Oridion mainstream CO_2 solution for intubated patients. Pursuant to their conversation, George used his resources and expertise to develop sidestream CO_2 monitoring for intubated and non-intubated patients, thus setting the stage for a solution that would bring CO_2 monitoring to all hospital and pre-hospital environments.

2000: Microstream® CO_2 monitoring for all patients, all clinical environments

At the annual meeting of the American Society of Anesthesiologists (ASA) in 2000, Dominic met George again and was convinced to join Oridion. Today, more than seven years later, Dominic continues to expand the markets for Microstream® technology to most of the leading manufacturers of patient monitoring systems. Currently, Microstream® capnography is found in more than 100 patient monitors worldwide. Dominic and his team continue to drive CO_2 monitoring mandates through national organizations (American Patient Safety Foundation), and to support the development of new Smart CO_2 technologies.

Over a span of 30 years Dominic Corsale has influenced changes in medicine:

- Mandates CO_2 in the OR
- CO_2 moves from the OR to Critical Care in the mid-90s with infra-red monitoring
- CO_2 moves to all areas in the hospital – reliable sidestream technology developed by Oridion as well as patient interfaces for intubated and non-intubated patients
- Smart Capnography – Smart Capnography is a family of innovative algorithms developed by Oridion that simplify the use of CO_2 monitoring on Microstream® enabled products to improve patient safety and clinical workflow.

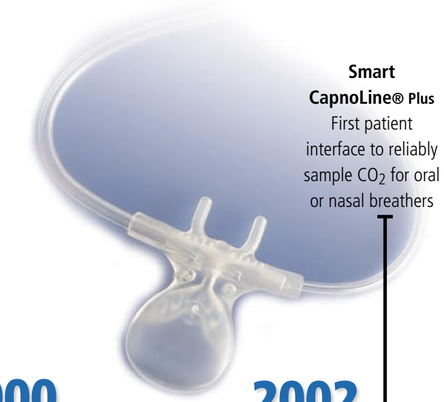


Timeline of Oridion Capnography Products

Oridion is a pioneer in providing the healthcare community worldwide with innovative respiratory patient monitoring solutions. Since its inception in 1987, Oridion has been dedicated to delivering the most advanced capnography solutions, based on its cutting edge Microstream® technology. The following timeline captures our company's solutions, as they evolved over time.

The Handhelds
NPB70, NPB75, Microcap®, Microcap Plus. Microstream now available as a small compact handheld monitor

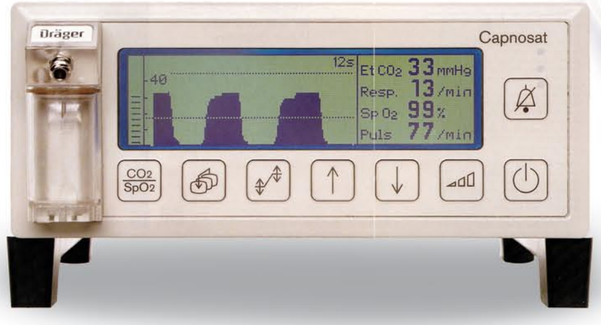
MediCO$_2$®
Small and rugged; Microstream capnography for host systems



Smart CapnoLine® Plus
First patient interface to reliably sample CO_2 for oral or nasal breathers

1992

Capnosat
An early stand-alone CO_2 monitor made for Dräger Medical



1997

1999

2000

FilterLine®
New CO_2 sampling lines for Microtream® enabled monitors

2002

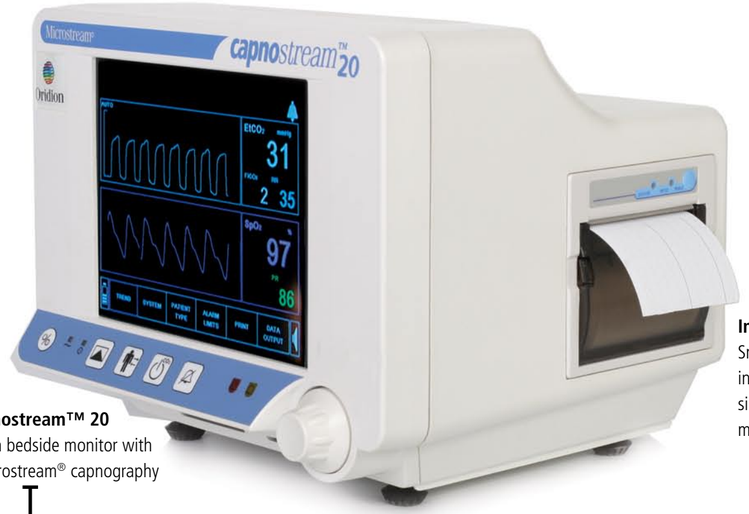
Omnistream™
Oridion sampling technology now available for most sidestream monitors

miniMediCO$_2$™
Now more rugged and smaller making available the best CO_2 monitoring to the smallest host system

2004

2005

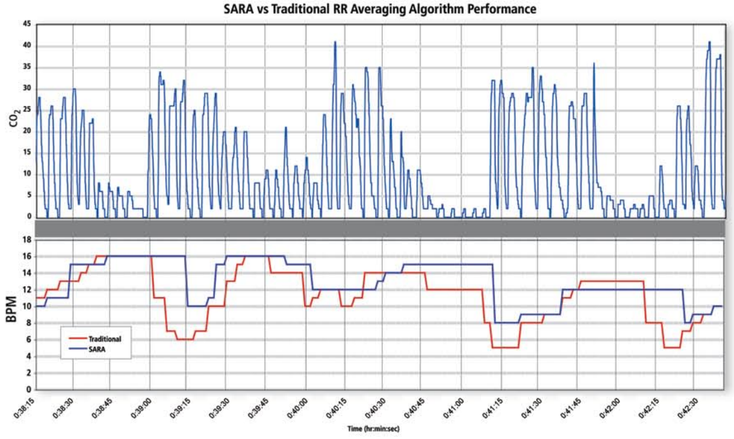
Smart CapnoBloc™
First system enabling CO_2 monitoring and O_2 delivery during upper endoscopy



Capnostream™ 20
First Oridion bedside monitor with superior Microstream® capnography

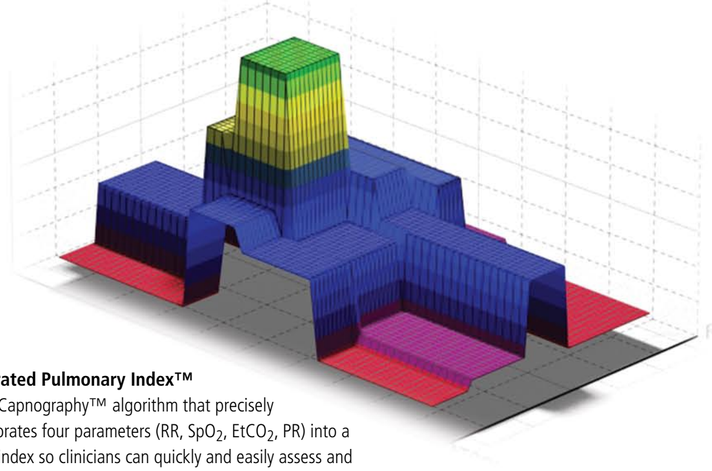
2006

Smart Breath Detection (Software)
Smart BDA rejects shallow CO_2 excursions that are counted by the traditional breath detection algorithm and only captures actual end of breath excursions.



2007

SARA™
Smart Alarm for Respiratory Analysis is an algorithm that recognizes and reduces clinically insignificant false alarms



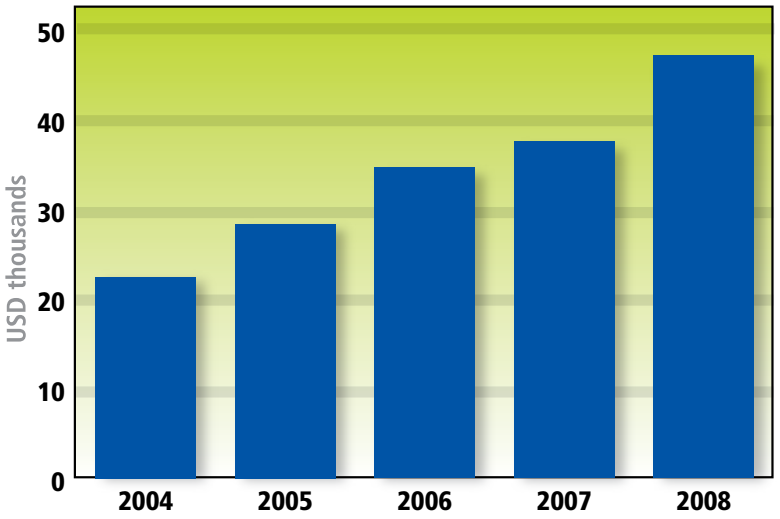
Integrated Pulmonary Index™
Smart Capnography™ algorithm that precisely incorporates four parameters (RR, SpO_2, $EtCO_2$, PR) into a single index so clinicians can quickly and easily assess and monitor a patient's ventilatory status

2008

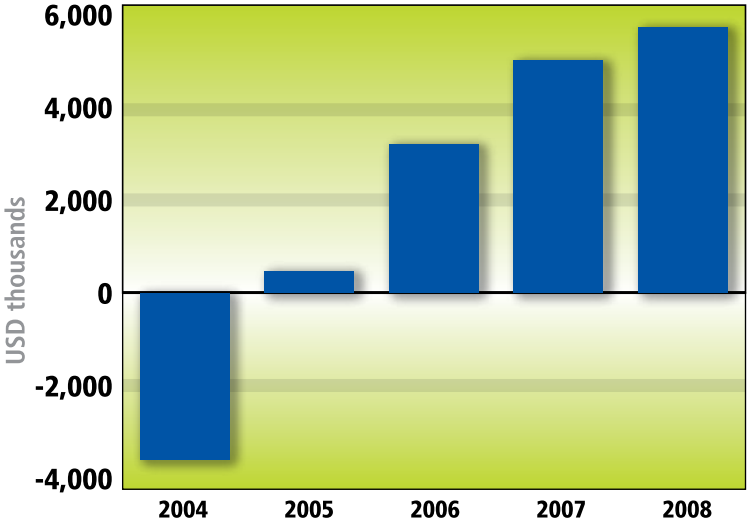
Surestream™ Product Line
Most recent addition to the Oridion family of CO_2 sampling lines specfically for Welch Allyn

Financial Highlights

Consolidated Sales

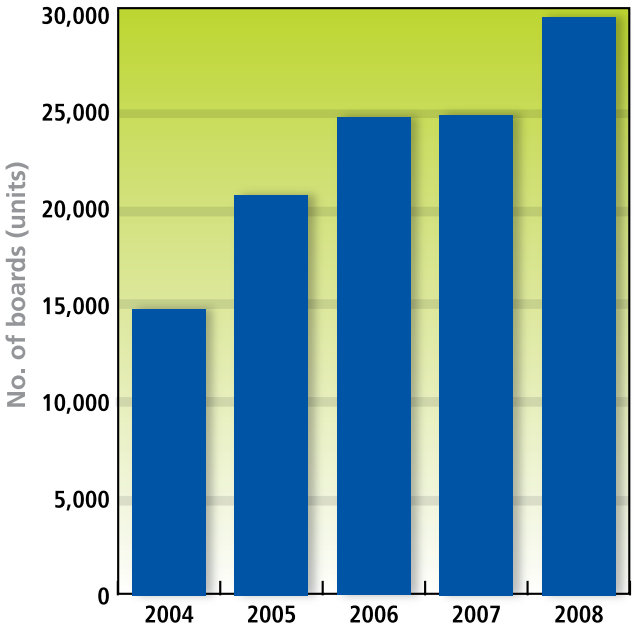


Consolidated Operating Income

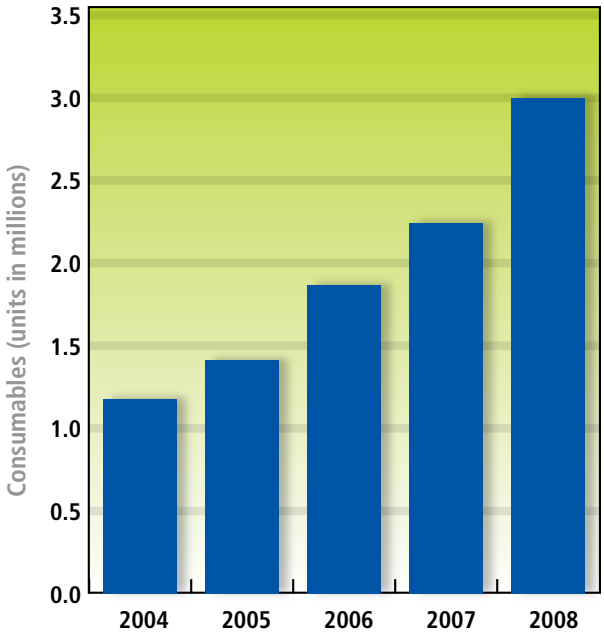


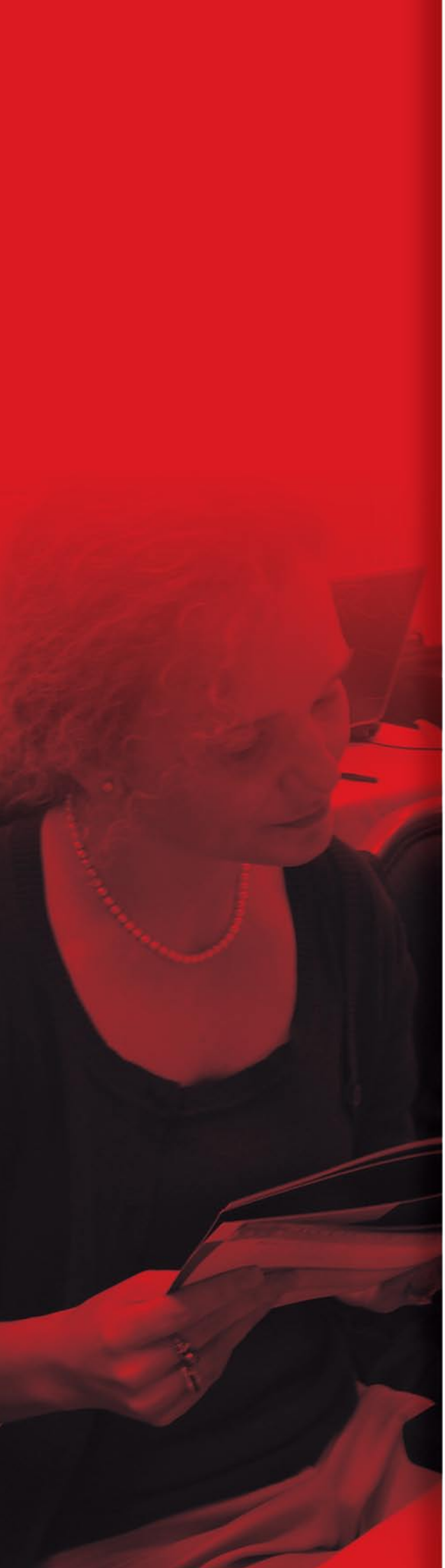
Year ended December 31, USD in thousands (except per share data)	2008	2007	2006	2005	2004
Revenues	**47,131**	**37,554**	**34,637**	**28,079**	**22,279**
Revenue Growth	*25%*	*8%*	*23%*	*26%*	*23%*
Gross Profit	**26,212**	**20,424**	**18,382**	**14,197**	**11,103**
Operating Income (Loss)	**5,739**	**5,008**	**3,821**	**1,909**	**301**
Operating Margin	*12.1%*	*13.3%*	*11.0%*	*6.8%*	*1.4%*
Net Income (Loss) – Continuing operations	**3,771**	**9,899**	**3,696**	**1,748**	**230**
Consolidated Net Income (Loss)	**3,771**	**9,899**	**3,194**	**125**	**(3,903)**
Diluted Earnings (Loss) Per Share	**0.28**	**0.73**	**0.25**	**0.01**	**(0.36)**
Diluted Shares Outstanding (in thousands)	**13,340**	**13,471**	**12,789**	**12,475**	**10,713**
Working Capital	**14,297**	**18,714**	**10,417**	**5,766**	**7,818**
Total Assets	**40,115**	**36,930**	**22,187**	**19,207**	**18,487**
Shareholders' Equity	**28,626**	**28,195**	**12,574**	**8,067**	**7,655**

Capnography Boards



Consumables





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 the 2008 Annual Report. The 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 contained in this document as a result of certain factors as well as those included in the Annual Report.

Executive Summary

The Company reported record financial results in fiscal year 2008. The year was marked by the Company's achievement of a substantial increase in revenues compared to fiscal year 2007 and its continued successful leadership in the global Capnography marketplace. We are committed to ongoing investment in research and development and new products. During fiscal 2008 we announced our latest effort within Smart Capnography™ and were encouraged by the initial market response to our Integrated Pulmonary Index™ (IPI). We also launched a number of new consumables. These new offerings will enable us to capitalize on continuing developments in patient needs and safety whilst also positioning us for future growth.

Listed below are some of the individual measures of the Company's performance in 2008 and other significant highlights:

- The Company achieved a 25 percent revenue growth in fiscal year 2008 compared to fiscal year 2007, led by the significant growth in consumable products of 41 percent and equipment growth of 17 percent. The overall growth was achieved by an increased adoption rate of capnography into current OEM's platforms, the partial resumption of sales to Physio-Control, new OEM customers and increasing the coverage of the Oridion Distribution Network in the U.S. and Europe.
- The Company achieved an Operating income of $ 5.7 million in fiscal year 2008, compared to $ 5.0 million in fiscal year 2007, reflecting an operating margin of 12.2 percent compared to an operating margin of 13.3 percent for fiscal year 2007.
- In fiscal year 2008, the Company launched its second smart-algorithm solution based on Smart Capnography™. Smart Capnography combines Oridion's most advanced Microstream® technology with its new Integrated Pulmonary Index™ (IPI) software that integrates four different respiratory parameters into one index. IPI was launched at the annual American Society of Anesthesiologists conference, and was well received. It helps the clinician to improve patient outcomes, reduce clinical risk and cost, and extends the reach of ventilation monitoring for patient safety. IPI received FDA clearance in February 2009.

Results of Operations 2008

Year ended December 31 U.S. dollars in thousands (except share and per share data)	2008	2007	Percent increase (decrease)
Revenues	47,131	37,554	25.5%
Cost of Goods Sold	20,919	17,130	22.1%
Gross Profit	**26,212**	**20,424**	**28.3%**
Gross Margin %	*55.6%*	*54.4%*	
Research and Development	4,654	3,230	44.1%
Selling and Marketing	12,285	9,555	28.6%
General and Administrative	3,534	2,631	34.3%
Operating Expenses	20,473	15,416	32.8%
Operating Income	**5,739**	**5,008**	**14.6%**
Financial Income (expenses), net	(2,473)	591	NA
Income before Taxes	**3,266**	**5,599**	**(41.7)%**
Income Tax Benefits	505	4,300	NA
Net Income	**3,771**	**9,899**	**(61.9)%**
Operating Income	**5,739**	**5,008**	**14.6%**
Depreciation and Amortization	1,475	1,262	16.9%
EBITDA	**7,214**	**6,270**	**15.1%**
Basic earnings per share (in actual dollars)	0.30	0.81	
Weighted average number of shares used in computing basic net earnings per share	12,383,671	12,283,519	

Overview

Oridion Systems Ltd. and its subsidiaries ("Oridion") are medical technology companies based in Jerusalem, Israel and Needham, Massachusetts, U.S.A. Oridion employs its patented Microstream® technology in the development, manufacturing and marketing of the non-invasive measurement of carbon dioxide contained in the exhaled breath to determine the status of adequacy of respiration (Capnography).

