



**Inion Oy**  
**(“Inion or the “Company””)**

**Preliminary results for the year ended 31 December 2008**

**Tampere, Finland and Guildford, UK.** 30 April 2009, Inion (LSE: IIN.L), a company focused on the development and commercialisation of novel biodegradable medical implants, today announces its preliminary results for the year ended 31 December 2008.

**Significant recent events in 2009**

- During Q1 09, Inion continued to evaluate a range of options aimed at ensuring it has sufficient funding to enable it to continue with its current strategy. However, whilst it has been able to obtain indicative commitments from a number of investors, in light of prevailing equity market conditions the Company has not been able to secure a sufficient level of funding. Discussions are continuing with a number of parties in relation to other strategic transactions or divestment of certain assets to raise additional funding.
- The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern and as the Company has recently announced, the Directors will continue (i) to approach potential investors and/or buyers of the Company's assets or (ii), failing such additional investments/disposals, to facilitate an orderly liquidation of the Company. Nevertheless following the discussions referred to above, and after considering the uncertainties described, the Directors believe that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. However, until the outcomes of discussions with potential investors/buyers are known, there is considerable uncertainty over this basis of presentation.
- Inion announced on 29 April 2009 that it intends to apply to cancel the listing of its Ordinary Shares on the Official List and to trading on the London Stock Exchange's market for listed securities.

**2008 Financial summary**

- Sales of €5.8 million in 2008 represent a 10% increase on 2007 sales of €5.2 million. The entire increase of approximately €0.6 million is due to new sales of Inion Spine and Speciality Orthopaedic products in the Company's key US market.
- Sales of Spine and Speciality Orthopaedics products in the US have grown from zero and accelerated rapidly in the second half of the year since Inion's spinal graft containment systems gained US marketing clearance in July 2008.
- Global sales in 2008 from Inion's core Spine and Speciality Orthopaedics businesses are €3.3 million, an increase of 20% compared to €2.8 million in 2007. Sales of €2.4 million

(2007: €2.3 million) from our Craniomaxillofacial (CMF) business account for almost all of the remainder

- Underlying operating expenditure for the year of €12.2 million (before one-off costs) is down by €2.7 million or 18% on prior year (2007: €14.9 million) as the Company has continued to maintain a tight control over costs. Lower expenditure also resulted from the strategic review in 2007 which led to the scaling back of R&D activities in non-core areas including the closure of its Cambridge R&D facility.
- Underlying loss before tax was €7.3 million (2007: €10.9 million) before one-off costs. Including one-off costs loss before tax was €13.6 million (2007: €12.3 million).
- Cash, cash equivalents and short-term investments at 31 December 2008 totalled €3.6 million
- The Company has also implemented measures to reduce its overhead expenditure and headcount levels have been reduced to 20 from 83 at the end of 2008 to conserve its current cash resource. This has meant the suspension of certain activities within the business including manufacturing.

## **2008 Operational Summary**

- Inion's commercial operation developed well during 2008 particularly in its priority US market. Sales in this region grew rapidly in the second half of the year as a result of a more effective sales management team and improved distribution networks, dedicated training programme for sales teams and end-users, and the approval of important new products.
- Inion received FDA 510(k) marketing clearance in July 2008 for its S-1™ and S-2™ spinal graft containment systems for spinal fusion procedures, completing its product offering for these applications. This major approval allowed the Company to accelerate commercial activities in the US spine market with a limited launch of these new products to high-volume and influential users at selected trial sites, with a full US launch of these products planned for 2009.
- The encouraging progress made in the US has seen Inion begin to replicate its commercial model in its key markets within Europe and the Far East (Korea, Taiwan and Australia).
  - Inion initiated a programme to register its full core product portfolio in China with a view to extending its commercial operations into this huge potential market.
- First out-licensing agreement signed in August with US firm Curative Biosciences Inc. covering novel bioactive technology for promoting bone regrowth and repair when treating patients with broken bones. Inion received an undisclosed upfront payment on signing and could receive development and sales milestones of up to \$2.025 million and royalties on future product sales.
- Ian Paling, the former CEO of Corin Group PLC (LSE: CRG), was elected as Inion's new Chairman in August 2008, replacing Dr Göran Ando, who stepped down from the Board.

Ian Paling, Inion's Chairman, said: "The past several months have been a very difficult period for Inion as we have tried unsuccessfully to raise the funds needed to support our business

strategy. This is a very frustrating situation given the operational progress the Company has made in the last 12 months, particularly in the US. We are now exploring a range of options that will allow us to generate as much value as possible for our shareholders.”

-ends-

**For further information, please contact:**

**Inion Oy**

Chris Lee, Chief Executive Officer  
Julien Cotta, Chief Financial Officer  
Tel: +44 (0)1483 685390

**Citigate Dewe Rogerson**

Mark Swallow / Helena Galilee / David Dible  
Tel: +44 (0)207 638 9571

**About Inion ([www.inion.com](http://www.inion.com))**

Inion Oy is a medical devices company focused on the development and successful commercialisation of innovative and unique biodegradable and bioactive surgical implants in selected high value orthopaedic market segments.

Inion's core expertise and technology lies in the design and manufacture of innovative biodegradable plates, screws, pins and membranes, which are used to enhance the healing of bone or soft tissue injuries to the skeleton, such as those caused by trauma or by reconstructive surgery. Inion implants are made from its proprietary Inion family of biomaterials, with properties tailored for specific surgical applications, in terms of strength, flexibility and rate of degradation

Inion is also focused on developing proprietary new bioactive and biodegradable biomaterials that promote bone healing and accelerate patient rehabilitation.

Inion was incorporated in early 2000 and listed on the Official List of the UK Listing Authority in December 2004 (ticker: IIN). The Company has offices in the UK and US, and its head office, R&D and production facilities are in Tampere, Finland.

*This announcement includes "forward-looking statements" which include all statements other than statements of historical facts, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Group's products), and any statements preceded by, followed by or that include forward-looking terminology such as the words "targets", "believes", "estimates", "expects", "aims", "intends", "will", "can", "may", "anticipates", "would", "should", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group's control that could cause the actual results, performance or achievements of the Group to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those in forward-looking statements include those relating to Inion's funding requirements, regulatory approvals, reliance on third parties, intellectual property, key personnel and other factors. These forward-looking statements speak only as at the date of this announcement. The Group expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this announcement*

*to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, prospective investors are cautioned not to rely on any forward-looking statement.*

## Chairman's Statement

I am writing to you at a difficult time for your company. Despite the efforts of your Board and Management team over the past several months, Inion has not been able to raise the funding required to enable it to continue with its current strategy. This situation has led to cost-reduction measures being implemented and discussions with a number of parties in relation to other strategic transactions or divestment of certain assets to raise additional funding. There is no certainty at the time of writing that these discussions will result in an injection of funds into the Company and more detail on the Board's outlook for the Company is discussed below and in the Chief Executive's review and the Financial Review.

This situation is very frustrating particularly as Inion's operational performance in 2008 was encouraging with clear signs that its new business model is working. This new model resulted from the Company's strategic review in 2007 that led to the development of an organisation better able to leverage its innovative biodegradable technologies and to drive revenue growth towards the business becoming profitable in the future. A key element of the new business plan was a focus on recruiting high quality, commercially experienced personnel in key positions to drive this realigned organisation.

Inion's business is focused on developing and commercialising biodegradable surgical implants in two high-value high-growth segments of the global orthopaedics market: Spine and Speciality Orthopaedics. The Company's priority markets are the USA and certain other markets in Europe and the Far East, which it accesses using a network of independent specialist distributors.

At the start of 2008, Inion had created a solid platform from which to implement its commercial strategy and sales execution became the major priority. The majority of our energy over the past year has been focused on developing sales from our core business in the US, and the experience we gained there has helped to shape our activities for the core business in our other key markets.

We were very pleased therefore to see the sales progress that we have made in the US in 2008. In the first half of the year, sales developed gradually as expected as our new distribution network took time to gain experience of Inion's products. US sales accelerated sharply in the second half after we received marketing clearance for our new and important spine products.

The financial performance of the Company is discussed in greater detail in the Financial Review but some key highlights of the year are that total product sales for 2008 rose 10% to €5.8 million (2007: €5.2 million). The increase of €0.6 million is entirely due to new sales in the US of Inion's core Spine and Speciality Orthopaedic products.

In the US, sales from the core business in Q4 2008 of €401,000 were up 255% compared to the prior quarter and up from zero in Q4 the previous year.

Global sales from Inion's core business in 2008 were €3.3 million, an increase of 20% compared to €2.8 million in 2007, driven by sales of the newly approved spine products, which doubled from Q3 to Q4. Sales from the core business in Q4 2008 were 24% higher than sales in the corresponding quarter in 2007 (€1.2 million vs €995,000).

The vast majority of remaining sales were generated by the non-core Craniomaxillofacial (CMF) business, which we are looking to license out or divest.

The Company continued to maintain a tight control over costs and reduced its operating costs considerably during the year with significant savings being seen from the effects of the restructuring and realignment of the business. The underlying loss before tax, before one off costs, was down 33% to €7.3 million (2007: €10.9 million) and the Company ended 2008 with cash of €3.6 million.