Oridion designs, manufactures and markets proprietary medical ventilation monitoring devices and consumables (products) that are used to enable the measurement of exhaled CO_2 in patients, either as part of larger, multi-parameter patient safety monitoring systems, or as stand-alone, single parameter monitors. The performance of the equipment is further enhanced by Oridion's patented family of consumable FilterLine® products, which enable CO_2 monitoring of every patient, including non-intubated patients and premature newborns, in every clinical environment, including critical care, transport, procedural sedation, pain management and emergency medical services.

Oridion markets and distributes its monitoring devices primarily through long-term supplier agreements with OEM partners, typically medical equipment leaders in the patient monitoring market and other patient care segments, and its consumables through two main OEM Partners and through specialty consumable products distributors—the Oridion Distribution Network.

In the year ended December 31, 2008, approximately 65 percent of Oridion's revenues consisted of products sold to its four largest OEM customers. The slight increase compared to the previous year is a result of the consolidation of customers within the medical device industry. The equipment products are intended for integration into our OEM customers' medical monitors. These monitors are then shipped for sale worldwide. Demand for Oridion's capnography products has often been affected by seasonal trends in hospital purchases, with sales of Oridion's products generally peaking in November and December, while consistently being lower in the first quarter of the year.

Oridion's Consolidated Financial Statements have been prepared in U.S. Dollars in accordance with US GAAP. As the majority of Oridion's sales are made in U.S. Dollars, Oridion uses the U.S. Dollar as its functional and reporting currency.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenues. For the year ended December 31, 2008, revenues increased by 25 percent to $ 47.1 million compared to $ 37.6 million for the year ended December 31, 2007. The increase in sales is primarily a result of a 41 percent growth in consumables revenues, sold both through the OEM partners and through the Oridion Distributor Network (ODN), and a 17 percent growth in our equipment revenues including the partial resumption of sales to Physio-Control. For the year ended December 31, 2008, 65 percent of all revenues were derived from four of Oridion's customers compared to 61 percent in 2007. Although Oridion sells consumables through its OEMs, the end user is free to purchase their consumable products from any OEM vendor, from Oridion directly or from Oridion's Distribution Network, therefore Oridion believes that its dependence on key OEMs is being reduced as consumable sales increase. Oridion's sales to its four leading OEM customers excluding consumables sales, accounted for 28 percent of sales in 2008. For the year ended December 31, 2008, sales to customers in North America accounted for 67 percent compared to 58 percent in 2007, and sales to customers in Europe accounted for 24 percent compared to 31 percent in 2007. This, however, does not necessarily fully reflect the true geographic distribution of Oridion's products, since major OEM customers in the U.S. and Europe sell Oridion capnography products on to their other markets around the world.

Foreign exchange rates have become more volatile. The general weakening of the U.S. Dollar impacts Oridion in two ways. For sales denominated in Euros the impact is positive, approximately $ 0.6 million, however, for expenses denominated in New Israeli Shekels and Euros, it had a negative impact on our cost of goods sold and operating expenses of approximately $ 1.2 million. Although it is difficult to predict how foreign exchange rates will fluctuate prospectively, the recent volatility of the U.S. Dollar may have a greater impact on future results than it had historically.

Gross Profit. Increased to $ 26.2 million for the year ended December 31, 2008 from $ 20.4 million for the year ended December 31, 2007, an increase of $ 5.8 million or 28%. Gross margin increased to 55.6 percent for the year ended December 31, 2008, from 54.4 percent for the year ended December 31, 2007. The

increase in the gross margin resulted from a number of factors: increased purchasing efficiency through the Company's successful negotiations with suppliers and redesign of certain parts, efficiency improvements in production overhead costs and a strengthening of the Euro against the U.S. Dollar for the first eight months of 2008 compared to 2007, which had a net positive effect on gross margins.

Operating Expenses. Total operating expenses increased to $ 20.5 million for the year ended December 31, 2008 compared to $ 15.4 million for the same period last year, an increase of 33%. In fiscal year 2007, due to the unexpected Physio-Control situation, the Company delayed several planned initiatives in sales, marketing and R&D. Because of the expectation of strong revenue growth this year and the attractive future growth opportunities facing Oridion, many of these delayed initiatives have been released during 2008. The unusually high level of growth in operating expenses is a result both of these additional investments and the appreciation of the Israeli Shekel against the U.S. Dollar during the year compared to 2007. Excluding the effects of the Shekel appreciation, which was very significant, the growth in operating expenses would have been 25% relative to fiscal year 2007.

Research and Development Expenses. Research and development expenses, increased to $ 4.7 million for the year ended December 31, 2008, compared to $ 3.2 million for the year ended December 31, 2007. The Company consciously increased its investment in research and development in 2008 after suspending certain projects in 2007 following the announcement of Physio-Control regarding their voluntary stoppage of sales in conjunction with the FDA. Oridion continues to invest in the development of many new Capnography products, devices and consumables, in order to continue to strengthen the pipe-line of products for future growth. The Company launched a number of new products in 2008, including the second smart-algorithm solution of Smart Capnography™, Integrated Pulmonary Index™ (IPI). IPI helps the clinician to improve patient outcomes, reduce clinical risk and cost, and extends the reach of ventilation monitoring for patient safety. Research and development expenses represented 9.9 percent of revenues for the year ended December 31, 2008, compared to 8.6 percent for the year ended December 31, 2007.

Selling and Marketing Expenses. Selling and marketing expenses, for the year ended December 31, 2008, increased to $ 12.3 million compared to $ 9.6 million for the year ended December 31, 2007. The increase is mainly due to an expansion of the Company's support programs to the OEMs and the ODN. The ODN includes a number of specialty consumable distributors, both in the U.S. and Europe, who work in co-ordination with Oridion's Sales and Marketing department to educate, train and increase the usage of Microstream® capnography products in current and new medical environments, for example, the web-based Oridion Knowledge Center™ which provides ongoing educational programs for partners and customers regarding Oridion's clinical solutions.

Selling and marketing expenses represented 26.1 percent of revenues for the year ended December 31, 2008, compared to 25.4 percent for the year ended December 31, 2007.

General and Administrative Expenses. General and administrative expenses, for the year ended December 31, 2008, increased to $ 3.5 million compared to $ 2.6 million for the year ended December 31, 2007. General and administrative expenses represented 7.5 percent of revenues for the year ended December 31, 2008, compared to 7.0 percent for the year ended December 31, 2007.

Operating Income. Operating income amounted to $ 5.7 million for fiscal year 2008, reflecting an operating margin of 12.2 percent compared to operating income of $ 5.0 million and an operating margin of 13.3 percent for fiscal year 2007.

Financial Income (expenses), net. Financial expenses for the year ended December 31, 2008, were $ 2.5 million compared to financial income of $ 0.6 million for the year ended December 31, 2007. The primary reason for the expenses was caused by the significantly increased volatility in foreign exchange rates during 2008. Despite the Company having hedged against a weakening U.S. Dollar, the volatility of the currency resulted in large losses (mainly accounting losses) including fair value expenses of $ 1.0 million of currency hedging contracts. Finance expenses were offset by income derived from sales of marketable securities including holdings in Exalenz Bioscience Ltd.

Income Tax Benefits. Income tax benefits for the year ended December 31, 2008, amounted to $ 0.5 million compared to $ 4.3 million for the year ended December 31, 2007. In accordance with the interpretation of US GAAP policy, the tax benefit income is a result of the release of a deferred tax asset valuation allowance relating primarily to net operating loss carry-forwards. These carry-forward losses are

expected to be eliminated in future years, whereupon the Company's profits will be taxed. The tax asset was calculated, according to US GAAP rules, based on the general corporate statutory tax rate (Israel 25%; U.S. 34%), although during the years after the full utilization of the Company's tax losses, the Company will be taxed at tax rates applicable to its approved enterprise status, which are expected to be substantially lower than the general corporate statutory tax rates. The release of the valuation allowance has no cash flow impact on the Company.

Consolidated Net Income. The Company achieved a consolidated net income of $ 3.8 million for fiscal year 2008 compared to a consolidated net income of $ 9.9 million for 2007. The decrease in the consolidated net income is a result of a significantly smaller tax benefit compared to 2007 and the increased finance costs.

Basic Earnings per Share. Basic earnings per share amounted to $ 0.30 for fiscal year 2008 compared to $ 0.81 for fiscal year 2007.

Results of Operations 2007

Year ended December 31 U.S. dollars in thousands (except share and per share data)	2007	2006	Percent increase (decrease)
Revenues	37,554	34,637	8.4%
Cost of Goods Sold	17,130	16,255	5.4%
Gross Profit	**20,424**	**18,382**	**11.1%**
Gross Margin %	*54.4%*	*53.1%*	
Research and Development	3,230	2,734	18.1%
Selling and Marketing	9,555	9,220	3.6%
General and Administrative	2,631	2,607	0.9%
Operating Expenses	15,416	14,561	5.9%
Operating Income	**5,008**	**3,821**	**31.1%**
Financial Income (expenses), net	591	(125)	NA
Income before Taxes	**5,599**	**3,696**	**51.5%**
Income Tax Benefits	4,300	-	NA
Net Income from Continuing Operations	**9,899**	**3,696**	**167.8%**
Loss from Discontinued Operations	**-**	**(502)**	**NA**
Net Income	**9,899**	**3,194**	**209.9%**
Operating Income	**5,008**	**3,821**	**31.1%**
Depreciation and Amortization	1,262	1,294	(2.5)%
EBITDA from Continuing Operations	**6,270**	**5,115**	**22.6%**
Basic earnings per share (in actual dollars)	0.81	0.28	189.3%
Weighted average number of shares used in computing basic net earnings per share	12,283,519	11,592,122	

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenues. Revenues for the year ended December 31, 2007, revenues increased by 8 percent to $ 37.6 million compared to $ 34.6 million for the year ended December 31, 2006. The increase in sales is primarily a result of a 22 percent growth in consumables revenues, sold both through the OEM partners and through the Oridion Distributor Network (ODN), and growth in our equipment revenues despite cessation of U.S. sales by Physio-Control for most of the year. For the year ended December 31, 2007, 61 percent of all revenues were derived from four of Oridion's customers compared to 68 percent in 2006. Although Oridion sells consumables through its OEMs, the end user is free to purchase their consumable products from any OEM vendor, from Oridion directly or from Oridion's Distribution Network, therefore Oridion believes that its dependence on key OEMs is being reduced as consumable sales increase. Oridion's sales to its four leading OEM customers excluding consumables sales, accounted for 41 percent of sales in 2007. For the year ended December 31, 2007, sales to customers in North America accounted for 58 percent compared to 63 percent in 2006, and sales to customers in Europe accounted for 31 percent compared to 29 percent in 2006. This, however, does not necessarily fully reflect the true geographic distribution of Oridion's products, since major OEM customers in the U.S. and Europe sell Oridion's capnography products on to their other markets around the world.

Gross Profit. Gross profit for the year ended December 31, 2007 increased to $ 20.4 million compared to $ 18.4 million for the year ended December 31, 2006. Gross margin increased to 54.4 percent for the year ended December 31, 2007, from 53.1 percent for the year ended December 31, 2006. The increase in the gross margin resulted from a number of factors: increased purchasing efficiency through the Company's successful negotiations with suppliers and redesign of certain parts, improvements of efficiency in production overhead costs and stable transfer prices for Oridion's products.

Operating Expenses. Total Operating expenses increased to $ 15.4 million for the year ended December 31, 2007 compared to $ 14.6 million for the same period last year, an increase of 6%. In fiscal year 2007, due to the unexpected Physio-Control situation, the Company delayed several planned initiatives in sales, marketing and R&D. This resulted in a lower than normal increase in expenses, but was done in order to protect the operating income.

Research and Development Expenses. Research and development expenses, increased to $ 3.2 million for the year ended December 31, 2007, compared to $ 2.7 million for the year ended December 31, 2006. The Company continues to invest in the development of many new Capnography products, devices and consumables, in order to have a pipe-line of products for future growth. The Company launched a number of new products in 2007, including the first smart-algorithm solution of Smart Capnography™, SARA™ that improves alarm management and is most beneficial in the Pain Management environment. Research and development expenses represented 8.6 percent of revenues for the year ended December 31, 2007, compared to 7.9 percent for the year ended December 31, 2006.

Selling and Marketing Expenses. Selling and marketing expenses, for the year ended December 31, 2007, increased to $ 9.6 million compared to $ 9.2 million for the year ended December 31, 2006. The increase is mainly due to an expansion of the Company's support programs to the OEMs and the ODN. The ODN includes a number of specialty consumable distributors, both in the U.S. and Europe, who work in co-ordination with Oridion's Sales and Marketing department to educate, train and increase the usage of Microstream® capnography products in current and new medical environments. Selling and marketing expenses represented 25.4 percent of revenues for the year ended December 31, 2007, compared to 26.6 percent for the year ended December 31, 2006.

General and Administrative Expenses. For the year ended December 31, 2007, General and administrative expenses remained steady at $ 2.6 million compared to $ 2.6 million for the year ended December 31, 2006. General and administrative expenses represented 7.0 percent of revenues for the year ended December 31, 2007, compared to 7.5 percent for the year ended December 31, 2006.

Operating Income. Operating income amounted to $ 5.0 million for fiscal year 2007, reflecting an operating margin of 13.3 percent compared to operating income of $ 3.8 million and an operating margin of 11.0 percent for fiscal year 2006.

Financial Income (expenses), net. For the year ended December 31, 2007, financial income, net, increased to $ 0.6 million compared to financial expenses of $ 0.1 million for the year ended

December 31, 2006. The increase in financial income is a result of improvement in the Company's cash position, and from selling a portion of the Company's holdings in Exalenz Bioscience Ltd. (the spin-off of the former Breath Testing business).

Income Tax Benefits. In accordance with a new interpretation of US GAAP policy, a tax benefit income of $ 4.3 million was recorded during the fourth quarter of 2007, resulting from the release of a deferred tax asset valuation allowance relating primarily to net operating loss carry-forwards. These carry-forward losses are expected to be eliminated in future years, whereupon the Company's profits will be taxed. The tax asset was calculated, according to US GAAP rules, based on the general corporate statutory tax rate (Israel: 25%), although during the years after the full utilization of the Company's tax losses, the Company will be taxed at tax rates applicable to its approved enterprise status, which are expected to be substantially lower than the general corporate statutory tax rates. The release of the valuation allowance has no cash flow impact on the Company.

Net Income from Continuing Operations. The Company achieved net income from continuing operations of $ 9.9 million for fiscal year 2007 compared to net income of $ 3.7 million for 2006. The net income is mainly a result of the growth in sales, improved gross margins, improved leverage of operating expenses as a percent of sales and the tax benefit.

Consolidated Net Income. The Company achieved a consolidated net income of $ 9.9 million for fiscal year 2007 compared to a consolidated net income of $ 3.2 million for 2006. Consolidated net income for fiscal 2006 includes a loss from discontinued operations of $ 0.5 million associated with the now divested Breath Testing business.

Basic Earnings per Share. Basic earnings per share increased to $ 0.81 for fiscal year 2007 compared to $ 0.28 for fiscal year 2006, representing an increase of 189.3 percent year-on-year.

Financial Condition, Liquidity and Capital Resources

Oridion considers its cash and cash equivalents, marketable securities and available unsecured lines of credit to be its principal sources of liquidity and that these will be sufficient to meet the Company's short-term and long-term needs for operating activities, investing activities and financing activities.

Cash, cash equivalents, short-term deposits and marketable securities amounted to $ 10.8 million at December 31, 2008 compared to $ 14.2 million at December 31, 2007. Working capital decreased to $ 14.3 million at December 31, 2008, compared to $ 18.7 million at December 31, 2007.

The decrease in cash equivalents, short -term deposits and marketable securities, is a result of the major decrease in value of the spun off entity relating to the Breath Testing business, and an increase in inventory. The decrease in working capital was also mainly due to the major decrease in value of the spun off entity relating to the Breath Testing business ($ 3.6 million) and the purchase of marketable securities that have been classified as long-term. The major increase in inventories ($ 3.5 million) reflects the new policy to hold between three to four months of consumable products in multiple locations around the world and the build- up of stock of new products. The increase in trade receivables reflects the increase in sales. The increase in current liabilities ($ 2.3 million) is mainly attributed to an increase in purchases related to inventory.

The increase in the Company's shareholders' equity of $ 28.6 million at December 31, 2008, compared to $ 28.2 million at December 31, 2007, is mainly attributed to an increase in the net income, less the decrease in valuation of the spun off entity relating to the Breath Testing business.

Net cash provided by operating activities was $ 1.4 million, $ 3.3 million and $ 2.1 million for fiscal years 2008, 2007 and 2006 respectively. The improvements in cash provided by operating activities in 2008, 2007 and 2006 were primarily due to higher net income before depreciation and amortization, offset partially by working capital changes, including an increase in accounts receivables and strategic inventories.

Net cash provided by (used in) investing activities was $ (5.7) million, $ (3.6) million and $ 1.9 million for fiscal years 2008, 2007 and 2006 respectively. The cash used in 2008 and 2007 was mainly for the purchase of marketable securities, manufacturing molds and IT related equipment. The cash used in 2006 was the proceeds from short-term deposits less the purchase of manufacturing moulds and IT equipment.

Net cash provided by (used in) financing activities was $ 0.3 million, $ 0.6 million and $ (1.8) million for fiscal years 2008, 2007 and 2006 respectively. The cash provided in 2008 and 2007 resulted from the proceeds from the issuance of ordinary stock under the Company's employee stock option plans. The cash

used in 2006 was the return of the $ 2.5 million loan received in 2004, less proceeds from the issuance of ordinary stock under the Company's employee stock option plans.

The Company maintains an unsecured working capital line of credit with two banks. Under this working capital line, we may borrow, on a demand basis, up to $ 3.3 million. This line of credit bears interest at the Libor rate plus 2%. No borrowings were outstanding on this line as of December 31, 2008. There are no covenants relating to this line of credit.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

Interest rates have not had a significant effect on the Company's business during the periods discussed. All of the Company's long-term obligations are subject to LIBOR interest rates, and the Company has no interest rate hedging agreements.

Foreign Exchange Rates

The Company's functional currency is the U.S. Dollar, and a majority of the Company's sales, expenses and cash flows are transacted in U.S. Dollars. The Company also conducts business in various foreign currencies, primarily the New Israeli Shekels and the Euros. As part of the Company's risk management strategy, the Company put in place a hedging program under which the Company enters into foreign currency option and forward contracts to hedge a portion of cash flows denominated in New Israeli Shekels and Euros. These contracts are entered into in order to reduce the risk that the Company's earnings and cash flows, resulting from certain forecasted and recognized currency transactions, will be affected by changes in foreign currency exchange rates. We have determined our hedge program to be a non-effective hedge as defined under SFAS No. 133. The foreign currency derivatives portfolio is recorded in the consolidated balance sheets at fair value and included in other assets or liabilities. All movements in the fair value of the foreign currency derivatives are recorded in finance income, net on our consolidated statements of income. See Note 2r to the Consolidated Financial Statements for additional information about the Company's foreign currency hedging activities.