## **Outlook**

The sales growth that is being achieved from our core business is clearly very encouraging and reflects the potential of our innovative products and technology, giving us confidence that our commercial operation is working. The positive experience and feedback we gained in the US has already begun to shape our business in our other key markets around the world and substantial progress has been made refocusing and retraining the sales teams in these regions. From an operational perspective, going into 2009 we were well positioned to transfer what we learned from the US to maximizing revenue growth in these and other new markets.

However, the deteriorating economic environment and financial markets have made it extremely difficult for us to secure the necessary funds to support the further development of our growing business. Over the last several months we made encouraging progress in our discussions with both new and existing investors with the aim of raising additional equity capital. But, while we obtained indicative commitments from a number of investors, in light of prevailing equity market conditions, the Company was not able to secure a sufficient level of funding to enable it to continue with its current strategy.

Discussions are continuing with a number of parties in relation to other strategic transactions or divestment of certain assets to raise additional funding and the Company has implemented measures to reduce its overhead expenditure and headcount levels to conserve its current cash resource. This has meant the suspension of certain activities within the business including manufacturing.

In addition, Inion announced on 29 April 2009 that it intends to apply to cancel the listing of its Ordinary Shares on the Official List and to trading on the London Stock Exchange's market for listed securities.

The Board has come to the conclusion that the regulatory and financial requirements of a listing on the Official List are too onerous for a company of Inion's size and place too great a burden on the Company as it continues to seek methods of raising additional funding. The Directors believe that following the delisting, the Company will be better placed as an unlisted company either (i) to approach potential investors and/or buyers of the Company's assets in order to raise the necessary funds to execute the business plan, focused on the spinal implant range, or (ii) failing such additional investment/disposals, to facilitate an orderly liquidation of the Company.

It is anticipated that the effective date of the Cancellation will be 24 June 2009, pending approval by shareholders at an Extraordinary General Meeting to be held in Tampere, Finland on 26 May 2009. Full details can be found on the Company's website [www.inion.com](http://www.inion.com).

This has been a very tough time for the Company, particularly given all the hard work and dedication our employees have shown in effecting the turnaround of the business. It is extremely regrettable that we have had to implement such drastic measures to reduce costs, and I would like to emphasise that the Company is continuing to do all it can to find a solution that will be in the best interests of employees and shareholders.

**Ian Paling**

Non-Executive Chairman

30 April 2009

## **Chief Executive Officer's Review**

As outlined in the Chairman's Statement, events occurring over the past several months combined with the worsening economic environment have had a significant negative impact on Inion's future prospects and its ability to raise the necessary funds to continue operations in its current form. This situation is very disappointing given the progress the Company has made over the past two years. Therefore, while this review for the most part covers events and operational performance of the business for the 12 months to 31 December 2008, consideration must be given to the situation in which the Company now finds itself.

Inion has built an operating business with a clear focus on two attractive and valuable segments of the orthopaedics market: Spine and Speciality Orthopaedics. These are segments that have the necessary scale and growth dynamic to drive a successful business.

The Company's priority market is the USA. This is not only because it is the world's largest market for orthopaedic products, but is also home to many early adopters of new technology such as biodegradable medical implants. We have identified several other markets outside the USA based on similar criteria – in Europe and the Far East – where experience in building our US operation would be used to develop our business.

Over the past two years, Inion has been developing a new business model, initially in the USA, based on a approach to sales and distribution designed to maximise the commercial potential of our innovative product offering. The model is also designed to provide greater transparency on sales making it easier to measure success.

At the start of 2009, we had engaged and trained 42 independent distributors in the USA, with 22 focusing on the sales and distribution of Speciality Orthopaedics products and 20 focusing on Spine product sales. These distributors work closely with Inion to cultivate relationships with influential orthopaedic surgeons thereby generating true Inion product champions who can further validate and promote the clear clinical benefits of Inion products compared to other available technologies.

To facilitate the new model, we recruited to Inion a significant number of high-quality people with strong commercial experience of selling specialist orthopaedic products into our target market as well as managing distributor networks. As a result, we have now developed a focused and committed commercial structure well equipped to exploit the potential of Inion's biodegradable technologies.

### **Key product approvals in 2008**

By the end of 2008, it was clear that our new strategy and model were beginning to work in the US, as our commercial organisation gained experience with Inion products and as we continued to strengthen the portfolio of spine and speciality orthopaedics products we offer.

Our spine portfolio, in particular, received a significant boost in July when the US Food and Drug Administration (FDA) granted 510(k) marketing clearance for our innovative biodegradable spinal graft containment systems for spinal fusion procedures: the Inion S-1™ Anterior Cervical Fusion System, the Inion S-1™ double-level plate and the Inion S-2™ Anterior Thoraco-Lumbar Fusion System. These biodegradable implant systems are used in conjunction with traditional rigid fixation in procedures to treat a range of spinal conditions along its entire length, including ruptures and displacement of inter-vertebral discs.

These new Inion systems are also enhanced with a radiographic marker that enables surgeons to see the implants *in situ* using x-ray imaging thereby allowing them to confirm the accurate positioning of implants and to visualise and assess the healing process.

Furthermore, these new systems are designed for use with Inion BioRestore™ Sahara, Inion's new synthetic, bioactive and biodegradable, bone grafting substitute material, which was approved in the USA in 2009. It is made from bioactive glass fibres and provides a highly porous three-dimensional scaffold into which new bone will grow, while the substitute material is gradually reabsorbed, allowing complete repair of the defect. Inion BioRestore™ Sahara will be launched in to clinical sites in Q4 2009.

More than 183,000 cervical plating procedures, and more than 10,000 anterior thoraco-lumbar plating procedures, were performed in 2006 in the USA, according to a market research report in 2007 by Spinemarket. The US market for these procedures was worth approximately €318 million and €32 million, respectively. The number of spinal plating procedures has since grown at an annual rate of approximately 30%.

These key product approvals have enabled Inion to market a complete spine product offering to surgeons in the USA. As the first step of introducing these new products into the market ahead of a full US launch, we conducted a limited launch to high-volume and influential users at selected trial sites during the second half of 2008.

We are very encouraged at how sales of these spine products have developed since approval based on the limited exposure they have had to date. We have also received good feedback from a number of the high-volume surgeons who have used the products and this provides us with confidence in the underlying demand for and commercial potential of this unique biodegradable product offering. This feedback along with a larger body of evidence supporting the clinical use of our spine implants will be invaluable for expanding sales in markets outside the US, where the spine range is also approved.

### **Enhancing our offering**

During 2008, Inion invested in several new products designed to strengthen its spine and speciality orthopaedic portfolios. For example, we have been finalising the development of a biodegradable cervical interbody fusion block which is planned for launch in 2010.

We have also initiated a programme to register our full portfolio in China with a view to extending commercial operations into this huge potential market.

### **Non-core businesses**

While Inion's strategy has been focused on commercialising Spine and Speciality Orthopaedic products, the Company also owns intellectual property and products in other areas, from which it aims to realise value through out-licensing agreements or divestment.

For example, we generated significant revenue from the sale of Craniomaxillofacial (CMF) products in 2008. The continued demand for this product line led us during the year to re-evaluate the previous timelines we had for the disposal of this business. As a result, we decided to commit additional investment to strengthen and enhance the value of this business, while retaining the income it generates in the interim.

This investment resulted in the development of some additional products that are expected to launch in 2009 such as a new CMF plating system consisting of smaller plates and screws. We have also developed an innovative new faster fixation technology that uses biodegradable tacks instead of screws for which a development programme has been defined.

We see clear value in this business and continue to evaluate opportunities for its divestment.

Elsewhere, we signed our first out-licensing agreement in August with US firm Curative Biosciences Inc. covering novel bioactive technology for promoting bone regrowth and repair when treating patients with broken bones. Inion received an undisclosed upfront payment on signing and could receive development and sales milestones of up to \$2.025 million and royalties on revenues generated from any products developed using the technology.

The licensed technology was developed through research work undertaken at the Cambridge facility prior to its closing last year, and is based on the use of N,N-dimethylacetamide (DMA) either alone or incorporated in resorbable polymer structures (such as plates, membranes and screws).

### **Organisational changes**

In August, Ian Paling was elected as the Chairman, replacing Göran Ando, who stepped down from the Board with our gratitude for his important contribution to the restructuring and turnaround process. Ian is a highly regarded businessman with more than 25 years' senior management and Board-level experience, most recently as CEO of Corin Group PLC (LSE: CRG), a world leader in the development, manufacture and distribution of a wide range of reconstructive orthopaedic devices. Ian was instrumental in Corin's growth from a small private business into an internationally recognised and successful player in the global orthopaedics sector, with a strong presence in most of the world's important markets.

Early in 2009 we also announced the promotion of Christian Johnson to Sales Director with responsibility for markets outside the US. Christian was recruited from DePuy Orthopaedics and is an experienced sales professional with significant experience in selling medical implants relevant to our core business and, importantly, who already has excellent customer/surgeon networks in place.

However, the financial constraints under which Inion has been operating in recent months have had a significant impact in 2009, leading the Company to take measures to reduce costs. Regrettably, as a result, we have had to reduce our headcount from 83 at the end of 2008 to 20, with the majority of those affected being based at our facility in Finland. All current activities are now focused on generating sales in our key markets while other activities, including manufacturing, have been suspended. We continue to evaluate all options for raising the necessary funding to continue operations.