Accounting for Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for its stock-based employee compensation plan under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation in Accounting for its Employee Stock Option Plans for Share-Based Payments". Stock-based employee compensation cost was recognized in the statements of operations for the years ended December 31, 2005 and 2004 as some options granted under that plan had an exercise price that was less than the market value of the underlying ordinary shares on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123R, "Share-Based Payment", using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123R. Results for prior periods have not been restated.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107"), relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company estimates the fair value of stock options granted using an option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are: expected stock price volatility, and the expected option pricing term. Expected volatility was calculated based upon actual historical stock price, equal to the expected option term. The expected option term represents the period that the Company's stock options are expected to be outstanding and was determined based on historical experience of similar options, giving consideration to the contractual terms of the stock options. The Company has historically not paid dividends and has no foreseeable plans to issue dividends.

The fair value for options granted in 2008 and 2007 is amortized over their vesting period and estimated at the date of grant using a Monte-Carlo option pricing model with the following weighted average

assumptions: risk-free interest rate of 2.9% and 4.6%, respectively; dividend yield of 0% for each year; expected volatility of 0.41 and 0.48, respectively and an expected life of the options of up to four years. The Company applies SFAS No. 123R and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments That are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options and warrants issued to non-employees. See Note 11 to the Consolidated Financial Statements for additional information about the Company's accounting for stock-based compensation.

Revenue Recognition

Revenues from sales of capnography boards, monitors, consumables and accessories are recognized when a signed non-cancelable purchase order exists, the product is shipped, title and risk have passed to the customer, the fee is fixed and determinable and collection is considered probable. The only circumstance that precludes recognition of revenue are shipping terms of CIF destination. In this instance, revenue is deferred until adequate documentation is obtained to ensure that these criteria have been fulfilled. We do not typically offer any special right of return, stock rotation or price protection to our customers. See Note 2i to the Consolidated Financial Statements for additional information about the Company's accounting for revenue recognition.

Inflation

Inflation has not had a significant effect on the Company's business during the periods discussed.

Contingencies

As a normal part of its business operations, the Company incurs liabilities that may be difficult to quantify precisely, such as future warranty obligations, potential liabilities relating to legal or regulatory matters, and tax exposures. The Company follows the requirements of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", which dictate when a charge to income should be taken to accrue for a loss contingency. These requirements necessitate the application of judgment regarding the likelihood and amount of the liability.

Cautionary Statement

The Statements contained in this Annual Report, including those contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations", external documents and oral presentations, which are not historical, are "forward-looking statements". These forward-looking statements represent the Company's present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from the expected results included in the forward-looking statements. Those factors include, but are not limited to, the following: developments in the health care industry; the success of the Company's marketing, sales, and promotion programs; future sales and acceptance of the Company's products and programs; the timing and success of new product introductions; new product development; anticipated cost savings; FDA and other regulatory requirements and enforcement actions; future results from acquisitions; growth rates in foreign markets; regulations and other factors affecting operations and sales around the globe; the effects of a major earthquake, cyber-attack or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology system; foreign currency fluctuations; expiration of intellectual property rights; customer consolidation and concentration; increasing price competition and other competitive factors in the sale of products; interest rate fluctuations; intellectual property and related litigation; other litigation; future levels of earnings and revenues; the number of equity awards granted to employees and changes in the Company's stock price; and third party reimbursement; all of which are subject to change.

Directive on Information Relating to Corporate Governance

Oridion Systems Ltd. (the "Company" or "Oridion") was formed as a private limited liability company under the Israeli law on February 23, 1989 under the name of Elrad Analytical and Electro-Optical Systems Ltd. In May 1999, the Company's name was changed to Oridion Systems 1989 Ltd. The Company changed its name from Oridion Systems 1989 Ltd. to Oridion Systems Ltd. in August 1999.

The Company's registered office is at 7 HaMarpe Street, Jerusalem, Israel. The Company's duration is for an unlimited period of time. The financial year of the Company is the calendar year.

The Company has the legal form of a public company with limited liability under Israeli law. As an Israeli corporation, the Company is required to comply with provisions and requirements of the Companies Law (as defined below) with respect to corporate governance of public companies as shall be described below.

Definitions

In this annual report, the following terms shall have the meaning set opposite them:

"**Board of Directors**", means the Board of Directors of the Company.

"**Companies Law**", means the Israeli Companies Law 5759-1999 as amended from time to time.

"**Director**", means a member of the Board of Directors of the Company.

"**Financial Statements**", means the Consolidated Financial Statements of the Company for the calendar year ended on December 31, 2008.

"**General Meeting**", means a Shareholders Meeting.

"**Ordinary Shares**", means Ordinary Shares of the Company par value NIS 0.01 each.

"**Outside Director**", has the meaning set forth in the Companies Law, as detailed in Section 3.3.1 below.

"**Senior Manager"**, means each of the officers of the Company listed in Section 4.1 below.

"**Shareholders Register**", means the Company's register of shareholders to be kept in accordance with the provisions of the Companies Law.

"**Stock Option Plan**", means any of the stock option plans approved by the Company, under which the Company may allocate options to purchase Ordinary Shares to employees, directors, consultants or other service providers of the Company and/or any of the Subsidiaries.

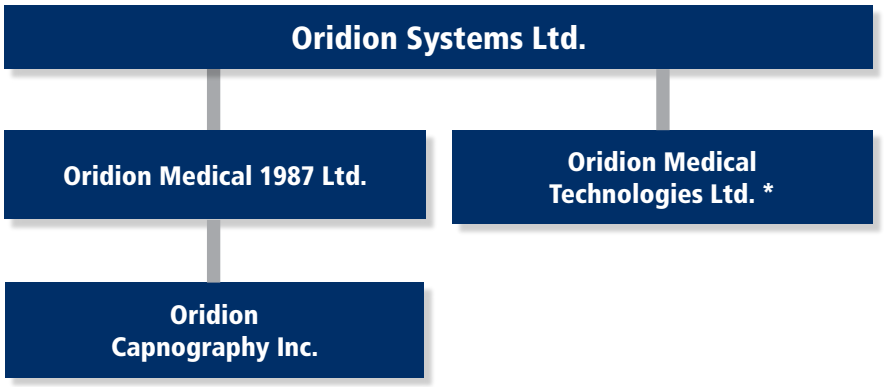
"**Special Resolution**", means a resolution approved at a General Meeting of the Company by a majority of at least sixty-seven percent of the shareholders represented at such General Meeting in person or by proxy.

"**Subsidiaries**", means the corporations set forth in Section 1.1.3 below which are consolidated in the Company's Financial Reports, and each of such corporations shall be referred to as a "**Subsidiary**".

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Description of the issuer's operational group structure



** Company not operative (Investment holding company)*

The Company is a holding company, which directly owns and controls, Oridion Medical 1987 Ltd; and indirectly owns each of the Subsidiaries of Oridion Medical 1987 Ltd. The Company 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.

Research and development, production and certain sales and marketing activities for Europe are carried out by Oridion Medical 1987 Ltd. Other sales and marketing activities and clinical research activities around the world are carried out by the Oridion Capnography Inc.

1.1.2 Listed Company: Oridion Systems Ltd., Jerusalem, Israel. Listed on SIX Swiss Exchange (Symbol: ORIDN). Market capitalization as of December 31, 2008 was CHF 90 million. Percentage of shares of Oridion held by any of its Subsidiaries in 2008 was nil. The Company's Swiss security number is 904373, and its ISIN security number is IL 0010837818. None of the Company's Subsidiaries are publicly listed.

1.1.3 The significant unlisted consolidated Subsidiaries of the Company as of December 31, 2008 were as follows:

Company Name	Domicile	Share Capital (in US $ 000,s)	% of Ownership
Oridion Medical 1987 Ltd.	Israel	1,015	100
Oridion Capnography Inc.	United States	100*	100
Oridion Medical Technologies Ltd.	Israel	3**	100

** The amounts are in actual numbers.*

*** Company not operative (Investment Holding company)*

1.2 Significant Shareholders

To the best of the Company's knowledge, the following shareholders held more than 3% of the Company's voting rights as of December 31, 2008:

Schroders PLC, 31 Gresham Street, London EC2V 7QA, UK ..... > 15%

Goodman & Company, One Adelaide Street East, Toronto, Ontario, Canada ..... > 7%

Cazenove Capital Management Limited, 12 Moorgate, London EC2R 6DA, UK ..... > 5%

Alan Adler, HaBerecha 1, Yamin Moshe, Jerusalem, Israel[1] ..... > 5%

Oppenheim Asset Management Services S.A.r.l., 4, Rue Jean Monnet, 2017 Luxembourg, Luxembourg[2] ..... > 4%

FMR LLC, 82 Devonshire Street, Boston, Massachusetts, USA and Fidelity International Limited (FIL), P.O. Box HM 670 Hamilton HMCX, Bermuda ..... > 3%

[1] Mr Adler's participation consists of ordinary shares and employee options. The total participation is shown in compliance with the Swiss Federal Act on Stock Exchange and Securities Trading.

[2] These shares were previously registered under the name of the fund manager 3V Asset Management, Löwenstrasse 25, 8002 Zurich, Switzerland. 3V Asset Management acts as investment advisor to the fund.

The Company is aware of the following holdings by Nominees:

Chase Nominees Ltd., 125 London Wall, London UK ..... > 16%

Credit Suisse, Zurich (Nominees), Switzerland ..... > 7%

In an announcement dated February 11, 2008, Goodman & Company, Investment Counsel Ltd., One Adelaide Street East, Suite 2900, Toronto, Ontario M5C 2V9, Canada disclosed that it had exceeded threshold limits on February 20, 2007, through purchases in the market. Its holding corresponded to 7.34% of voting rights (notice in Swiss Official Gazette of Commerce on February 18, 2008).

On May 28, 2008, FMR LLC, Boston, USA and Fidelity International Limited, Hamilton, Bermuda (collectively "Fidelity") notified Oridion Systems Ltd. that due to sale transactions in the ordinary shares of the Company, their holding had fallen below the threshold mark of 5%. As of May 21, 2008, the investor's holding corresponded to 3.54% of voting rights (notice in Swiss Official Gazette of Commerce on June 5, 2008). As of December 31, 2007, Fidelity held over 5% of the Company's shares.

On June 4, 2008, Schroders PLC, London, UK disclosed that due to purchase transactions, its participation in the Company had gone above the threshold of 15%, as it held Company shares

accounting for 15.82% of voting rights in various investment portfolios as of May 27, 2008 (notice in Swiss Official Gazette of Commerce on June 12, 2008). As of December 31, 2007, Schroders held above 10% of the Company's shares.

On September 15, 2008, Cazenove Capital Management Ltd, London, UK disclosed that due to purchase transactions, its participation in the Company had gone above the thresholds of 3% and 5%, as it held Company shares accounting for 5.04% of voting rights (notice in Swiss Official Gazette of Commerce on September 19, 2008).

1.3 Cross Shareholdings

The Company does not have any cross-shareholdings in any other joint stock company that exceed 5% of the capital shareholdings or voting rights, either in the Company or such other joint stock company.

2. Capital Structure

For information regarding the Company's share capital, see the Consolidated Balance Sheet of the Company as of December 31, 2008 and Note 11 of the Financial Statements.

2.1 Capital

On December 31, 2008 the authorized share capital of the Company consisted of NIS 200,000 divided into 20,000,000 Ordinary Shares, of which 12,494,034 Ordinary Shares were issued and outstanding.

2.2 Authorized and Conditional Capital in Particular

Under the Companies Law, the authorized share capital represents the maximum amount of shares, which are authorized for issuance by the Company. Should the Company wish to increase the number of its issued and outstanding Ordinary Shares beyond 20,000,000, it would have to increase its authorized share capital. Any such increase requires a Special Resolution of the shareholders. Any increase of the authorized share capital is valid as of the date of the approval thereof by the General Meeting of the Shareholders and should be reported to the Israeli Registrar of Companies within fourteen days thereafter. Authorized share capital, or any increase thereof, is not limited in time. However, the shareholders may, at a General Meeting, cancel any authorized share capital that is not yet issued, provided that the Company has not undertaken any commitment to issue Ordinary Shares out of such authorized and un-issued share capital.

The Board of Directors of the Company is the corporate body that may, from time to time, issue Ordinary Shares out of the authorized share capital. There exist no limitations by the authority of the Board of Directors to issue Ordinary Shares, as of the date hereof, for certain limitations under law regarding the issuance of shares to officers and directors and other "interested persons," which may require the additional approval of the Audit Committee and of the shareholders of the Company and relating to the grant of options, as described further in this Section 2.2. Any such issuance of Ordinary Shares is valid as of the date of the approval thereof by the Board of Directors of the Company or any other date determined by the Board of Directors. The Company is obligated to report of any issuance of Ordinary Shares to the Israeli Registrar of Companies.

2.3 Changes of Capital

The following changes of capital have taken place between January 1, 2006 and December 31, 2008:

On January 1, 2006, the number of issued and outstanding shares of the Company was 11,365,989 shares. In the year 2006 employees and Service providers of the Company exercised options to purchase 443,819 Ordinary Shares (including warrants issued to a financial institution).

In the year 2007, the Company issued 87,656 Ordinary Shares, and employees and Service providers of the Company exercised options to purchase 402,059 Ordinary Shares (including warrants issued to a financial institution).

In the year 2008, the Company issued 5,259 Ordinary Shares, and employees and Service providers of the Company exercised options to purchase 189,252 Ordinary Shares (including warrants issued to a financial institution).

For further information, see the Statements of Changes in Shareholders' Equity (Deficiency) in the Financial Statements of the Company.

2.4 Shares and Participation Certificates

As of December 31, 2008 the authorized share capital of the Company consisted of NIS 200,000 divided into 20,000,000 Ordinary Shares, of which 12,494,034 Ordinary Shares with par value of NIS 0.01 were issued and outstanding. There is no other class of shares in the authorized or outstanding share capital of the Company other than the Ordinary Shares. All the outstanding Ordinary Shares of the Company are fully paid.

Under the Articles of Association of the Company, the liability of the shareholders of the Company for the Company's obligation is limited to the par value of each of the Ordinary Shares held thereby.

The rights attached to the Company's Ordinary Shares, under the Articles of Association of the Company and the Companies Law, are as follows:

Voting Rights

Beneficial holders of Ordinary Shares have one vote for each Ordinary Share held by a beneficial holder on all matters submitted to a vote of shareholders. However, the General Meeting of the Shareholders has the authority to create, and the Board of Directors could then issue, shares with different voting rights.

Pursuant to the Articles of Association of the Company, any shareholder may vote at a General Meeting either in person or by proxy, or, if the shareholder is a corporation, by a representative authorized pursuant to the Articles of Association.

For further information, see Section 6 below.

Nomination of Directors

For information, see Section 3.3 below.

Dividend rights

Holders of Ordinary Shares of the Company are entitled to receive dividends, in cash, shares or otherwise, if distributed. The Company may, by a resolution of a General Meeting of the Company's shareholders, following a recommendation by the Board of Directors, distribute to the holders of Ordinary Shares dividends, out of profits of the Company, as defined in the Companies Law, and subject to the provisions thereof. Such rights of the Ordinary Shares may be affected by the grant of preferential dividends or distribution rights to the holders of a class of shares with preferential rights, which may be authorized in the future by a Special Resolution of the shareholders of the Company.

Liquidation Rights

In the event of winding-up of the Company, the shareholders of the Company shall share, pro rata, but subject to any preferential liquidation rights by holders of any class of shares with preferential rights, if such class is created, in all assets remaining after payment of all liabilities and preferential rights under Israeli law, such as: certain land taxes, specific charges, liquidation expenses and employees' wages up to a certain sum, taxes withheld but not yet delivered to the tax authorities, municipal taxes, any taxes relating to the previous tax year, lease fees, and floating charges. The Company may recognize any official appointed to wind-up, dissolve or otherwise liquidate a corporate member, and a trustee, manager, receiver, liquidator or similar official

appointed in bankruptcy or in connection with the reorganization of, or similar proceedings with respect to, a shareholder or its properties (each of the above shall be referred to as "Appointee"), as being entitled to the shares registered in the name of such shareholder. Any Appointee, upon producing such evidence as the Board of Directors may deem sufficient as to such Appointees authority to act in such capacity, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such Ordinary Shares, or may, subject to the regulations as to transfer herein contained, transfer such Ordinary Shares.

Special Rights; Modification of Rights

Subject to the Articles of Association of the Company, the Company may, from time to time, by Special Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such Special Resolution.

In addition, in the event that the Company's share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of such class), such as voting rights and rights to dividends, may be varied with the written consent of the holders of sixty-seven percent of the issued shares of such class or the sanction of shareholders who hold the majority of the voting rights represented at a separate class meeting of the holders of the shares of such class.

2.5 Bonus Certificates

As of December 31, 2008, the Company has not issued any bonus certificates.

2.6 Limitations on Transferability and Nominee Registrations

2.6.1 The ownership or voting of the Ordinary Shares by non-residents of Israel is not restricted in any way by the laws of Israel or the Articles of Association of the Company, except with respect to citizens of countries which are in a state of war with Israel.

Pursuant to the Company's Articles of Association, subject to contractual agreements to the contrary, fully paid Ordinary Shares may be transferred freely. No transfer of shares shall be registered in the Shareholders Register unless a proper writing or instrument of transfer has been submitted to the Company (or its transfer agent), together with the share certificate and such other evidence of title as the Board of Directors of the Company may reasonably require. Until the transferee has been registered in the Shareholders Register, the Company will continue to regard the transferor as the owner thereof.

Except as provided for in this Section 2.6, the Articles of Association of the Company do not contain provisions, which relate to group clauses or exceptions.

2.6.2 There were no exceptions regarding transferability of Ordinary shares in 2008.

2.6.3 The Ordinary Shares of the Company have been delivered into collective custody at SIX SAG Aktienregister AG ("SAG"), and are issued in book entry form only. All Shares are held by SIX SIS AG ("SIS"). SIS acts as record owner of all Ordinary Shares on behalf of the beneficial owners of such Ordinary Shares in order to comply with certain legal requirements under the Companies Law, according to which a shareholder of record is any person who agrees to become a shareholder and whose name is registered in the Company's official register of record shareholders. Under Israeli law, issuance of shares should also be recorded with the Israeli Registrar of Companies.

As described above, beneficial ownership of Ordinary Shares are recorded on the books of SAG. On request, beneficial shareholders will be issued non-negotiable certificates without coupons attached evidencing their beneficial ownership of Ordinary Shares. Beneficial shareholders may become a shareholder of record of the Company by issuing written instructions to SAG, following which such shareholder's name will be recorded in the Company's official register of record shareholders and in the Israeli Registrar of Companies.

Under the Companies Law, a shareholder who is a trustee shall be registered as shareholder at the Company's Shareholders Register by mentioning the fact that he is a trustee.

There are no percentage limits with regards to voting rights.

2.6.4 Under the Articles of Association of the Company, the introduction of transfer restrictions into the Articles of Association of the Company will be approved only by a Special Resolution of the shareholders at a General Meeting. For more information, see Section 2.4 above.

2.7 Convertible Bonds, Warrants and Options

Convertible Bonds

There are no outstanding Convertible Bonds of the Company as of December 31, 2008.

Warrants

In connection with a loan received by the Company from a bank in 2004, the Company issued to the bank a warrant to purchase up to 368,853 Ordinary Shares of the Company, at an exercise price of CHF 2.206 per share. As of December 31, 2008, 46,213 Ordinary Shares may still be purchased under the warrant to the financial institutions.

Options

As of December 31, 2008, the Company had 1,566,359 options outstanding under its Stock Option Plans. The options were allocated with a subscription ratio 1:1, and allocated options expire on the sixth or seventh anniversary date of each option allotment date. The vesting period of such options ranges between three to four years and the average exercise price is $ 4.24. If the total number of options and warrants outstanding at the end of fiscal year 2008 were fully exercised, this would represent 11.4% of the outstanding share capital on a fully diluted basis at that point in time.

For information of the Company's Stock Option Plans, see Note 11 to the Financial Statements.

3. Board of Directors

3.1 Members of the Board of Directors

The members of the Board of Directors of the Company are as follows:

Name of Director	Nationality	Position
Alan Adler	United States	Director (Chairman) and Chief Executive Officer
Morry Blumenfeld	United States	Director
Max Reis	Israel	Director
Dan Falk*	Israel	Director
Karen Sarid	Israel	Outside Director
Raphael Melmed	Israel	Outside Director

** Mr. Falk's appointment has to be confirmed at the next Annual General Meeting of the Company.*

As of December 31, 2008, other than Mr. Adler, all of the Company's Directors are Non-Executive Directors.

Alan Adler, Chairman of the Board and Chief Executive Officer, has been a member of the Company's Board of Directors since 1994 and was Chairman of the Board from that time until 2000 and again since 2003. He has been CEO since April 2004. Mr. Adler has 14 years of prior experience as a consultant and partner with McKinsey & Company, and has been a partner at the Evergreen Partners venture capital group since 1993. He has served as a Director on numerous Boards of technology and medical device companies. Mr. Adler holds a M.Sc. degree in

Mathematics from Rensselear Polytechnic Institute and an M.B.A. degree with honors from Stanford University.

Dr. S. Morry Blumenfeld, Non-executive, Director, was elected as a member of the Board of Directors on May 2005. Dr. Blumenfeld is the Chief Investment Officer of Ziegler Meditech Equity Partners, LP since September 2005 and a founding partner of Meditech Advisors, LLC. He spent 34 years with GE which included being Managing Director of GE Medical Systems Israel. Dr. Blumenfeld served on the Ontario R&D Challenge Fund Imaging Advisory Committee and now serves on the Scientific Advisory Board of the Ontario Consortium for Image-Guided Therapy and Surgery, the External Advisory Board of Amigo, the Harvard University's program for an Advanced Surgical Suite, the External Advisory Board of the National Alliance for Medical Imaging Computing, as well as on the boards of a number of other medical device companies. He is a member of the Board of Governors of the Hebrew University and serves on the Board of Directors of Yissum, the Hebrew University's Technology Transfer Company. Dr. Blumenfeld earned his B.A.Sc. degree in Engineering Physics and Ph.D. in Molecular Physics from the University of Toronto.

Dr. Max Reis, Non-executive, Director, was elected as a member of the Board of Directors on April 2003. Dr. Reis was President of the Israel Institute of Technology from 1986-1990 and a Senior Vice President for Israel Chemicals Ltd from 1975-1986. Dr. Reis spent 8 years on the Board of the Union Bank of Israel from 1992-2001. He served as a member of the Board of Directors of Teva Pharmaceutical Industries from 2001 to 2008. Currently Dr. Reis sits on the Board of Directors of Degem Systems, Yachin Hakal and Gaon Holdings. Dr. Reis holds a Ph.D. degree in Chemical Engineering from the University of London and received a "Fellowship of the City and Guilds of London Institute" for his contribution to the chemical industry and the advancement of science and technology.

Dan Falk, Non-executive, Director, was appointed to serve as a member of the Board of Directors in August 2008. Mr. Falk currently serves as a member of the Board of Directors of Nice Systems Ltd., Attunity Ltd., ClickSoftware Technologies Ltd., Jacada Ltd., and Nova Measuring Instruments Ltd., all of which are Israeli Nasdaq-listed companies, and of Ormat Technologies, a Tel Aviv exchange listed Company. He is also Chairman of the Board of Directors of Orad Hi-Tec Systems Ltd., and is a member of the Board of Directors of Poalim Ventures I Ltd., Dmatek Ltd., Plastopil Ltd., Amiad Filtration Systems Ltd. and AVT Ltd., all of which are Israeli companies. Mr. Falk has over 30 years experience in finance and banking and has served as CFO or President of both local and foreign subsidiaries of Israeli Companies. Mr. Falk has an undergraduate degree in Economics and Political Science from the Hebrew University and a Master's degree in Business Administration from the Hebrew University School of Business.

Karen Sarid, Non-executive, Outside Director, was elected as a member of the Board of Directors in FeNon-executive, Outside Director, was elected as a member of the Board of Directors in February 2005. As of March 2007, Mrs. Sarid serves as the COO, CFO of Galil Medical and the General Manager of Galil Medical Israel. From September 2000 - 2007, Mrs. Sarid was the General Manager of Orex Computed Radiography Ltd. From September 1999 until September 2000, Mrs. Sarid was the Chief Financial Officer and a member of the Board of Directors of Forsoft Ltd. From August 1996 until August 1999, Mrs. Sarid served as the Chief Financial Officer and a member of the Board of Directors of ESC Medical Systems Ltd. From 1993-1996, Ms. Sarid has served as the Chief Financial Officer of a number of publicly traded companies including Lanoptics Ltd. Currently, Mrs. Sarid is a board member of Lanoptics Ltd., Gilat Satellite Networks Ltd and Endymion Medical Ltd. Mrs. Sarid holds a B.A. degree in Economics and Accounting from the University of Haifa, Israel and was awarded the CFO of the year award in 1998 by the Association of Financial Officers in Israel.

Professor Raphael N. Melmed M.D., FRCP, Non-executive, Outside Director. In January 2006 he was reappointed to the Oridion Board after serving a second period of three years from 2004 to 2007. Professor Melmed has worked as a Senior Physician, Department of Medicine, Hadassah

University Hospital, Ein Kerem in Jerusalem since 1973. He was at different times, Head of Department of Medicine A, Head of Unit of Behavioral Medicine in Internal Medicine, as well as the Wecksler Professor of Medical Education. Professor Melmed is an Associate Professor of Medicine at the Hebrew University-Hadassah Medical School and served as an outside director in Rosebud Medical Ltd. from 1996 to 2000.

The non-executive Directors have never been in a senior position at Oridion, nor do they have significant business connections with the Company or any of its Subsidiaries.

3.2 Other Activities and Vested Interests

None of the members of the Board of Directors have activities in governing and supervisory bodies of important Swiss and foreign organizations, institutions or foundations (other than as listed above), nor do they have permanent management and consultancy functions for important Swiss and foreign interest groups or important official functions or political posts.

3.3 Elections and Terms of Office

3.3.1 Appointment of Directors

Under the Company's Articles of Association, last amended on May 31, 2007, the Board of Directors shall consist of five to seven Directors. Each Director, other than an Outside Director, as specified below, is elected to serve at the Annual General Meeting of the Company and cannot be elected at an Extraordinary General Meeting, until the end of the third Annual General Meeting of the Company's shareholders at which they were elected, unless the Director is removed earlier in accordance with the provisions of the Articles of Association of the Company and the Companies Law. A Director can be appointed by the Board of Directors during the period from one Annual General Meeting to the next and can already serve as Director of the Company. Such Director must be elected at the next Annual General Meeting or, if not elected, has to step down from his duties as a Director. Each Director is elected under one of three categories. The Ordinary Shares do not have cumulative voting rights in the election of Directors. All the Directors are elected individually. Other than with respect to an Outside Director, the holders of Ordinary Shares conferring more than fifty percent of the voting power of the Company have the power to appoint a Director, to remove a Director from office, to elect Directors instead of Directors so removed or to fill any vacancy, however created, in the Board of Directors. Under the Companies Law, a corporation is also entitled to serve as a Director of the Company, provided that such elected corporation shall appoint an individual qualified to serve as Director as its representative at the Board of Directors. Under the Companies Law, in addition to the Outside Director who has a financial and accounting expertise, additional Directors with financial and accounting expertise, in a number determined by the Board of Directors should serve.

Outside Director

Under the Companies Law, as a public company the Company is required to appoint two Outside Directors. The appointment of an Outside Director under the Companies Law or the removal thereof from such position must be approved by a General Meeting of shareholders of the Company, provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders. Participating at the vote, vote in favor of such appointment; or (b) the total number of shares voted against such appointment does not exceed one percent of the aggregate voting rights in the Company. The term of serving of an Outside Director is three years. Such term may be extended for additional three-year periods. The Outside Directors are elected individually.

Under the Companies Law, to qualify as an Outside Director, an individual may not have, and may not have had at any time during the two years prior to such appointment, any affiliations with the Company or its affiliates, as such terms are defined in the Companies Law. In addition, no individual may serve as an Outside Director if the individual's position or other activities thereof create or may create a conflict of interest with his or her role as

an Outside Director, or may adversely affect such role. For a period of two years from the termination of the term of office as Outside Director, a former Outside Director may not serve as a Director or employee of the Company or provide, directly or indirectly, professional services to the Company for consideration.

Removal of Directors

Under the Articles of Association of the Company, a Director's term of office, excluding the Outside Directors as described above, shall be terminated before the end of the applicable period for any of the following reasons: (i) the Director resigned or was dismissed; (ii) the Director was convicted of an offense; (iii) by decision of the court; or (iv) the Director was declared bankrupt, and if it is a corporation, is in process of voluntary or involuntary liquidation, all in accordance with the provisions of the Companies Law.

3.3.2 The Company's Directors were first appointed, and their office is expected to terminate, at the following dates:

Name	Date of First Election of the Director	Termination of Office
Alan Adler	December 1, 1994	General Meeting in 2009
Morry Blumenfeld	May 26, 2005	General Meeting in 2011
Max Reis	April 24, 2003	General Meeting in 2010
Dan Falk	November 6, 2008	General Meeting in 2009
Karen Sarid*	February 17, 2005	General Meeting in 2011
Raphael Melmed*	January 30, 2001	General Meeting January, 2010

**Outside Director*

3.4 Internal Organizational Structure

3.4.1 Except as provided for in Section 3.1 above and in this Section 3.4, the Company has not allocated additional tasks to any of its Directors nor delegated any personal responsibilities to its Directors. For information regarding the membership of the Directors at the Board Committees, see clause 3.4.2 below.

Chairman and Co-Chairman of the Board of Directors

Under the Articles of Association of the Company, the Board of Directors may from time to time, elect one of its members to be the Chairman of the Board of Directors, and another of its members as Co-Chairman, remove such Chairman and Co-Chairman from office and appoint others in their place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen minutes of the time fixed for the meeting or if he is unwilling to take the chair, the Co-Chairman shall preside. If both the Chairman and the Co-Chairman are not present or are unwilling to take the chair the Directors present shall choose one of the members to be the Chairman of such meeting. The Chairman shall not be entitled to a second or casting vote as a Director. To date no Co-Chairman has been appointed.

3.4.2 Board Committees

General

Subject to the provisions of the Companies Law and the Articles of Association of the Company, the Board of Directors may delegate any or all of its powers to Committees as the Board of Directors deems appropriate. In exercising such powers, each Committee shall observe any terms and conditions imposed on it by the Board of Directors. Any such Committee, which is authorized to exercise powers of the Board of Directors, must include

at least one Outside Director. The Audit Committee must include all Outside Directors.

Under the Companies Law and the Articles of Association of the Company, the Board of Directors shall not delegate its powers on the following subjects to any of its Committees, except for purpose of recommendations only: (i) determination of the Company's economic policy; (ii) dividend distribution; (iii) determining the Board of Directors' standpoint on a matter that requires approval by the General Meeting, or giving an opinion with respect to a special tender offer as required under the Companies Law; (iv) appointment of Directors; (v) issuance or allocation of the Company's securities and convertible securities, except for certain exceptions; (vi) approval of the Company's Financial Statements; and (vii) approval of interested parties transactions or actions which were made by breaching of a fiduciary duty, which under Companies Law require Board of Directors approval.

Audit Committee

Under the provisions of the Companies Law, the Board of Directors of the Company is required to appoint an Audit Committee whose members shall include all Outside Directors of the Company. The number of members of such a committee must not be less than three. The Chairman of the Board of Directors of the Company and/or any Director who is employed by the Company or provides services thereto on a regular basis and/or a controlling shareholder or a relative thereof, cannot be a member of the Audit Committee.

The role of the Audit Committee is to examine flaws in the business management of the Company, in consultation with the internal auditor and the external auditors of the Company, and to propose remedial measures to the Board of Directors. The Audit Committee also reviews for approval transactions between the Company and officers, Directors or other interested parties (as set forth in the Companies Law).

Dr. Max Reis is the chairman of the Audit Committee.

Stock and Compensation Committee

The Board of Directors of the Company has appointed a Stock and Compensation Committee to make recommendations to the Board of Directors concerning employees and service providers' stock options and other kinds of compensation.

Prof. Raphael Melmed is the chairman of the Stock and Compensation Committee.

Investment and Budget Committee

The Board of Directors of the Company has appointed an Investment and Budget Committee to make recommendations to the Board of Directors relating to the Company's banking and investment activities.

Mr. Alan Adler is the chairman of the Investment and Budget Committee.

The following table sets forth the membership of each of the Company's Directors at the Committees of the Board of Directors as of December 31, 2008:

Name	Audit Committee	Stock and Compensation Committee	Investment and Budget Committee
Alan Adler		X	X
Morry Blumenfeld		X	X
Max Reis	X	X	
Dan Falk	X	X	
Karen Sarid*	X		X
Raphael Melmed*	X	X	

**Outside Director.*

3.4.3 Meetings and Work Methods

Board of Directors

Under the Articles of Association of the Company, the Board of Directors may meet and adjourn its meetings, subject to the provisions of the Articles of Association, and otherwise regulate such meetings and proceedings as the Directors think fit, in accordance with the Company's needs and at least once in every ninety days. Any Director may at any time, and the Company's secretary shall, upon the request of such Director, convene a meeting of the Board of Directors, but not less than seven days' notice shall be given of any meeting so convened. Notice of any such meeting may be given orally, by telephone, in writing or by mail, e-mail, telex, cablegram or facsimile. Notwithstanding anything to the contrary herein set forth, failure to deliver notice to a Director of any such meeting in the manner required hereby may be waived by such Director, and a meeting shall be deemed to have been duly convened notwithstanding such defective notice if such failure or defect is waived prior to action being taken at such meeting, by all Directors entitled to participate at such meeting to whom notice was not duly given as aforesaid. In addition, the Board of Directors may convene without a notice, if all the Directors waived their right to receive such notice.

All acts done bona fide at any meeting of the Board of Directors, or of a committee of the Board of Directors, or by any person acting as Director, shall, notwithstanding the fact that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

Until otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence in person, by telephone conference or by any other means of communication provided that all participating Directors will be able to hear each other simultaneously, of a majority of the Directors then in office who are lawfully entitled to participate in the meeting.

Under the Articles of Association of the Company, minutes of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose, and shall be held by the Company at its principal office or its registered office or such other place as shall have been determined by the Board of Directors. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat. Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

Board Committees

Under the Companies Law, the provisions concerning the meetings of the Board of Directors apply also with respect to meetings of Board Committees. For the year ended December 31, 2008, the Board Committees acted in general in an advisory manner to the entire Board of Directors. Decisions were taken by the entire Board of Directors.

Work Methods

The Board of Directors of the Company meets at least once in a quarter. Each of the Board Committees conducts its meetings according to the needs of the relevant Board Committee. The length of each meeting of a Board Committee or of the Board of Directors usually ranges between two to five hours. During fiscal year 2008, the Board of Directors convened eight times in the following manner; six meetings and two unanimous written consents. During the fiscal year of 2008: (i) the Audit Committee convened six times in the following manner: five meetings and one unanimous written consent; (ii) the Stock and Compensation Committee convened twice in the following manner: one meeting and one unanimous written consent; (iii) the Investment and Budget Committee convened once in a meeting.

3.5 Definition of Areas of Responsibility

Board of Directors

In addition to all other authorities set forth in the Companies Law or as may be determined by the shareholders of the Company, pursuant to the Articles of Association of the Company, the Board of Directors shall determine the Company's policy and shall monitor the activities of the Chief Executive Officer. As part of such responsibilities, the Board of Directors: (i) shall determine the Company's plans of activity; (ii) shall examine the Company's financial situation and set the framework of the Company's credit; (iii) shall determine the organizational structure and the wage policy of the Company; (iv) may issue securities, convertible securities and/or debentures of the Company; (v) shall be responsible of the preparation and approval of the Company's Financial Statements; (vi) shall report to the General Meeting of the shareholders on the status of the Company's affairs and its business results; (vii) shall appoint and dismiss the Chief Executive Officer of the Company; (viii) shall make decisions in matters that are subject to the Board's approval; (ix) is entitled to issue shares and convertible securities up to the maximum registered capital of the Company; (x) may declare a dividend distribution; (xi) shall opine on Special Tender Offer, as such is defined in the Companies Law; and (xii) in a public company, shall determine the minimum number of Directors that should have financial and accounting expertise. The powers of the Board of Directors described herein may not be delegated to the Chief Executive Officer of the Company.

The Board of Directors may appoint one or more persons, whether or not Directors, as Chief Executive Officer, President or other Senior Managers of the Company and may determine the duties authorities and title of such officer.

Senior Management

Unless otherwise determined by the Board of Directors, Senior Managers headed by the Company's Chief Executive Officer, have the authority and responsibility with respect to the management of the day-to-day activities and operation of the Company in the ordinary course of business.

Each of the Company's Senior Managers is engaged by the Company, each but one on a full time basis. Senior Managers of the Company, excluding the Chief Executive Officer, are appointed and removed from office by the Company's Chief Executive Officer.

3.6 Information and Control Instruments vis-à-vis the Senior Management

The manager of the risk–management system and the manager of the information system of the Company are required to report directly to the Chief Operating Officer of the Company. Thereafter the Chief Operating Officer of the Company submits his conclusions and recommendations to the Chief Executive Officer of the Company and thereafter the Chief Executive Officer submits his report to the Board of Directors.

In the meetings of the Board of Directors, Alan Adler in his role as Chief Executive Officer, and Gerald Feldman, President, brief the entire Board of Directors on the operations of the Company (at least four times a year).

The Chief Financial Officer and the Chief Operating Officer also participate at each meeting of the Board of Directors and in the meetings of the Audit Committee.

At least seven days before each meeting of the Board of Directors, all the Board Members and other participants receive an Agenda and all pertinent information that relates to the Agenda.

Each quarter, the Board of Directors receives detailed Financial Statements, which include comparisons with the results achieved in the previous year period, and detailed analysis compared to the budget plan for the current year. In addition, once per year, the Board of Directors holds a dedicated strategy meeting with senior management, at which planning for the upcoming three years with regards to business operations and budgets are discussed.

The members of the Board of Directors can, at any time, demand specific information or details from any member of the senior management team.

Internal Auditor

Under the Companies Law, the Board of Directors is required to appoint an internal auditor proposed by the Audit Committee. The internal auditor may be an employee of the Company, but may not be an interested party or office holder, or a relative of any interested party or officer, and may not be a member of the Company's independent accounting firm. The role of the internal auditor is to examine, among other things, whether the Company's activities comply with the law and with orderly business procedure. Accordingly, the Company appointed an outside company as internal auditor who reports directly to the Audit Committee of the Board of Directors of the Company.