### **Outlook**

The progress the Company made during 2008 was very encouraging. We believe the right infrastructure was put in place, an experienced commercial team was recruited, we developed a strong and focused product portfolio in spine and speciality orthopaedics and we have seen clear positive signs that the business model in the US is working as evidenced by increasing sales.

Unfortunately the current economic climate and equity markets have made it extremely difficult to pursue our strategy fully and as such we are evaluating all options for raising additional funding through strategic transactions or divestment of certain assets.

I would like to take this opportunity to thank Inion's staff for their hard work and commitment during this period of great uncertainty.

**Chris Lee**

Chief Executive Officer

30 April 2009

## **Financial review**

This financial review begins with a review of the important events that have occurred since the balance sheet date. This is followed by an overview of Inion's 2008 performance.

## **Subsequent events and going concern**

In its Pre-Close Trading Statement on 12 January 2009, the Company announced that it continued to seek additional funding to support its strategy. The Company has been holding discussions with shareholders and other potential investors with the aim of raising additional equity capital. However, whilst it has been able to obtain indicative commitments from a number of investors, in light of prevailing equity market conditions, the Company has not been able to secure a sufficient level of funding to enable it to continue with its current strategy.

On 19 March 2009, the Company announced that it is continuing with the implementation of measures to reduce its overhead expenditure and headcount levels to conserve its current cash resource. Despite these measures, the Company continues to require additional funding to finance its working capital requirements in the short term.

With an equity fundraising now highly unlikely, the Company has initiated discussions with a number of parties in relation to other strategic transactions or divestment of certain assets to raise additional funding. There is no certainty that these discussions will result in an injection of funds into the Company and the Company will continue to keep the market updated, as appropriate.

The updated cash position of the Group as at 29 April 2009 was €1.0 million. As a consequence of the actions taken to reduce overhead expenditure and headcount levels, future cash expenditure has been considerably reduced.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern and as the Company has recently announced, the Directors will continue (i) to approach potential investors and/or buyers of the Company's assets or (ii), failing such additional investments/disposals, to facilitate an orderly liquidation of the Company.

Nevertheless following the discussions referred to above, and after considering the uncertainties described, the Directors believe that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. However, until the outcomes of discussions with potential investors/buyers are known, there is considerable uncertainty over this basis of presentation.

The financial information does not reflect any adjustments which would be required if the going concern assumption was not appropriate. Given the uncertainty described above it is not currently possible to determine the extent and quantification of such adjustments but these may include the reclassification of liabilities due more than one year to less than one year and the disclosure of or provision for additional liabilities.

## Overview of results for 2008

Inion generated total revenues of €5.8 million in 2008 from the sale of its biodegradable surgical implants. This figure is 10% higher than in 2007 (€5.2 million). The loss before income tax and one-off items of €7.3 million (2007: €10.9 million) was a significant improvement on the previous year and arose mainly from cost savings, tight control over expenditure and higher sales than the previous year.

The table below reconciles the underlying results before one-off items of €6.3 million to aid comparison with the prior year. The one-off items in 2008 relate mainly to the recognition of impairments against the cost of inventory and other assets in view of the significant uncertainty over future funding, revenues and therefore the going concern of the business. One-off items in 2007 relate to reorganisation costs incurred during the year, including closure of the Cambridge site.

<b>Year ended 31 December 2008</b>	<b>Before one-off items €'000</b>	<b>One-off items €'000</b>	<b>Income statement €'000</b>
Revenue	5,778	-	5,778
Cost of sales	(3,195)	(2,890)	(6,085)
Gross profit	2,583	(2,890)	(307)
Other operating income	169	-	169
Research & development costs	(2,188)	(654)	(2,842)
Sales & marketing	(3,955)	(989)	(4,944)
Administrative expenses	(3,518)	(1,755)	(5,273)
Operating loss	(6,909)	(6,288)	(13,197)
Finance income	(386)	-	(386)
Loss before income tax	(7,295)	(6,288)	(13,583)
Income tax	(297)	-	(297)
Loss for the year	(7,592)	(6,288)	(13,880)

<b>Year ended 31 December 2007</b>	<b>Before one-off items €'000</b>	<b>One-off items €'000</b>	<b>Income statement €'000</b>
Revenue	5,232	-	5,232
Cost of sales	(3,454)	(164)	(3,618)
Gross profit	1,778	(164)	1,614
Other operating income	420	-	420
Research & development costs	(4,819)	(603)	(5,422)
Sales & marketing	(3,636)	(306)	(3,942)
Administrative expenses	(4,358)	(339)	(4,697)
Operating loss	(10,615)	(1,412)	(12,027)
Finance income & expense	(244)	-	(244)
Loss before income tax	(10,859)	(1,412)	(12,271)
Income tax	(137)	-	(137)
Loss for the year	(10,996)	(1,412)	(12,408)

## Revenue

Inion's revenue increased by 10% to €5.8 million in 2008 (2007: €5.2 million). Revenue from each of the product segments is set out in the table below.