4. Management Board

4.1 Senior Management

The members of the Senior Management of the Company and its Subsidiaries are as follows:

Name of Officer	Nationality	Position
Alan Adler	United States	Director (Chairman) and Chief Executive Officer
Gerald Feldman	United States	President
Yacov Bubis	Israel	Senior Vice President and Chief Operating Officer
Walter Tabachnik	Israel	Senior Vice President and Chief Financial Officer

Alan Adler, Director (Chairman) and Chief Executive Officer of the Company, please see Section 3.1 above.

Gerald Feldman, President, joined Oridion in September 2003 and is responsible for all commercial and operational activities worldwide. Prior to joining Oridion, Mr. Feldman held senior management positions including President of the Clinical Diagnostics Division at Thermo Electron Corporation from 1991-2003 and President of International Technidyne Corporation of Edison New Jersey (USA) from 1987-1991 before its sale to Thermo Electron Corporation in 1991. His prior positions were in health care including a long tenure as hospital administrator at the John F. Kennedy Medical Center in New Jersey, USA. Mr. Feldman has an M.B.A. and an M.P.H. from Columbia University and a B.A. from Queens College of CUNY (City University of New York).

Yacov Bubis, Senior Vice President, Chief Operating Officer, Co-founder of the Company. Since 1987, Mr. Bubis has served in various positions with the Company, including in project management and as R&D manager. Mr. Bubis served as the Company's OEM Marketing Manager from January 1994 to December 1996. He has acted as Chief Operating Officer since January 1997. Mr. Bubis holds a Bachelor of Arts degree in economics and business management from the Hebrew University of Jerusalem.

Walter Tabachnik, Senior Vice President, Chief Financial Officer of the Company since 1990, brings to the Company several years of international and Israeli experience. He previously served as the Chief Financial Officer for Russells Furnishers Ltd., a South African national multiple outlet retail company. Mr. Tabachnik managed the Company's initial public offering and the follow-on offering on the SIX Swiss Exchange. Mr. Tabachnik is a certified public accountant and holds a Bachelor of Arts degree in economics and accounting from the Hebrew University of Jerusalem.

Messrs. Adler, Bubis and Tabachnik also serve as board members on the Boards of Directors of certain Subsidiaries of the Company.

4.2 Other Activities and Functions

None of the members of Senior Management, except as for Mr. Adler in his capacity as a Director of the Company, have activities in governing and supervisory bodies of important Swiss and foreign organizations, institutions or foundations, nor do they have permanent management and consultancy functions for important Swiss and foreign interest groups, or important official functions and political posts.

4.3 Management Contracts

Neither Oridion Systems Ltd. nor any of its Subsidiaries have management contracts with any parties not belonging to the Group.

5. Compensation, Shareholdings and Loans

5.1 Content and Method of Determining the Compensation and of the Shareholding Programs

Board of Directors

The Companies Law requires that arrangements with a Director as to his or her term of office or compensation, including approval of the purchase of insurance coverage for a Director, undertaking to indemnify a Director and exemption of a Director from liability, should be approved by all of the following: the Audit Committee, the Board of Directors and last, the General Meeting of the Shareholders of the Company.

In fiscal year 2007, certain Directors of the Company were reimbursed for their participation at meetings of the Board of Directors and its committees, in an amount that ranged between $ 750 to $ 1,500 per meeting. In addition, upon the appointment of a Director to the Board of Directors, the Company granted such Director options to purchase 5,500 Ordinary Shares of the Company, and granted an additional option to purchase 2,750 Ordinary Shares on each anniversary of his or her appointment, provided that such Director is re-elected to serve in this capacity for the next year.

At the Annual General Meeting held on June 11, 2008, the shareholders approved that, effective as of the date of the Meeting, Directors and Outside Directors will be compensated equally, both in fees and stock options. The compensation is based on an amount permissible by Israeli Company Law regarding Outside Director compensation. For fiscal year 2008, the compensation was fixed at NIS 42,245 (equal to approx. $ 10,500) for each Director and Outside Director, respectively. In addition, the Chairman of the Audit Committee is entitled to an additional amount of NIS 10,000 per annum (equal to approx. $ 2,500).

Outside Directors

Under the Companies Law and regulations promulgated there under, including the Companies Regulations (Rules for the Compensation and Expenses for an External Director), 2000, (the "Regulations") as amended, certain kinds of compensation with which Oridion wishes to provide its two Outside Directors require the approval of the General Meeting of the Shareholders of the Company.

The Regulations provide tables for payment of "annual compensation" and for additional compensation based on the participation of the Outside Directors in meetings or resolutions of the Board of Directors or committees thereof. The Regulations also allow for compensation of certain expenses to Outside Directors. Accordingly, the General Meeting of the Company's shareholders approved in January 2004 the payment to each Outside Director of fixed compensation in the amount allowed under the Regulations.

Senior Management

The Board of Directors of the Company determines the elements of compensation for the Chief Executive Officer, President, Chief Operating Officer, and the Chief Financial Officer of the

Company, after receiving the recommendations of the Stock and Compensation Committee. The Chief Executive Officer of the Company is responsible for determining the elements of compensation for the other Senior Managers of the Company. The compensation is usually determined once per year.

Each year the Board of Directors and the Chief Executive Officer, respectively, receives an independent compensation survey on compensation of senior management in Israel and the US. The survey uses as benchmarks other High-Tech companies in Israel and High-Tech companies in the medical area in the US.

This information together with an appraisal and compensation recommendation by the Stock and Compensation Committee (with respect to the four main Senior Managers as described above) are the main factors in determining the compensation amount for each Senior Manager.

The annual compensation package consists of a base salary, and a performance-related component consisting of bonus. The bonus is directly linked to the achievement of the internally planned EBIT result. The bonus component can be up to 4.5 – 6 months worth of base salaries (i.e. up to between 37.5% and 50% of the base salary). Furthermore, long term compensation based on employee stock options is granted once every few years.

Any such option, if granted in a certain year, has a subscription ratio of 1 option for 1 Ordinary Share of Oridion Systems Ltd. Under the Company's Stock Option Plans, one half of the shares under each option grant will become vested on the second anniversary of the grant. Thereafter, an additional quarter of the amount of shares under the option grant will become vested on each of the third and fourth anniversary of the grant. The options will expire after the sixth or seventh anniversary date of each option allotment date.

The Company's employee Stock Option Plan includes the ability to grant shares directly.

The Chairman and Chief Executive Officer chose to take his entire compensation in shares and/or options of the Company (no cash payments).

5.2 Compensation details

Non-Executive members of the Board of Directors

The total cost of the aggregate compensation paid and benefits in kind granted to or accrued on behalf of all of the Company's non-executive Directors for their services in such capacity during the year ended December 31, 2008 was $ 117,411, and for the year ended December 31, 2007 was $ 95,630, respectively. Its details for the two comparable periods are as follows:

Compensation in Fiscal Year 2008

	Position	Cash Compensation (US $)	Number of Shares	Number of Options[1]	Benefits in kind[2] (US $)	Total Compensation FY 2008(US $)[3]
Morry Blumenfeld	Director	11,342	-	-	-	23,863
Max Reis	Director	17,799	-	-	-	28,477
Dan Falk	Director	3,205	-	6,000	-	6,195
Karen Sarid	Outside Director	13,372	-	11,000	-	29,514
Raphael Melmed	Outside Director	15,923	-	-	-	29,362

[1] The options allocated in fiscal year 2008 and in fiscal year 2007 have a subscription ratio of 1:1 and an average exercise price of CHF 10.50 and CHF 11.02, respectively. One third of the options shall become vested on each of the first, second and third anniversaries of the grant date of options. The options will expire after the sixth anniversary date of each option grant. The total option compensation was based on the Monte Carlo option pricing model.

[2] Benefits in kind include social benefits, pension fund payments, company car, and similar compensation.

[3] Total compensation includes the annual amortization expense for the grant of options or shares that vest over time.

Compensation in Fiscal Year 2007

	Position	Cash Compensation (US $)	Number of Shares	Number of Options[1]	Benefits in kind[2] (US $)	Total Compensation FY 2007 (US $)[3]
Morry Blumenfeld	Director	7,500	-	2,750	-	20,418
Max Reis	Director	11,644	-	2,750	-	21,404
Karen Sarid	Outside Director	12,831	-	-	-	25,466
Raphael Melmed	Outside Director	15,923	-	-	-	28,342

[1] The options allocated in fiscal year 2008 and in fiscal year 2007 have a subscription ratio of 1:1 and an average exercise price of CHF 10.50 and CHF 11.02, respectively. One third of the options shall become vested on each of the first, second and third anniversaries of the grant date of options. The options will expire after the sixth anniversary date of each option grant. The total option compensation was based on the Monte Carlo option pricing model.

[2] Benefits in kind include social benefits, pension fund payments, company car, and similar compensation.

[3] Total compensation includes the annual amortization expense for the grant of options or shares that vest over time.

Executive members of the Board of Directors and members of Senior Management

The total cost of the aggregate compensation paid and benefits in kind granted to or accrued on behalf of all of the Company's executive Directors and Senior Managers for their services in all capacities during the year ended December 31, 2008 was $ 1,390,354, and for the year ended December 31, 2007 it was $ 1,264,320, respectively. Its details for the two comparable periods are as follows.

Compensation in Fiscal Year 2008

	Position	Cash Compensation (US $)	Number of Shares	Number of Options[2]	Benefits in kind[3] (US $)	Total Compensation FY 2008 (US $)[4]
Alan Adler[1]	CEO & Chairman	-	5,259	-	9,620	313,500
Gerald Feldman	President	367,595	-	51,350	76,474	483,530
Two Senior Managers	Senior VPs	373,581	-	41,050	175,647	593,324

Compensation in Fiscal Year 2007

	Position	Cash Compensation (US $)	Number of Shares	Number of Options[2]	Benefits in kind[3] (US $)	Total Compensation FY 2007 (US $)[4]
Alan Adler[1]	CEO & Chairman	-	87,656	-	11,971	356,456
Gerald Feldman	President	276,760	-	-	84,121	360,881
Two Senior Managers	Senior VPs	369,241	-	13,300	140,092	546,983

[1] Compensation of Alan Adler includes his duties as a Director (Chairman) as well as the Chief Executive Officer of the Company.

[2] The options allocated in fiscal year 2008 and in fiscal year 2007 have a subscription ratio of 1:1 and an average exercise price of CHF 9.67 and CHF 11.13, respectively. One half of the options shall become vested on the second anniversary of the grant. Thereafter, an additional quarter of the amount of shares under the option grant will become vested on each of the third and fourth anniversary of the grant. The options will expire after the sixth anniversary date of each option grant. The total option compensation was based on the Monte Carlo option pricing model.

[3] Benefits in kind include social benefits, pension fund payments, company car, and similar compensation

[4] Total compensation includes the annual amortization expense for the grant of options or shares that vest over time.

Compensation to Former Members of Governing Bodies

No compensation or severance payment was paid during the years ended December 31, 2008 and 2007, to any former members of the Board of Directors or Senior Management.

Additional Honorariums and Remunerations

No additional honorariums or remunerations were paid during the years ended December 31, 2008 and 2007, to any acting or former member of the Board of Directors or of the Senior Management or to any parties closely linked to such persons.

Loans Granted to Acting or Former Members of Governing Bodies

As of December 31, 2008 and 2007, there were no outstanding guarantees, loans, advances or credits granted to acting or former members of the Board of Directors or of the Senior Management of the Company (or to parties closely linked to such persons) either by the Company or by any of its Subsidiaries.

Ownership through shares and options as of December 31, 2008

Non-executive members of the Board of Directors (including parties closely linked)

Name	Position	Ordinary Shares (no. of shares)	Options[1] (no. of options)	Total participation[2]
Morry Blumenfeld	Director	-	17,750	0.14%
Max Reis	Director	-	27,750	0.22%
Dan Falk	Director	-	6,000	0.05%
Karen Sarid	Outside Director	-	31,000	0.25%
Raphael Melmed	Outside Director	-	31,000	0.25%

[1] *Details of the options granted are shown in the table below.*

[2] *Total participation in accordance with the regulations of the Federal Act on Stock Exchange and Securities Trading SESTA in percentage of the 12,494,034 shares outstanding as of December 31, 2008.*

Details of options outstanding:

Year of grant	Amount of granted options outstanding	Average exercise price (in CHF)	Expiration
2003	10,000	2.2	2010
2004	25,000	1.73	2011
2005	35,000	4.68	2012
2006	10,000	6.49	2013
2007	16,500	11.02	2013
2008	17,000	11.07	2014

These options have a subscription ratio of 1:1. Under the Company's Stock Option Plan, one third of the options shall become vested on each of the first, second and third anniversary date of each option grant date. For additional information, see Note 11 in the Financial Statements.

Executive members of the Board of Directors and members of Senior Management (including parties closely linked)

Name	Position	Ordinary Shares (no. of shares)	Options[1] (no. of options)	Total participation[2]
Alan Adler	Chairman, CEO	100,915	525,574	5.01%
Gerald Feldman	President	-	301,350	2.41%
Walter Tabachnik	Senior Vice President, Chief Financial Officer	55,034	108,000	1.30%
Yacov Bubis	Senior Vice President, Chief Operating Officer	78,677	46,350	1.00%

[1] *Details of the options granted are shown in the table below.*

[2] *Total participation in accordance with the regulations of the Federal Act on Stock Exchange and Securities Trading SESTA in percentage of the 12,494,034 shares outstanding as of December 31, 2008.*

Details of options outstanding:

Year of grant	Amount of granted options outstanding	Average exercise price (in CHF)	Expiration
2003	307,519	1.98	2010
2004	178,055	2.14	2011
2005	390,000	4.90	2012
2006	-	-	-
2007	13,300	11.13	2013
2008	92,400	9.67	2014

These options have a subscription ratio of 1:1. Under the Company's Stock Option Plan, one half of the options will become vested on the second anniversary of the grant. Thereafter, an additional quarter of the amount of shares under the option grant will become vested on each of the third and fourth anniversary of the grant. For additional information, see Note 11 in the Financial Statements.

Ownership through shares and options as of December 31, 2007

Non-executive members of the Board of Directors (including parties closely linked)

Name	Position	Ordinary Shares (no. of shares)	Options[1] (no. of options)	Total participation[2]
Morry Blumenfeld	Director	-	17,750	0.14%
Raphael Melmed	Outside Director	-	31,000	0.25%
Max Reis	Director	-	27,750	0.23%
Karen Sarid	Outside Director	-	20,000	0.16%

[1] *Details of the options granted are shown in the table below.*

[2] *Total participation in accordance with the regulations of the Federal Act on Stock Exchange and Securities Trading SESTA in percentage of the 12,299,523 shares outstanding as of December 31, 2007.*

Details of options outstanding:

Year of grant	Amount of granted options outstanding	Average exercise price (in CHF)	Expiration
2003	10,000	2.2	2010
2004	25,000	1.73	2011
2005	35,000	4.68	2012
2006	10,000	6.49	2013
2007	16,500	11.02	2013

These options have a subscription ratio of 1:1. Under the Company's Stock Option Plan, one third of the options shall become vested on each of the first, second and third anniversary date of each option grant date. For additional information, see Note 11 in the Financial Statements.

Executive members of the Board of Directors and members of Senior Management (including parties closely linked)

Name	Position	Ordinary Shares (no. of shares)	Options[1] (no. of options)	Total participation[2]
Alan Adler	Chairman, CEO	95,656	525,574	5.05%
Gerald Feldman	President	-	250,000	2.03%
Walter Tabachnik	Senior Vice President, Chief Financial Officer	28,152	135,800	1.33%
Yacov Bubis	Senior Vice President, Chief Operating Officer	63,650	72,500	1.11%

[1] Details of the options granted are shown in the table below.

[2] Total participation in accordance with the regulations of the Federal Act on Stock Exchange and Securities Trading SESTA in percentage of the 12,299,523 shares outstanding as of December 31, 2007.

Details of options outstanding:

Year of grant	Amount of granted options outstanding	Average exercise price (in CHF)	Expiration
2003	402,519	1.98	2010
2004	178,055	2.14	2011
2005	390,000	4.90	2012
2006	-	-	-
2007	13,300	11.13	2013

These options have a subscription ratio of 1:1. Under the Company's Stock Option Plan, one half of the options will become vested on the second anniversary of the grant. Thereafter, an additional quarter of the amount of shares under the option grant will become vested on each of the third and fourth anniversary of the grant. For additional information, see Note 11 in the Financial Statements.

6. Shareholders' Participation Rights

6.1 Voting-rights Restrictions and Representation

6.1.1 The ownership or voting of the Ordinary Shares by non-residents of Israel is not restricted in any way by the laws of Israel or the Articles of Association of the Company, except with respect to citizens of countries which are in a state of war with Israel. For further information, see Section 2.4 above.

Except as provided for above, the Articles of Association of the Company do not contain provisions relating to restrictions on voting rights, such as group clauses or exceptions rules.

6.1.2 Not applicable.

6.1.3 Not applicable.

6.1.4 Under the Articles of Association of the Company, any shareholder may vote at a General Meeting either in person or by proxy, or, if the shareholder is a corporation, by a representative authorized pursuant to Articles of Association, as described below. The proxy instrument shall either be presented to the Chairman at the relevant General Meeting or be delivered to the Company not less than two hours before the time fixed for such General Meeting, provided that under certain circumstances as provided for in the Articles of Association of the Company, the proxy instrument shall be delivered to the Company a week before the time fixed for the General Meeting.

Under the Articles of Association of the Company and the Companies Law, a corporation being a shareholder of the Company may duly authorize any person to be its representative at any meeting of the Company or to execute or deliver a proxy on its behalf. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power, which the latter could have exercised if it were an individual shareholder.

Under the Companies Law, a shareholder participating in a meeting relating to an extraordinary transaction with a Control Holder (as defined below) should notify the Company prior to the vote or on the proxy, if the vote is made by proxy, whether or not such a shareholder has a Personal Interest (as defined below) in such a transaction. Absent of such a notice, such member shall not vote at such meeting. Under the Companies Law, a "Control Holder" is defined as an entity that has the ability to control or direct the activities of such a corporation, as more specifically described in the Companies Law.

The Companies Law defines a "Personal Interest" of a person in an action or transaction of a company, including a personal interest of his relative, and of another corporation in which such person or his relative is an interested party, as this term is defined in the Companies Law.

6.2 Statutory Quorums

Under the Company's Articles of Association, ordinary resolutions proposed at Annual General Meeting and Extraordinary General Meetings of the Shareholders shall be approved by a majority of the shareholders represented at such a meeting in person or by proxy and voting thereon. Resolutions relating to the following proposals at such meetings shall be approved by a Special Resolution of the shareholders of the Company: changes in the Articles of Association of the Company (however, certain changes pertaining to the Board of Directors require the consent of 75% of the voting power represented at the relevant meeting), changes in the authorized share capital of the Company or the rights of shares, introduction of preference shares or new classes of shares and the granting of special rights, reduction of the share capital of the Company, introduction of limitations on the transfer of shares and certain merger or winding up events.

Generally, under the Companies Law the compensation of Directors requires the approval of the Audit Committee, the Board of Directors and the General Meeting of the Shareholders of the Company in such order. The Companies Law and regulations promulgated there under require

that: (i) certain extraordinary transactions between the Company and its Control Holder or in which the Control Holder has personal interest, and (ii) an arrangement as to the compensation of an Office Holder (as defined below) who is also defined as a Control Holder of the Company must be approved by the Audit Committee, the Board of Directors and a General Meeting of the Shareholders, provided that either: (a) the majority of shares voted at the meeting, including at least one third of the shares of non-controlling shareholders voted at the meeting, vote in favor of such arrangement or (b) the total number of shares voted against such arrangement does not exceed one percent of the aggregate voting rights in the Company.

An "Office Holder" is defined in the Companies Law as a Director, Chief Executive Officer, President, Senior Vice President, Vice President, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title and other Managers directly subordinate to the President.

The Companies Law generally provides that a merger be approved by the Board of Directors and a majority of the shares voting on the proposed merger. For purposes of the shareholders vote, unless a court rules otherwise, the merger will not be approved if a majority of the shares held by persons other than the other party to the merger (or any person who holds twenty-five percent or more of the shares or the right to appoint twenty-five percent or more of the directors of the other party) vote against the merger.

In addition, the Companies Law also provides that certain "arrangements" between the Company and its shareholders and/or creditors require the approval of at least seventy-five percent of the shares and a majority of the shareholders voting at a shareholders meeting, or of seventy-five percent of the credit amount of the Company and a majority of the creditors voting at a separate meetings, as the case may be.

6.3 Convocation of the General Meeting of Shareholders

Kinds of General Meetings

Under the Company's Articles of Association, an Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen months after the last preceding Annual General Meeting) and at such place, either within or outside the State of Israel, as may be determined by the Board of Directors.

Under the Companies Law and the Articles of Association of the Company, the Board of Directors of the Company may convene an Extraordinary General Meeting at its own decision, and shall be obliged to do so upon a requisition in writing of one of the following:
(i) two Directors; (ii) one-fourth of the Directors; or (iii) one or more shareholders who hold five percent of the Ordinary Shares of the Company.

Notice of General Meetings

Under the Company's Articles of Association, not less than twenty-one days prior notice shall be given of every General Meeting, including a meeting in which a Special Resolution is proposed to be passed. Each such notice shall specify the place, day and hour of the meeting and the general nature of each item to be acted upon thereat and may set forth arrangements as to vote by proxy, as required by the Articles of Association and the Companies Law. The said notice shall be given to all shareholders entitled to attend and vote at such General Meeting. The accidental omission to give notice of a General Meeting to any shareholder, or the non-receipt of notice sent to such shareholder, shall not invalidate the proceedings at the General Meeting.

Quorum

Under the Company's Articles of Association, the quorum required for a General Meeting of Shareholders (whether Annual or Extraordinary) consists of at least two shareholders present in person or by proxy and holding, or representing, more than ten percent of the voting rights of the outstanding share capital. A General Meeting convened upon the request of shareholders as described above, and adjourned for lack of a quorum shall only be held if at least the same

number of shareholders which requested such meeting be convened, is present at the adjourned meeting. If the meeting is dissolved for any other reason, it shall be adjourned to the same day in the following week at the same time and place or at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. If at such reconvened meeting a quorum is not present within half an hour from the time appointed for the meeting, any two shareholders present in person or by proxy shall constitute a quorum, regardless of the number of shares represented.

6.4 Agenda

Responsibility of the General Meeting

Under the Companies Law and the Articles of Association of the Company, the following corporate actions may only be resolved by a General Meeting of the Shareholders: changes in the Articles of Association, assumption of the function of the Board of Directors of such the Company in case it is unable to activate the vital functions thereof, appointment and establishment of the scope of employment for the Company's auditor, appointment of Outside Directors, approval of such transactions with Office Holders or interested parties that require the General Meeting's approval, as set forth in the Companies Law, increase and decrease of the authorised share capital of the Company and approval of a merger.

Agenda

Under the Companies Law, the agenda of a General Meeting shall be determined by the Board of Directors, and it shall also include the items which are the reason for convening of such meeting. In addition one or more shareholders that hold at least one percent of the voting rights of the Company may request the Board of Directors to include an item on the agenda of a General Meeting, provided that such item is adequate to be discussed at a General Meeting. Neither the Companies Law nor the Articles of Association of the Company provide a timeline for such request.

6.5 Registrations in the Share Register

Under the Company's Articles of Association, the Board of Directors may determine a record date in advance to determine the shareholders entitled to notice or to vote at any Annual or Extraordinary General Meeting. Under the Companies Law and regulations promulgated there under, such record date shall not be more than forty nor less than four days before the date of such meeting. A determination of shareholders of record entitled to notice of or to vote at a meeting shall apply to any adjournment of the meeting, provided, however, that the Board of Directors may determine a new record date for the adjourned meeting.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

The Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a twenty-five percent shareholder, unless there is already a twenty-five percent shareholder. Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a forty-five percent shareholder, unless there is already a shareholder holding more than forty-five percent of the voting rights in a company, subject to certain exception. In any event, if as a result of an acquisition of shares the acquirer will hold more than ninety percent of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. If more than ninety-five percent of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be transferred to it.

Pursuant to Article 20 of the Swiss Federal Act on Stock Exchange and Securities Trading

("SESTA"), amended as of December 1, 2007, any person, directly, indirectly or in concert with third parties, who acquires or sells, for such person's own account, stock in a corporation incorporated in Switzerland whose equity securities are listed, in whole or in part, in Switzerland and thereby attains, falls below or exceeds the threshold percentages of 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3 percent of the voting rights, whether or not such rights are exercised, is obliged to notify the corporation and the stock exchanges on which the equity securities in question are listed. These threshold limits apply to the sum of voting rights held through equity securities, conversion rights, share purchase rights, granted (written) share sale rights, as well as financial instruments which economically enable the acquisition of equity securities in respect of a public tender offer. As the Company is not incorporated in Switzerland, the obligations to notify it pursuant to Article 20 of the SESTA do not apply. However, in the Listing Agreement (as defined below) the Company has agreed to make public any beneficial owner known to it, and has resolved to comply with the amended SESTA thresholds of 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3 percent of the voting rights of the Shares.

In connection with the Company's initial public offering on the SIX New Market in April 2000, the Company entered into a listing agreement (the "Listing Agreement") with the SIX Swiss Exchange. Pursuant to the Listing Agreement, the Company has agreed to comply with the publicity requirements (i.e., periodic and ad hoc publicity) of the listing rules of the SIX Swiss Exchange. Notices required under the listing rules of the SIX Swiss Exchange will be published in the L'Agéfi and the Neue Zürcher Zeitung, including notices of meetings of shareholders.

Pursuant to the applicable provisions of the SESTA, any person, who by acquiring securities exceeds the threshold of 33 1/3 percent of the voting rights (whether exercisable or not) of a Swiss company which shares are listed on the SIX Swiss Exchange, must make a mandatory offer to acquire all other shares. Since the Company is not incorporated in Switzerland, the Company believes that these provisions do not apply. However, there is no assurance that Swiss securities supervisory authorities or Swiss courts will not rule that such mandatory bid rules should apply depending on the circumstances surrounding a particular transaction.

7.2 Clauses on Changes of Control

Under the Stock Option Plans of the Company, the Board of Directors or the Stock and Compensation Committee may determine with respect to certain option agreement that there shall be a clause instructing that, if upon the occurrence of a Transaction (as defined below), the successor corporation or its Subsidiary, as the case may be, do not agree to assume or substitute the number of outstanding unexercised options and/or their exercise price, the vesting periods shall be accelerated so that any unvested option shall be immediately vested in full prior to the effective date of the Transaction.

For the meaning of this Section 7.2 a "Transaction" means a merger of the Company with or into a successor corporation, or the sale of all or substantially all of the assets or shares of the Company to a successor corporation, or reorganization or the like.

For information regarding options held by the Company's Directors and Senior Mangers, see Section 5.2 above.

The Board of Directors has also adopted two further measures in order to protect the Company and its stakeholders against any potential hostile takeovers:

(i) The Board of Directors adopted a Shareholder Rights Plan (the "Rights Plan"). The Rights Plan provides for the Company to issue one right for each 3 outstanding ordinary shares of the Company held by shareholders. Initially, these rights will not be exercisable. The rights are non-tradeable and, as long as they are not exercised, there is no dilutive effect. Under the Rights Plan, the rights will only be exercisable, if a person or group (the "Aquiring Person") acquires beneficial ownership of 20 percent or more of the Company's ordinary shares or commences a tender or exchange offer for 20 percent or more of the Company's ordinary shares, except if such Aquiring Person is approved by the majority of the Board of Directors.

In case of an exercise of the rights, each right will generally entitle the holder, other than the acquiring person or group, to acquire, for the exercise price of CHF 0.01 per share one ordinary share of the Company. The rights plan will continue in effect until December 29, 2013, unless earlier redeemed or amended by the Company's Board of Directors.

This plan is designed to enhance the Board of Directors' ability to protect shareholders against, among other things, unsolicited attempts to acquire control of the Company that do not offer an adequate price to all shareholders or are otherwise not in the best interest of Oridion Systems Ltd. and its shareholders. Since the Acquiring Person will not be entitled to exercise any Rights, the Rights Plan in effect dilutes the position of an Acquiring Person. The decision to approve or disapprove a potential Aquiring Person is entirely with the Board of Directors (majority of the Board).

(ii) "Golden Parachutes". In order to make a hostile takeover that would oust management less economic and to incentivize the company's management team, the Board of Directors approved a special severance package of $5 million to each non-Director executive of a Vice President level and higher, excluding the CEO.

The severance package would be paid out in accordance with the following instances of termination:

(A) Termination without Cause or Resignation for Good Reason in Connection with a Change of Control. The special severance will be paid upon the occurrence of a "double trigger"; (a) the first trigger is a change of control event, and (b) the second trigger is termination of the executive without cause or the executive resigns for a good reason.

The definition of change of control means any of the following: (i) change in the ownership, which occurs on the date that any one person, or more than one person acting as a group, acquires ownership of the stock of the company that, together with the stock held by such person, constitutes more than 50% of the total voting power of the stock of the company; (ii) change in effective control of the company, which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or (iii) change in ownership of a substantial portion of the company's assets.

The second trigger is termination of the executive without cause or the resignation of the executive for a good reason. "Cause" means the executive's willful act, violation of law, conviction of any felony or any act of fraud. Resignation for "good reason" means a reduction in executive's authority, salary, a change in the geographic location, etc.

In addition, the executive shall have full acceleration of the vesting of all of such executive's stock options and unvested shares.

(B) Voluntary Resignation; Termination for Cause. No special severance package in the event the executive decides to leave the company for no reason or is terminated for cause.

(C) Disability; Death. No special severance package in the event of death or disability.

(D) Termination without Cause or Resignation for Good Reason not in Connection with a Change of Control. No special severance package in the event of termination of the executive not in connection with a change of control. Rather, the executive's usual severance package will be awarded in such a situation.

8. Auditors

8.1 Duration of the Mandate and Term of Office of the Head Auditor

8.1.1 The auditors of the Company have been Kost Forer Gabbay & Kasierer, a member firm of Ernst & Young International, Tel Aviv, Israel (the "Auditors") since 1996. The mandate to audit the Company's financial reports for the fiscal year 2008 started on January 1, 2008, and ended December 31, 2008.

8.1.2 The Head Auditor, responsible for the existing audit, has been responsible for the Company's audit since April 1, 2007.

8.2 Auditing Fees

The total fees paid to the Auditors for auditing purposes during the year ended December 31, 2008 is $ 61,027.

8.3 Additional Fees

The total fees paid to the Auditors for other non-auditing services during the year ended December 31, 2008 is $ 50,855.

8.4 Supervisory and Control Instruments vis-à-vis the Auditors

Under the Companies Law, the external auditor shall not depend on the Company, directly or indirectly.

As provided for in the Companies Law and the Articles of Association of the Company, the shareholders of the Company, at their Annual General Meeting, nominate the Company's external auditors after the opinion of the Board of Directors is brought before the participating shareholders. The elected external auditor serves until the next Annual General Meeting. At such Annual General Meeting, the Shareholders of the Company authorize the Board of Directors to determine the remuneration of the external auditor.

The Company's external auditors report directly to the Board of Directors of the Company and participate at each meeting of the Board of Directors. In addition, one of the roles of the Audit Committee of the Company is to examine flaws in the business management of the Company, in consultation with the external auditors, and to propose remedial measures to the Board of Directors. For information regarding the Audit Committee of the Company, see Section 3.4.2 above.

In fiscal year 2008, the external auditors participated in 4 meetings of the Board of Directors and in 4 meetings of the Audit Committee. One time per year the external auditors prepare a management letter addressed to the Board of Directors and the Audit Committee, informing them of the result of their audit.

9. Information Policy

The Company reports its quarterly Financial Statements three times a year and the full year Financial Statements once a year. Included in this report is a letter from the Chief Executive Officer of the Company summarizing the quarterly and annual activities of the Company. This information is posted on the website of the Company www.oridion.com. In addition the Company distributes information to recognized media companies (e.g. Bloomberg, several daily newspapers and financial publications) for dissemination to the public, and to analysts and investors who have registered on the Company website to receive its press releases.

In addition, the Company organizes presentations, conferences or conference calls with the financial community and media to further discuss details of the reported earnings or of any other matter of importance. The Company also undertakes roadshows to institutional investors on a regular basis.

Disclosure of shareholding notices were published in the Swiss Official Gazette of Commerce until year end of 2008. Since January 1, 2009, the Company uses the web platform of SIX Swiss Exchange for the disclosure of shareholding notices. Such publications can be viewed under www.six-swiss-exchange.com, Section Admission/Issuers, Link Disclosure of significant shareholders.

Publications in conjunction with the listing rules of the SIX Swiss Exchange will be published in L'Agéfi and Neue Zürcher Zeitung, including notices of meetings of shareholders.

The modalities for distribution of the ad-hoc press releases (push/pull systems) have been implemented in accordance with the ad-hoc publicity rules of SIX Swiss Exchange. The Company's press releases can be viewed on www.oridion.com, section Press Room, Press Releases.

ERNST & YOUNG

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of

ORIDION SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of Oridion Systems Ltd. ("the Company") and its subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2008. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Kost Forer Gabbay and Kasierer

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
February 25, 2009

Consolidated Balance Sheets

U.S. dollars in thousands

Assets	December 31 2008	December 31 2007
CURRENT ASSETS:		
Cash and cash equivalents	2,630	6,642
Short-term deposits	-	50
Deferred tax assets (Note 12f)	1,036	-
Marketable securities (Notes 3, 4)	846	*) 4,659
Trade receivables	9,322	7,983
Other accounts receivable and prepaid expenses (Note 5)	918	982
Inventories (Note 6)	**8,104**	**4,612**
Total current assets	22,856	24,928
LONG-TERM ASSETS:		
Other accounts receivable and prepaid expenses	135	59
Deferred tax assets (Note 12f)	3,769	4,300
Marketable securities (Notes 3, 4)	7,358	*) 2,839
Severance pay fund	2,047	1,814
Property and equipment, net (Note 7)	3,950	2,990
Total long-term assets	17,259	12,002
Total assets	**40,115**	**36,930**

*) *Reclassified.*

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

Consolidated Balance Sheets

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

Liabilities and Shareholders' Equity	December 31, 2008	December 31, 2007
CURRENT LIABILITIES:		
Trade payables	5,208	3,634
Other accounts payable and accrued expenses (Note 9)	3,351	2,580
Total current liabilities	8,559	6,214
ACCRUED SEVERANCE PAY	2,930	2,521
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)		
SHAREHOLDERS' EQUITY (Note 11)		
Share capital Ordinary shares of NIS 0.01 par value - Authorized: 20,000,000 shares at December 31, 2008 and 2007; Issued and outstanding: 12,494,034 shares at December 31, 2008 and 12,299,523 shares at December 31, 2007	33	32
Additional paid-in capital	78,770	77,764
Accumulated other comprehensive income	52	4,399
Accumulated deficit	(50,229)	(54,000)
Total shareholder's equity	28,626	28,195
Total liabilities and shareholders' equity	**40,115**	**36,930**

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

Consolidated Statements of Income

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

	Year ended December 31,		
	2008	2007	2006
Revenues (Note 14)	47,131	37,554	34,637
Cost of revenues	20,919	17,130	16,255
Gross profit	26,212	20,424	18,382
Operating expenses:			
Research and development, net	4,654	3,230	2,734
Selling and marketing	12,285	9,555	9,220
General and administrative	3,534	2,631	2,607
Total operating expenses	20,473	15,416	14,561
Operating income	5,739	5,008	3,821
Financial income (expenses), net (Note 15)	(2,473)	591	(125)
Income before taxes on income	3,266	5,599	3,696
Income tax benefits (Note 12)	505	4,300	-
Net income from continuing operations	3,771	9,899	3,696
Loss from discontinued operations (Note 16)	-	-	(502)
Net income	**3,771**	**9,899**	**3,194**
Basic earnings per share from continuing operations	0.30	0.81	0.32
Basic loss per share from discontinued operations	-	-	(0.04)
Total basic net earnings per Ordinary share	**0.30**	**0.81**	**0.28**
Diluted earnings per share from continuing operations	0.28	0.73	0.294
Diluted loss per share from discontinued operations	-	-	(0.04)
Total diluted net earnings per Ordinary share	**0.28**	**0.73**	**0.25**
Weighted average number of shares used for computing basic net earnings per share	**12,383,671**	**12,283,519**	**11,592,122**
Weighted average number of shares used for computing diluted net earnings per share	**13,339,950**	**13,470,972**	**12,788,619**

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

Consolidated Statements of Changes in Shareholders' Equity

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated comprehensive income	Accumulated deficit	Total comprehensive income (loss)	Total shareholders' equity
Balance as of January 1, 2006	26	75,134	-	(67,093)		8,067
Exercise of options, net	1	714	-	-		715
Exercise of warrants	*) -	-	-	-		*) -
Stock-based compensation	-	598	-	-		598
Net income	-	-	-	3,194	*3,194*	3,194
Total comprehensive income					***3,194***	
Balance as of December 31, 2006	27	76,446	-	(63,899)		12,574
Exercise of options, net	5	640	-	-		645
Stock-based compensation	-	678	-	-		678
Unrealized gain on marketable securities	-	-	4,399	-	*4,399*	4,399
Net income	-	-	-	9,899	*9,899*	9,899
Total comprehensive income					***14,298***	
Balance as of December 31, 2007	32	77,764	4,399	(54,000)		28,195
Exercise of options, net	1	280	-	-		281
Stock-based compensation	-	726	-	-		726
Unrealized loss on marketable securities, net	-	-	(4,347)	-	*(4,347)*	(4,347)
Net income	-	-	-	3,771	*3,771*	3,771
Total comprehensive loss					***(576)***	
Balance as of December 31, 2008	**33**	**78,770**	**52**	**(50,229)**		**28,626**