	<b>2008 €'000</b>	2007 €'000	Change €'000	Change %
Spine	<b>725</b>	383	342	89%
Speciality orthopaedics	<b>2,587</b>	2,376	211	9%
Cranio-maxillofacial (CMF)	<b>2,371</b>	2,338	33	1%
Dental	<b>95</b>	135	(40)	(30%)
Total	<b>5,778</b>	5,232	546	10%

Revenues from the core Spine and Speciality Orthopaedics business have increased mainly because of sales generated by the new commercial operation established in the US towards the end of 2007 which started generating sales from the beginning of 2008. Spine sales in particular have been driven by the US launch in July 2008 of the Inion S-1™ Anterior Cervical Graft Containment System, the Inion S-1™ double-level plate and the Inion S-2™ Anterior Thoraco-Lumbar Graft Containment System.

Overall, sales performance was better in the second half of 2008 (up 23% from €2.6 million in H1 to €3.2 million in H2) as sales in the US made a greater contribution.

## **Gross profit**

The gross profit before one-off items was €2.6 million (2007: €1.8 million). Gross margin was 45% (2007: 34%). After one-off items, gross loss was €0.3 million (2007: gross profit €1.6 million) with a negative gross margin of 5% (2007: gross margin 31%). One-off items in 2008 arose mainly from the recognition of impairments against the cost of inventory and plant and machinery used in production. This was because of the significant uncertainty over future funding, revenues and therefore going concern of the business. One-off items in 2007 related to reorganisation costs.

The improvement in gross margin before one-off costs was due to two main reasons. First, US sales of Spine and Speciality Orthopaedics products are made direct to the customer and are therefore at a higher price than sales of the same products in the rest of the world which are made to distributors. Second, the sales volume this year was greater than last year resulting in a higher contribution to the fixed production cost base and therefore a higher gross margin.

## **Operating loss**

The operating loss before one-off items decreased by 35% to €6.9 million (2007: €10.6 million). Including one-off items of €6.3 million, operating loss increased to €13.2 million (2007: €12.0 million).

The underlying operating loss before one-off items has improved due mainly to savings of €2.7 million (18%) in operating expenditure compared to last year. Operating expenditure decreased to €12.2 million this year. There were two main reasons for this. First, expenditure on research-based projects was significantly reduced following the closure of the Cambridge site in November 2007. Second, the lower average headcount in the year of 83 (2007: 94) resulted in lower payroll costs. The lower operating loss also benefited from higher sales of €0.6 million. This was offset by a decrease in grant revenue of €0.25 million from Tekes (Finnish National Technology Agency).

Before one-off items, R&D expenditure decreased by 55% to €2.2 million (2007: €4.8 million). This decrease is mainly due to the closure of the Cambridge facility in November 2007 and a significant reduction in expenditure on research-based projects. One-off items of €0.7 million related mainly to the impairment of patents in view of the significant uncertainty over future funding. One-off items of €0.6 million in 2007 related mainly to the closure of the Cambridge facility.

Sales and marketing costs before one-off items were €4.0 million (2007: €3.6 million). Including one-off items, costs were €4.9 million (2007: €3.9 million). Underlying sales and marketing costs were higher due to the establishment of the US office in Florida and the recruitment of a US sales team. The one-off items of €1.0 million in 2008 related mainly to impairment of trademarks and provisions for doubtful debts in view of the significant uncertainty over future funding. In 2007, the one-off items of €0.3 million related to reorganisation costs.

Administrative expenses before one-off items were €3.5 million (2007: €4.4 million). Costs including one-off items were €5.3 million (2007: €4.7 million). One-off costs of €1.8 million in 2008 related to fundraising costs during the year and to a provision for an estimated tax liability of €0.8 million. This arose following an audit carried out by a unit of the Central Finland Regional Tax Office in respect of the years 2004 – 2006. The Company has the right to file a response to the final tax report and respond to the findings included in the report. If the response is not accepted, the Company can file an appeal against the tax authority's decision

and failing this, appeal to the Finnish administrative court. Further details are disclosed in note 6 of the preliminary financial statements.

Administrative expenditure decreased due mainly to operating efficiencies and a reduction in the average headcount.

Other operating income for the year was €0.2 million (2007: €0.4 million). This represents grant income that subsidises R&D expenditure on the Inion OptimaPLUS™ biodegradable and bioactive range of biomaterials. The grant was awarded by Tekes for the reimbursement of €1.9 million of a total €3.8 million of qualifying expenditure.