*) *Represents an amount lower than $1*

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31, 2008	2007	2006
Cash flows from operating activities:			
Net income	3,771	9,899	3,194
Adjustments required to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations	-	-	502
Depreciation	809	722	704
Amortization of deferred stock compensation	666	540	558
Amortization of deferred stock compensation related to warrants issued to credit providers and others	-	-	32
Accrued interest on short-term bank deposits	-	(5)	-
Deferred tax assets	(505)	(4,300)	-
Accrued severance pay, net	176	95	(79)
Increase in trade receivables	(1,339)	(1,440)	(1,628)
Increase in other accounts receivable and prepaid expenses	(12)	(237)	(247)
Increase in inventories	(3,492)	(364)	(1,706)
Increase (decrease) in trade payables	837	(597)	914
Increase (decrease) in other accounts payable and accrued expenses	831	(639)	394
Accrued interest and amortization of premium on marketable securities and short term investment	5	-	-
Impairment loss on marketable securites	246	-	-
Gain from sale of marketable securities	(616)	(372)	-
Net cash provided by operating activities from continuing operations	1,377	3,302	2,638
Net cash used in operating activities from discontinued operations	-	-	(579)
Net cash provided by operating activities	1,377	3,302	2,059
Cash flows from investing activities:			
Purchase of marketable securities	(7,429)	(3,238)	-
Proceeds from sale of property and equipment	-	1	-
Purchase of property and equipment	(1, 032)	(935)	(618)
Proceeds from short-term bank deposits, net	50	30	2,542
Proceeds from maturity and sale of marketable securities	2,741	511	-
Net cash provided by (used in) investing activities from continuing operations	(5,670)	(3,631)	1,924
Net cash provided by investing activities from discontinued operations	-	-	10
Net cash provided by (used in) investing activities	(5,670)	(3,631)	1,934
Cash flows from financing activities:			
Repayment of long-term loan	-	-	(2,500)
Proceeds from exercise of options and issuance of shares, net	281	645	694
Net cash provided by (used in) financing activities	281	645	(1,806)
Increase (decrease)in cash and cash equivalents	(4,012)	316	2,187
Cash and cash equivalents at the beginning of the year	6,642	6,326	4,139
Cash and cash equivalents at the end of the year	**2,630**	**6,642**	**6,326**

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

Consolidated Statements of Cash Flows

U.S. dollars in thousands

	Year ended December 31,		
	2008	2007	2006
(a) Non-cash transactions:			
Purchase of property and equipment in credit	737	-	-
Other accounts receivable in respect of exercise of options	-	-	21
Issuance of shares in payment of accounts payable	-	138	-
(b) Supplemental disclosure of cash flows information:			
Cash paid during the year for:			
Interest	-	-	143

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

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

NOTE 1: GENERAL

a. Oridion Systems Ltd. ("the Company") is a holding company, which wholly-owns Oridion Medical 1987 Ltd. and all of its subsidiaries. The Company is a medical technology company based in Jerusalem, Israel and Needham, Massachusetts, U.S.A. The Company employs its patented Microstream technology in the development, manufacturing and marketing of products used in its business - Capnography - the non-invasive measurement of carbon dioxide contained in the exhaled breath to determine the adequacy of respiration.

b. As for major customers disclosure, see Note 14b.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of Oridion and its subsidiaries' revenues and expenses are generated in U.S. dollars. The Company's management believes that the U.S dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards Board No. 52, "Foreign Currency Translation" ("SFAS No. 52"). All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the consolidated statement 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 subsidiaries:

	% of ownership
1. Oridion Medical 1987 Ltd. ("Medical")	100
2. Oridion Capnography Inc. (through Medical)	100
3. Oridion Medical Europe BV (through Medical) *)	100
4. Oridion Medical Technologies Ltd. ("Technologies")	100
5. Irad Technologies Ltd. *)	100

*) Inactive.

Intercompany transactions and balances including profit from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

d. Cash and 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. Investments in marketable securities:

The Company and its subsidiaries account for investments in debt and equity securities in accordance with Statement of Financial Accounting Standard No. 115. Management determines the appropriate classification of the Company's investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date.

At December 31, 2008, the Company classified its investment in marketable securities as available for sale.

Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income using the specific identification method. The amortized cost of marketable securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in financial income (expenses), net. Interest and dividends on securities are included in financial income.

FASB Staff Position (FSP) No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1") provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss should be recognized equal to the difference between the investment's cost and its fair value. FSP 115-1 nullifies certain provisions of Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-1") while retaining the disclosure requirements of EITF 03-1 which the Company adopted in 2003. As of December 31, 2008, an impairment loss in the amount of $ 246 has been identified and has been recorded as financial expenses.

f. Inventories:

Inventories are stated at the lower of cost or market value. Inventory write-offs and write-down provisions are provided to cover risks arising from slow-moving items or discontinued items.

The Company and its subsidiaries periodically evaluate the quantities on hand relative to current and historical selling prices less costs to finish and sell and historical and projected sales volume. Based on this evaluation, an impairment charge is recorded when required to write-off inventory to its market value.

Cost of work in progress and finished goods is based on cost of direct manufacturing and sub-contracted work, with the addition of allocable indirect manufacturing costs.

g. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and related equipment	20 - 33
Office furniture and equipment	6 - 10
Machinery and equipment	10
Leasehold improvements	Over the shorter of the related lease period or the life of the asset

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of long-lived assets and long-lived assets to be disposed of:

Oridion's long-lived assets are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2008 and 2007, no impairment losses have been identified.

i. Revenue recognition:

Oridion generates revenues mainly from selling its products through OEM partners and through the Oridion distribution network, both of which are considered end users. Revenue is recognized when title to the product passes to the customer.

Revenues from product sales are recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"), when delivery has occurred, persuasive evidence of an agreement exists, the fee is fixed or determinable, no future obligation exists and collectability is reasonably assured.

j. Accounting for stock-based compensation:

The Company accounts for employee stock-based compensation in accordance with SFAS 123R.

The Company elected to use the Monte-Carlo option-pricing model to determine the fair value of stock options on the dates of grant, consistent with that used for pro forma disclosures under SFAS No. 123, Accounting for Stock-Based Compensation.

Stock options are measured based on the fair market values of the underlying stock on the dates of grant. The company recognizes stock-based compensation using the straight-line method for all option and share awards issued.

The Company accounts for option and share awards issued to non-employees in accordance with the provisions of SFAS 123R and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services (EITF 96-18). Under SFAS 123R and EITF 96-18, the company uses the Monte-Carlo option-pricing model to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to stock-based compensation.

In the years ended December 31, 2006, 2007 and 2008, the Company recognized stock-based compensation of $726 and $678, $598, respectively, in the statement of changes in shareholder's equity.

The total intrinsic value of stock options exercised during 2008 and 2007 was $ 4 and $ 43, respectively. The Company recorded cash received from the exercise of stock options of $ 281, $ 645 and $ 694, with no related tax benefits, during the years ended December 31, 2008, 2007 and 2006, respectively.

k. Provision for warranty:

Oridion provides a warranty of up to 12 - 36 months on all of its products, excluding consumables. The warranty is provided to the end users. The specific terms and conditions of those warranties vary depending upon the product sold and country in which the product is sold. Oridion estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect Oridion's warranty liability include the number of units sold, historical and anticipated rates of warranty

claims, and cost per claim. Oridion periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in Oridion's warranty liability during 2008 are as follows:

Balance at the beginning of the year	224
Warranties issued during the year	183
Settlements made during the year	(164)
Balance at the end of the year	**243**

l. Research and development costs:

Research and development costs are charged to the statement of income as incurred.

m. Earnings per share:

Basic net earnings per share are computed based on the weighted average number of shares of common stock outstanding during the year. Diluted net earnings per share further include the dilutive effect of stock options outstanding during the year, all in accordance with Statement of Financial Accounting Standard No. 128, "Earnings per Share" ("SFAS No. 128").

The total weighted average number of shares related to the outstanding options and warrants excluded from the calculations of diluted net earning per share due to their anti-dilutive effect was 233,183, 2,292 and 3,604 shares for the years ended December 31, 2008, 2007 and 2006, respectively.

n. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). 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 bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Deferred tax liabilities and assets are classified as current or non current based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting.

The Company accounts for uncertain tax positions in accordance with FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in income Taxes - an Interpretation of SFAS No. 109". Accordingly, the Company reports a liability, if necessary, for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

o. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and trade receivables.

Cash and cash equivalents are invested in US dollars, Euro and Israeli shekels with major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Marketable debt securities are invested in governmental and corporate bonds both in U.S. dollars, Euros and Israeli shekels. Management believes that those corporations and state institutions are financially sound, the portfolio is well diversified and, accordingly, that minimal credit risk exists with respect to these marketable securities.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's marketable securities consist of investment-grade corporate bonds and government bonds. The Company's investment policy, approved by the board of directors, limits the amount the Company may invest in any one type of investment or issuer and the grade of the security, thereby reducing credit risk concentrations.

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

The Company and its subsidiaries have no off-balance-sheet concentration of credit risk, except for certain derivative instruments as mentioned below.

p. Severance pay:

Oridion's liability for severance pay of its Israeli employees is calculated pursuant to Israel's 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 insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial losses.

Severance expense for the years ended December 31, 2008, 2007 and 2006 amounted to $ 621, $ 380 and $ 421, respectively.

Employee benefit plan:

The Company has a 401(K) and Profit Sharing plan covering all employees in the U.S. All eligible employees may elect to contribute up to 90% of their compensation to the plan through salary deferrals, subject to IRS limits. The maximum deferral for calendar year 2008 was $ 16 ($ 21, if the employee reached the age of 50 by December 31, 2008). The Company currently offers a Safe Harbor Match. This matching contribution currently is 100% of the first 3% of the Participant's Compensation contributed to the Plan and 50% of the next 2% of the Participant's Compensation contributed to the Plan. This matching contribution vests 25% per year over the first four years of the employee's service to the Company. The Company's matching contribution to the plan was approximately $ 94, $ 77 and $ 29 for the years ended December 31, 2008, 2007 and 2006, respectively.

q. Fair value of financial instruments:

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

1. The carrying values of cash and cash equivalents, trade receivables and trade payables approximate fair values due to the short-term maturities of these instruments.
2. The fair value of marketable securities is based on the quoted market price (see Note 3).
3. The fair value of derivative instruments is estimated by obtaining quotes from brokers.

r. Derivative instruments and hedging activities:

All of the Company's derivatives do not qualify for hedge accounting under Financial Accounting Standard Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and are recognized on the balance sheet at their fair value, with changes in the fair value carried to the statements of operations and included in financial income (expenses), net.

In the years ended December 31, 2008, 2007 and 2006, the Company recorded gains (losses), net from hedging transactions in the amount of $ (2,634) and $ 165, $ 28, respectively.

s. Reclassification:

Certain reclassifications were made in prior years' financial statements to conform to the current presentation

t. Impact of recently issued accounting standards:

1. In December 2007, the FASB issued SFAS 141R. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for the company beginning January 1, 2009. The impact of the adoption of SFAS 141R on the Company's consolidated financial position, results of operations will be dependent on the size and nature of the business combinations completed after the adoption of this statement. Currently, the Company does not expect the adoption of SFAS 141R to have any material effect on its financial statements.

2. In December 2007, the FASB issued SFAS 160. SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for the Company beginning January 1, 2009. The Company does not expect the adoption of SFAS 160 to have any material effect on its financial statements.

3. In February 2008, the FASB issued FSP 157-2, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities is effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of this statement on its financial statements.

NOTE 3: MARKETABLE SECURITIES

The following is a summary of marketable securities at December 31, 2008 and 2007:

	Amortized cost		Unrealized gains (losses), net		Fair value	
	2008	2007	2008	2007	2008	2007
Government bonds	1,116	180	(23)	-	1,093	179
Corporate bonds and securities	7,036	2,920	75	4,399	7,111	7,319
	8,152	**3,100**	**52**	**4,399**	**8,204**	**7,498**

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

The amortized cost of marketable debt securities at December 31, 2008, by contractual maturities or anticipated date of sale, is shown below:

		Unrealized gains (losses), net		
	Amortized cost	Gains	(Losses)	Fair value
Due in one year or less	663	259	(76)	846
Due after one year to five years	7,489	99	(230)	7,358
	8,152	**358**	**(306)**	**8,204**

The actual maturity dates may differ from the contractual maturities because debtors may have the right to call or prepay obligations without penalties.

The Company recognized gross realized gains of $ 699 on the sale of its marketable securities in the year ended December 31, 2008. The Company recognized gross realized losses of $83 in the year ended December 31, 2008. Realized gains and losses are included in interest income (expense), net, in the Consolidated Statements of Income.

The Company has recognized other-than-temporary impairments in the amount of $ 246, $ 0 and $ 0 for the years ended December 31, 2008 and December 31, 2007 and December 31, 2006, respectively.

Other than the securities that were considered to have other-than-temporary impairments, since the Company, has the ability and intent to hold these investments until a recovery of fair value, the remaining investments were not considered to be other- than- temporarily impaired at December 31, 2008. In estimating other-than-temporary impairment losses, management considers, among other things: (i) the length of time and the extent to which the fair value has been less than cost; (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost.

In 2006, Oridion transferred its breath-testing business to a newly-formed company, Exalenz Bioscience Ltd. ("Exalenz") (formerly BreathID (2006) Ltd.), in which Oridion retained a 19.9% interest. In May 2007, Exalenz completed an Initial Public Offering (IPO) on the Tel Aviv Stock Exchange.

Upon the IPO, the Company classified its investment in Exalenz shares as "available-for-sale" in accordance with SFAS 115. During 2008 and 2007, Oridion sold 440,000 and 220,000 shares of Exalenz, respectively. The gain in the amount of $ 670 and $ 281 respectively, was recorded as financial income in the consolidated statement of income. As of December 31, 2008, Oridion's interest in Exalenz is approximately 9.36%.

As of December 31, 2008 and 2007 the total fair value of Oridion's interest in Exalenz, based on the market price of the shares, is approximately $ 255 and $4,428, respectively, as such, an unrealized gain of $ 255 and $ 4,428, respectively, net of income taxes in the amount of $ 0, has been recorded in accumulated comprehensive income in the statement of changes in shareholders' equity.

NOTE 4: FAIR VALUE MEASURMENTS

The Company adopted SFAS No. 157, "Fair Value Measurements," (as impacted by FSP Nos. 157-1, 157-2 and 157-3) effective January 1, 2008, with respect to fair value measurements of all financial assets and liabilities.

Under SFAS No. 157, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. SFAS No. 157 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active

markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value.

Available-for-sale marketable securities:

Marketable securities are valued utilizing multiple sources, as the best individual price and the best source of information can change from one day to the next. Therefore, a weighted average price is used for these securities. Market prices are obtained for these securities from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple prices are used as inputs into a distribution-curve-based algorithm to determine the daily fair value to be used. Oridion classifies Israeli bonds as level 1, while all other marketable securities are classified as level 2. In addition, all derivatives instruments were classified as level 2.

The following table provides information by level for assets and liabilities that are measured at fair value, as defined by SFAS No. 157, on a recurring basis.

	Fair value	Fair value measurements		
	Dec. 31, 2008	Level 1	Level 2	Level 3
Description Assets:				
Cash and cash equivalents	2,630	2,630	-	-
Short-term available-for-sale marketable securities	846	255	591	-
Long-term available-for-sale marketable securities	7,358	1,882	5,476	-
Derivatives	(861)	-	(861)	-
Total	**9,973**	**4,767**	**5,206**	**-**

NOTE 5: OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2008	December 31, 2007
Employees	65	53
Government authorities	383	307
Prepaid expenses	393	393
Other	77	229
	918	**982**

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

NOTE 6: INVENTORIES

	December 31, 2008	December 31, 2007
Raw materials and packing materials	1,696	1,623
Work in progress	2,281	824
Finished goods	4,127	2,612
	8,104	**4,612**

Write-off of inventory amounted to $ 506, $ 71 and $112 for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 7: PROPERTY AND EQUIPMENT

	December 31, 2008	December 31, 2007
Cost:		
Computers and related equipment	3,416	3,143
Office furniture and equipment	926	905
Machinery equipment and installations	4,699	3,542
Leasehold improvements	3,128	2,810
	12,169	10,400
Leasehold improvements	8,219	7,410
Depreciated Cost	**3,950**	**2,990**

Depreciation expense amounted to $ 809, $ 722 and $ 704 for the years ended December 31, 2008, 2007 and 2006, respectively.

NOTE 8: SHORT-TERM BANK CREDIT

As of December 31, 2008, Oridion has an unutilized line of credit in the amount of $ 3,300. Borrowings under the line of credit bear interest at an annual rate of Prime + 2% for the credit in NIS, and LIBOR + 2% for the credit in dollars.

NOTE 9: OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31, 2008	December 31, 2007
Royalties payable	-	19
Employees and payroll accruals	1,551	1,449
Liabilities from hedging transactions	861	-
Warranty liabilities (see Note 2k)	243	224
Accrued expenses and other liabilities	696	888
	3,351	**2,580**

NOTE 10: COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The facilities of Oridion and its subsidiaries are leased under several operating lease agreements, which expire in 2012. Future minimum lease commitments under non-cancelable operating leases as of December 31, 2008, are as follows:

2009	$	134
2010	$	134
2011	$	134
2012	$	89
Total	**$**	**491**

Rent expenses for the years ended December 31, 2008, 2007 and 2006 were $ 664, $ 537 and $ 437, respectively.

b. On July 23, 2008, a former employee of Medical filed a lawsuit against the company alleging for illegal termination, based on the Israel's labor law. The former employee is demanding approximately $50 in excess of the severance pay to which he is entitled by law. The Company has recorded a provision in the financial statements which it believes is sufficient to cover this complaint.

c. Purchase Obligations

The Company had $ 3,282 of open purchase orders for which the company had not received the related services or goods at December 31, 2008.

d. Letters of Credit

At December 31, 2008 and associated with inventory purchasing and leased facilities, the Company had unused letters of credit in the amount of $ 367.

NOTE 11: SHAREHOLDERS' EQUITY

a. Stock-based compensation:

In May 2007, the Company issued to the CEO 87,656 Ordinary shares as part of his compensation package. 12,656 Ordinary shares were fully vested. 75,000 Ordinary shares vest monthly over three year's period of service. The total fair value of the shares issued in 2007 based on the market price of the shares in the date of issuance amounts to $ 992.

In June 2008, the Company issued to the CEO 5,259 Ordinary shares as part of his compensation package. All Ordinary shares were fully vested. The total fair value of the shares issued in 2008 based on the market price of the shares in the date of issuance amounts to $ 60.

b. Issuance of options:

Under the Company's 2000, Other 2003 Stock Option Plan and Amended 2003 Stock Option Plan ("the Amended Plan") Stock Option Plans ("the Plans"), options may be granted to officers, directors, employees and consultants of the Company or its subsidiaries. Pursuant to the Plans, the Company reserved for issuance 643,466, 2,666,773 and 608,592 Ordinary shares, respectively. As of December 31, 2008, 3,500, 750 and 380,283 Ordinary shares of the Company are still available for future grants under the Amended Plan, respectively. The option plan expires in 2010, 2013 and 2018, respectively.

Each option granted under the Plans is exercisable until the earlier of six to seven years from the date of grant of the option or the expiration dates of the respective option Plans. The options vest primarily over four years. Any options which are cancelled or forfeited before expiration become available for future grants.

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

NOTE 11: SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's share option activity (except for options to consultants) under the Plans, is as follows:

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	Amount of options	Weighted average exercise price ($)	Amount of options	Weighted average exercise price ($)	Amount of options	Weighted average exercise price ($)
Outstanding the beginning of the year	1,577,709	3.01	1,944,630	2.32	2,364,799	1.96
Granted	223,050	9.17	99,806	4.75	53,500	5.52
Exercised	(189,252)	1.73	(412,185)	1.56	(373,933)	1.67
Forfeited	(57,648)	3.08	(54,542)	2.33	(99,736)	2.12
Outstanding end of the year	**1,553,859**	**4.32**	**1,577,709**	**3.01**	**1,944,630**	**2.32**
Options exercisable end of the year	**1,179,989**	**2.99**	**1,305,786**	**2.61**	**1,491,486**	**2.12**

The options outstanding as of December 31, 2008 have been separated into ranges of exercise price, as follows:

Exercise price ($)	Options outstanding as of Dec. 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price ($)	Options exercisable as of Dec. 31, 2008	Weighted average exercise price of exercisable options ($)
1.57-1.98	450,140	2.27	1.82	450,140	1.82
2.06-3.68	303,519	1.67	2.12	303,519	2.12
4.21-5.76	441,500	3.29	4.57	389,581	4.61
6.09-6.74	48,500	4.48	6.34	27,582	6.31
9.07-9.66	258,050	5.13	9.16	6,415	9.52
10.44-11.95	52,150	4.58	10.6	2,752	11.95
	1,553,859	**3.06**	**4.32**	**1,179,989**	**2.99**

For the outstanding options aggregate intrinsic value is based on the share price of the Company's ordinary shares as of December 31, 2008 ($ 6.83 per share) and amounted to $4,708.

The weighted-average fair value of the options granted for the years ended December 31, 2008, 2007 and 2006 were:

	For exercise price on the grant date that:								
	Equals market price Year ended December 31,			Exceeds market price Year ended December 31,			Less than market price Year ended December 31,		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Weighted average exercise prices	-	-	5.54	-	9.05-	-	9.17	9.87	5.48
Weighted average fair value on grant date	-	-	2.98	-	3.11	-	4.65	4.17	2.20

The following weighted-average assumptions were used:

	Year ended December 31,		
	2008	2007	2006
Volatility	41%	48%	60%
Risk-free interest rate	2.9%	4.7%	4.7%
Dividend yield	0%	0%	0%
Suboptimal exercise factor *)	4.3	3.2	2.7
Expected life	2-6	2-7	4-5.5

*) The ratio of the stock price to strike price at the time of exercise of the option.

The Company used its historical volatility and its implied volatility for calculating volatility in accordance with SFAS 123(R). The computation of volatility uses a combination of historical volatility and implied volatility derived from the company's exchange traded options with similar characteristics. As a result of the above-mentioned calculations, the weighted-average volatility used for the 12 months ended December 31, 2008, 2007 and 2006 was 41%, 48% and 60% respectively.

The risk-free interest rate assumption is based on observed interest rates appropriate for the term of the Company's employee stock options. Weighted average interest rate used for the 12 months ended December 31, 2008, 2007 and 2006 was 2.9%, 4.7% and 4.7%, respectively.

The Company is required to assume a dividend yield as an input in the Monte Carlo model. The dividend yield assumption is based on the Company's historical and expectation of future dividend payouts and may be subject to substantial change in the future. The dividend yield used for the twelve months ended December 31, 2008, 2007 and 2006 was 0%.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the Monte Carlo model. The expected life of employee stock options is impacted by all of the underlying assumptions used in the Company's model. The Monte Carlo model assumes that employees' exercise behavior is a function of the option's remaining contractual life and the extent to which the option is in-the-money (i.e., the average stock price during the period is above the strike price of the stock

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

NOTE 11: SHAREHOLDERS' EQUITY (Cont.)

option). The Monte Carlo model estimates the probability of exercise as a function of these two variables based on the history of exercises and cancellations on past option grants made by the Company. The expected life for options granted during the 12 months ended December 31, 2008, 2007 and 2006 derived from the Monte Carlo model was 2-6, 2-7 and 4-4.5 years, respectively.

As equity-based compensation expense recognized in the consolidated statement of income is based on awards ultimately expected to vest, it should be reduced for estimated forfeitures. Statement 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The total compensation expense, calculated using the straight line method, related to all of the Company's share option awards, recognized for the 12 months ended December 31, 2008, 2007 and 2006 were comprised as follows:

	Year ended December 31,		
	2008	2007	2006
Cost of goods sold	35	23	24
Research and Development	32	33	15
Sales and Marketing	166	70	222
General and Administrative	432	414	297
Total equity-based compensation expense before taxes	665	540	558
Related income tax benefits	-	-	-
Compensation expense, net of taxes	665	540	558

c. As of December 31, 2008, options to purchase 1,553,859 Ordinary shares were vested and expected to vest (the calculation takes into consideration the forfeiture rate of 0%).

As of December 31, 2008, there was total unrecognized compensation cost of $ 1,101 related to non-vested equity-based compensation arrangements granted under the Company's various plans. That cost is expected to be recognized during the period from 2009 through 2012.

d. The Company's outstanding options to consultants as of December 31, 2008, are as follows:

Issuance date	Number of options	Exercise price per share ($)	Options exercisable	Exercisable through
September 2002	5,500	2.48	5,500	September 2009
May 2004	46,213	2.09	46,213	May 2009
November 2004	7,000	2.81	7,000	November 2011
	58,713		58,713	

The Company has accounted for its options to consultants under the fair value method of SFAS 123R and EITF 96-18. Those options vest primarily over three years. The fair value for these options was estimated using Monte Carlo option-pricing model with the following weighted-average assumptions for 2006 and 2005: risk-free interest rate of 2% and 1%, respectively, dividend yield of 0% for each year, expected volatility of 0.71 and 0.78, respectively and a weighted-average contractual life of the options of three years. As of December 31, 2008 all options to consultants were vested.

e. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS. The Company does not intend to pay cash dividends in the foreseeable future.

NOTE 12: TAXES ON INCOME

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

Three expansion programs of Medical have been granted "Approved Enterprise" status, under the above Law.

On April 1, 2005, an amendment to the Law came into effect ("the Amendment") and has significantly changed the provisions of the Law ("the Old Law"). Generally, investment programs of Medical that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Old Law's provisions.

Regarding the "alternative benefits" track, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies are no longer required for Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Beneficiary Enterprise", rather than the previous terminology of Approved Enterprise. The period of tax benefits for a new Beneficiary Enterprise commences in the "Year of Commencement". This year is the later of: (1) the year in which taxable income is first generated by the company, or (2) the Year of Election.

If a company requested the "alternative benefits" track for an Approved Enterprise under the Law, it is precluded from filing a Year of Election notice for a Beneficiary Enterprise for two years after the year in which the Approved Enterprise was activated ("Cooling Period"). As of December 31, 2008, Medical has elected the status of a Beneficiary Enterprise, under the Amendment for its fourth plan.

For the three expansion programs, Medical has elected the alternative benefits track, waiving grants in return for tax exemptions. Pursuant thereto, the income derived from the "Approved Enterprise" expansion programs is tax-exempt for a period of 10 years, commencing with the first year in which there is taxable income. The period of tax benefits is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. As Medical has had no taxable income, the benefit period for these programs has not yet commenced. The benefit periods for the first, second and third programs expire in 2008, 2011 and 2014, respectively.

The entitlement to the above benefits is conditional upon Medical fulfilling the conditions stipulated by the above Law, regulations published thereunder and the letters of approval for the specific investments in "Approved Enterprise". In the event of failure to comply with these conditions, the benefits may be canceled and Medical may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2008, management believes that Medical is meeting all of the aforementioned conditions. As of December 31, 2008 the company has not yet utilized the tax benefits.

If the retained tax-exempt income is distributed in a manner other than on the complete liquidation of the Company, it would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative tax benefits.

Income from sources other than the "Approved Enterprise" during the benefit period will be subject to tax at the regular corporate tax rate (27% in 2008). As for future tax rates, see Note 12d below.

By virtue of the Israeli Law, medical is entitled to claim accelerated rates of depreciation on equipment used by an "Approved Enterprise" and "Beneficiary Enterprise" during the first five tax years from the beginning of such use.

NOTE 12: TAXES ON INCOME (cont.)

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

According to the above law, the Company is entitled to file a consolidated tax return together with Medical and Technologies under certain conditions and, as such, the Company has decided to file a consolidated tax return for 2003 and thereafter.

According to the above law, Medical and Technologies are "industrial companies" and, as such, are entitled to certain tax benefits, mainly accelerated depreciation of machinery and equipment.

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

Results for tax purposes are measured in terms of earnings in NIS, after certain adjustments for increases in the CPI (Consumer Price Index) in Israel. As explained in Note 2b, the financial statements are measured in U.S. dollars. The difference between the annual change in the CPI and in the NIS/dollar exchange rate causes a further 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 the difference between the functional currency and the tax bases of assets and liabilities.

d. Tax rates applicable to the income of the Israeli companies:

In June 2004, an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 was passed by the "Knesset" (Israeli parliament) and on July 25, 2005, another law was passed, the amendment to the Income Tax Ordinance (No. 147) 2005, according to which the corporate tax rate is to be progressively reduced to the following tax rates: 2004 - 35%, 2005 - 34%, 2006 - 31%, 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 and thereafter - 25%.

e. Carryforward tax losses:

1. The Israeli entities accumulated losses for tax purposes as of December 31, 2008, in the amount of approximately $ 34,778, which may be carried forward and offset against taxable income in the future for indefinite period. In addition, the Israeli entities accumulated capital losses for tax purposes as of December 31, 2008, in the amount of approximately $ 3,500, which may be carried forward and offset against capital gains in the future for indefinite period.

2. U.S. subsidiary:
   The U.S. subsidiary is taxed under the tax laws in its country of domicile.

   As of December 31, 2008, the U.S. subsidiary has an estimated total available carry forward tax losses of $ 7,157 to offset against future taxable profits for 20 years that expire between 2021 and 2025.

f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	December 31,	
	2008	2007
Deferred tax assets (short-term):		
Carryforward tax losses	1,432	-
Total deferred tax assets (short-term)	1,432	-
Valuation allowance	(396)	-
Total deferred tax assets (short-term)	1,036	-
Deferred tax assets (long-term):		
Carryforward tax losses	9,696	11,707
Reserves and accruals	1,086	-
Total deferred tax assets (long-term)	10,782	11,707
Valuation allowance	(7,013)	(7,407)
Total deferred tax assets (long-term)	3,769	4,300
Total deferred tax assets	12,214	11,707
Total valuation allowance	(7,409)	(7,407)
Net deferred tax asset	4,805	4,300

g. Income before taxes is comprised as follows:

	Year ended December 31,		
	2008	2007	2006
Domestic (Israel)	2,749	4,596	2,850
Foreign	517	1,003	344
	3,266	5,599	3,194

h. Reconciliation of statutory income tax rate to effective tax rate:

The difference between the company's income tax expense based on the statutory rate of 27% (Israel) and the income tax benefits in the year ended December 31, 2008, is mainly due to the utilization of carryforward losses for which valuation allowance was provided in past years.

i. The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company has not recorded any liability for unrecognized tax benefit. The total amount of gross unrecognized tax benefits as of December 31, 2008 was $ 0.

The US subsidiary files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The statute of limitations relating to the consolidated Federal income tax return is closed for all tax years up to and including 2002.

The Company and certain of its subsidiaries file income tax returns in Israel. The statute of limitations relating to the Israeli tax returns is closed for all tax years up to and including 2002.

Notes to Consolidated Finanical Statements U.S. dollars in thousands, except share data

NOTE 13: RELATED PARTY TRANSACTIONS

	Year ended December 31,		
	2008	2007	2006
General and administrative expenses:			
Directors fees	117	114	99
Compensation to Company's officers *)	1,390	1,210	921

*) Relates only to senior officers of the Company, and stock-based compensation (see also note 11a).

NOTE 14: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

The Company operates in one reportable segment (see Note 1 for a brief description of the Company's business)

a. Geographic information:

	Year ended December 31, 2008		Year ended December 31, 2007		Year ended December 31, 2006	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
The Company attributes revenues based on the customer's location as follows:						
North America	31,616	72	21,744	98	21,761	77
Germany	8,847	-	9,047	-	7,643	-
Rest of Europe	2,678	-	2,605	-	2,319	-
Asia	3,179	-	3,757	-	2,608	-
Israel	492	3,878	294	2,892	261	2,701
Other	319	-	107	-	45	-
	47,131	**3,950**	**37,554**	**2,990**	**34,637**	**2,778**

b. Major customers:

	Year ended December 31,		
	2008	2007	2006
	% of total revenues		
Customer A	27	18	27
Customer B	28	26	22
Customer C	4	10	13

NOTE 15: SELECTED STATEMENTS OF INCOME DATA

Financial income (expenses), net:

	Year ended December 31,		
	2008	2007	2006
Financial expenses:			
Loss from derivatives	(2,634)	-	-
Interest on long-term loan	-	-	(43)
Amortization of premium and accretion of discount, net	(5)		
Impairment loss on marketable securities	(246)	-	-
Exchange rate differences	(462)	(2)	(45)
Bank charges	(116)	(54)	(127)
	(3,463)	(56)	(215)
Financial income:			
Interest from marketable securities	310	-	-
Gain from derivatives	-	165	28
Interest on cash equivalents and short-term bank deposits	64	110	62
Gain from sale of marketable securities, net	616	372	-
	990	647	90
	(2,473)	591	(125)

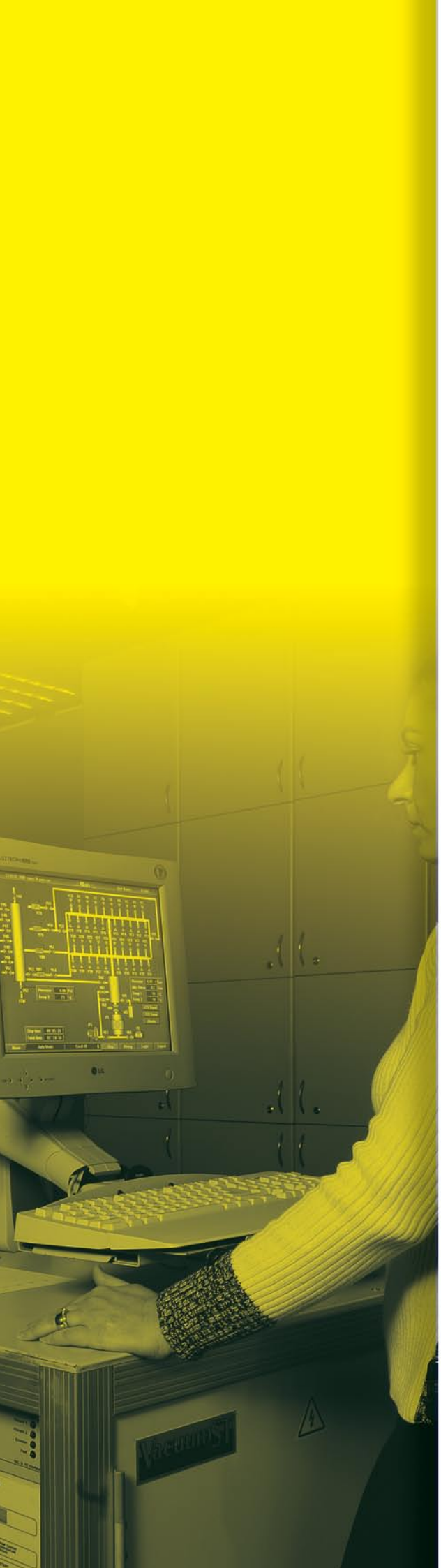
NOTE 16: DISCONTINUED OPERATIONS

In February 2006, the Board of Directors decided to discontinue the early stage business of BreathID. Accordingly, the results of operation of this business have been segregated and presented as discontinued operations in the statement of income in 2006, and prior years have been reclassified.

In May 2006, the Company sold substantially all of the assets of Technologies to a new company, Exalenz Bioscience Ltd. (formerly BreathID (2006) Ltd.). in consideration of 19.99% of the issued share capital of the new company. The Company did not record any gain or loss from that sale.

A summary of operating results from the discontinued operations:

	Year ended December 31,		
	2008	2007	2006
Revenues	-	-	27
Loss from discontinued operations	-	-	502



Shareholder Information

Annual General Meeting of Shareholders

The Annual General Meeting of shareholders of Oridion Systems Ltd. will be held on Wednesday, June 10th , 2009 at 02:00 p.m. at the Company's offices at 7 Hamarpe Street, Har Hotzvim, Jerusalem, Israel.

Shareholders Inquiries / Financial Data

Shareholders, analysts or others seeking information about the Company may contact the following:

Mr. Walter Tabachnik, Chief Financial Officer

Ms. Elena Gerberg, Investor Relations

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Share details

Traded on.....SIX Swiss Exchange

Currency.....CHF

Symbol..... ORIDN

SIS Security No.....904373

ISIN.....IL0010837818

CUSIP No. (in USA) M75541108

Nominal value.....NIS 0.01

Primary listing..... Yes

Clearing via..... SIX SIS AG

Service Providers

Legal Advisors to the Company

Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co.
Tel-Aviv, Israel

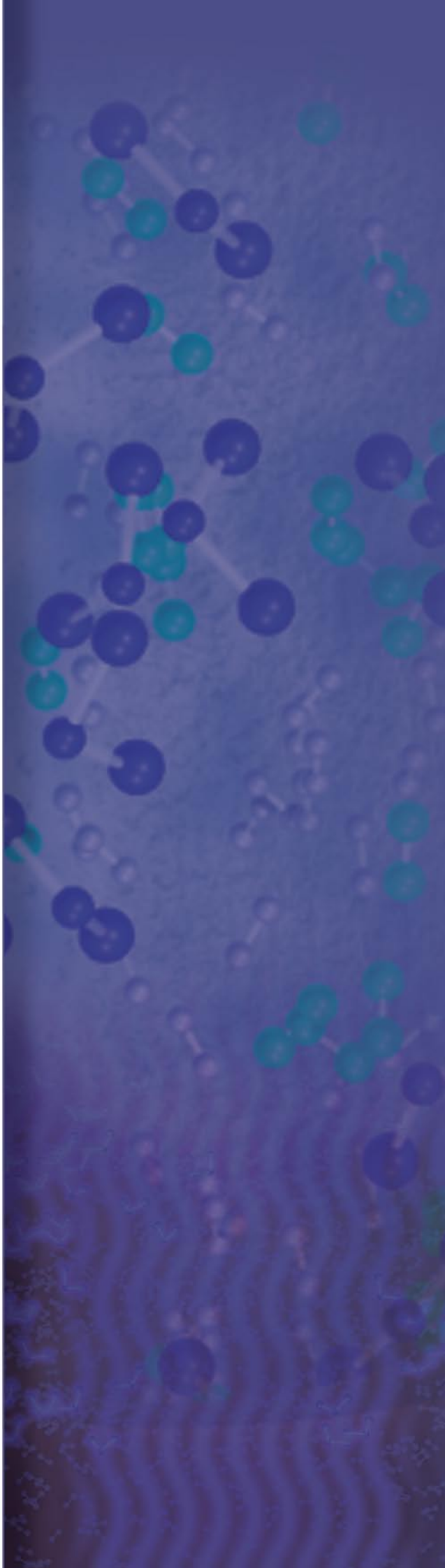
Auditors to the Company

Kost Forer Gabbay & Kasierer
Member of Ernst & Young International
Tel-Aviv, Israel

Investor Relations Services

Tolxdorff & Eicher Consulting
Investor Relations
Zurich, Switzerland

Gelbart Kahana Investor Relations & Business Communication
Tel-Aviv, Israel



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