### **Finance income and expense**

Net finance expense for the year was €386,000 (2007: €244,000). This is further analysed in note 3 of the preliminary financial statements.

### **Income tax expense**

The income tax expense of €0.3 million (2007: €0.1 million) is made up of €51,000 income tax and €246,000 deferred tax. The deferred tax charge represents the write off of deferred tax assets.

### **Loss per share**

The loss per share for the year ended 31 December 2008 is €0.18 per share (2007: €0.17).

### **Dividend**

The Board does not recommend the payment of a dividend for the year 2008.

### **Balance sheet and cash flow**

Cash, cash equivalents and short-term investments at the end of 2008 were €3.6 million (2007: €13.8 million). The total debt, including finance leases, on the balance sheet at the end of 2008 was €4.3 million (2007: €5.5 million). This is made up of capital loans of €2.3m (2007: €2.3 million), bank borrowings €0.1 million (2007: €0.7 million) and finance lease liabilities €1.9 million (2007: €2.5 million).

Repayment of capital loans is subject to distributable retained earnings being at least equal to restricted equity as defined by Finnish GAAP. Bank borrowings were fully paid up by March 2009. The main finance lease liability is in respect of the Group's facility in Finland. The lease period for this ends in June 2011 at which time ownership of the building transfers to the Group once the remaining finance lease commitments have been fully paid.

Total cash spent in the year was €10.2 million, (2007: €12.4 million excluding the repayment of a \$6.0m dollar facility in February 2007). The decrease in cash burn is consistent with the decrease in operating expenditure within the Group together with tight control over expenditure.

### **Cancellation of Listing**

Inion announced on 29 April 2009 that it intends to apply to cancel the listing of its Ordinary Shares on the Official List and to trading on the London Stock Exchange's market for listed securities. The Board has come to the conclusion that the regulatory and financial requirements of a listing on the Official List are too onerous for a company of Inion's size and

place too great a burden on the Company as it continues to seek methods of raising additional funding. The Directors believe that following the Delisting, the Company will be better placed as an unlisted company either (i) to approach potential investors and/or buyers of the Company's assets in order to raise the necessary funds to execute the business plan, focused on the spinal implant range, or (ii) failing such additional investment/disposals, to facilitate an orderly liquidation of the Company.

It is anticipated that the effective date of the Cancellation will be 24 June 2009 pending approval by shareholders at an Extraordinary General Meeting to be held in Tampere, Finland on 26 May 2009. Full details can be found on the Company's website [www.inion.com](http://www.inion.com).

## **Risks and uncertainties**

### **Going concern**

As referred to earlier in the report, with an equity fundraising now highly unlikely, the Company has initiated discussions with a number of parties in relation to other strategic transactions or divestment of certain assets to raise additional funding. There is no certainty that these discussions will result in further funding for the Company.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's and the Company's ability to continue as a going concern and as the Company has recently announced, the Directors will continue (i) to approach potential investors and/or buyers of the Company's assets or (ii), failing such additional investments/disposals, to facilitate an orderly liquidation of the Company.

Nevertheless following the discussions referred to above, and after considering the uncertainties described, the Directors believe that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. However, until the outcomes of discussions with potential investors/buyers are known, there is considerable uncertainty over this basis of presentation.

### **Building lease agreement**

The building premises in Tampere are leased on a finance lease which is due to end in June 2011. The lease agreement provides that during the lifetime of the lease agreement, the Group has the right to exercise an option to buy the building by repayment of the remaining outstanding finance lease. The outstanding finance lease on the building at 30 April 2009 was €1.5 million plus indexation of €0.4 million.

The building lease agreement includes a clause entitling the lessor to terminate the agreement in the event that the lessee is placed into liquidation or is declared bankrupt. In this event, the Group will lose the right to exercise the option to buy the building and will be liable for the remaining outstanding lease payments due together with interest on overdue sums and a penalty fee of approximately €0.4 million.

Due to the significant uncertainty in the ability to raise additional funding, there is a risk that this clause could be triggered as a result of the Group being placed into liquidation or being declared bankrupt.

### **Divestment of non-core assets**

The Company is in the process of exploring strategic options for, and the possible divestment of non-core assets. Should these strategic options cease to be attractive, or should the divestment not proceed, this may have an adverse impact on the solvency of the Group.

### **Tax liability relating to former Directors and employee**

There is a pending tax audit liability following an inspection carried out by a unit of the Central Finland Regional Tax Office at the Company's premises. The audit was in respect of the tax years 2004 - 2006. The Company has been provided with a final tax report following the audit. The proposals included in the final tax report may trigger estimated tax liabilities of approximately €795,000. This includes estimates for penalties and interest.

The Company has the right to file a response to the final tax report and respond to the findings included in the report. If the response is not accepted, the Company can file an appeal against the tax authority's decision and after that appeal to the Finnish administrative court.

### **Litigation**

A former employee of the Company has brought a legal action against the Company before the Tampere District Court claiming that the Company terminated his employment without sufficient legal basis. The total amount of the claim for groundless termination and related claims is approximately €204,000 plus legal interest and legal costs. The Company rebutted the claim, and the District Court issued a decision in favour of Inion on 27 February 2009. The claimant has filed for an appeal to the Court of Appeal.

**Julien Cotta**  
Chief Financial Officer  
30 April 2009

## Preliminary financial statements

<b>Consolidated income statement</b>	Notes	<b>2008</b>	2007
<b>Year ended 31 December</b>		<b>€'000</b>	€'000
Revenue	2	<b>5,778</b>	5,232
Cost of sales		<b>(6,085)</b>	(3,618)
<b>Gross profit</b>		<b>(307)</b>	1,614
Other operating income		<b>169</b>	420
Research and development costs		<b>(2,842)</b>	(5,422)
Sales and marketing		<b>(4,944)</b>	(3,942)
Administrative expenses		<b>(5,273)</b>	(4,697)
<b>Operating loss</b>		<b>(13,197)</b>	(12,027)
Finance income	3	<b>155</b>	521
Finance expense	3	<b>(541)</b>	(765)
<b>Loss before income tax</b>		<b>(13,583)</b>	(12,271)
Income tax	4	<b>(297)</b>	(137)
<b>Loss for the year</b>		<b>(13,880)</b>	(12,408)
<b>Loss per share (expressed in € per share)</b>			
Basic and diluted	5	<b>(0.18)</b>	(0.17)

<b>Statement of recognised income and expense</b>		<b>2008</b>	2007
<b>For the year ended 31 December</b>		<b>€'000</b>	€'000
Loss for the year		<b>(13,880)</b>	(12,408)
Net exchange gain	7	<b>207</b>	230
Total recognised expense for the year		<b>(13,673)</b>	(12,178)

The notes on pages 22 to 24 form an integral part of the preliminary financial statements.

<b>Consolidated balance sheet</b>	Notes	<b>2008</b>	2007
<b>As at 31 December</b>		<b>€'000</b>	€'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets		-	1,143
Property, plant & equipment		<b>3,797</b>	4,760
Deferred tax assets		-	252
		<b>3,797</b>	6,155
<b>Current assets</b>			
Inventories		<b>858</b>	2,018
Trade receivables		<b>1,699</b>	1,709
Other receivables and prepaid expenses		<b>652</b>	1,593
Other financial assets at fair value through profit or loss		-	13,302
Cash and cash equivalents		<b>3,630</b>	516
		<b>6,839</b>	19,138
<b>Total assets</b>		<b>10,636</b>	25,293
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity			
Share capital	7	<b>2,265</b>	2,262
Share premium	7	<b>80,598</b>	80,598
Fair value and other reserves	7	<b>3,782</b>	2,953
Translation differences	7	<b>1,266</b>	1,059
Retained earnings	7	<b>(84,612)</b>	(70,732)
<b>Total equity</b>	7	<b>3,299</b>	16,140
<b>Non-current liabilities</b>			
Capital loans		<b>2,342</b>	2,342
Borrowings		-	92
Finance lease liabilities		<b>1,107</b>	1,742
Other non-current liabilities		<b>515</b>	427
		<b>3,964</b>	4,603
<b>Current liabilities</b>			
Trade payables		<b>585</b>	1,143
Borrowings		<b>92</b>	609
Finance lease liabilities		<b>716</b>	690
Other current liabilities		<b>1,185</b>	2,108
Provisions	6	<b>795</b>	-
		<b>3,373</b>	4,550
<b>Total liabilities</b>		<b>7,337</b>	9,153
<b>Total shareholders' equity and liabilities</b>		<b>10,636</b>	25,293

The preliminary financial statements were approved by the Board on 30 April 2009 and signed on its behalf by:

Mr Ian Paling  
Chairman

Mr Julien Cotta  
CFO

The notes on pages 22 to 24 form an integral part of the preliminary financial statements.

<b>Consolidated cash flow statements</b>	Notes	<b>2008</b>	2007
<b>For the year ended 31 December</b>		<b>€'000</b>	€'000
<b>Cash flows from operating activities</b>			
Cash used in operations	8	<b>(8,523)</b>	(9,374)
Interest received		<b>155</b>	39
Interest paid		<b>(39)</b>	(526)
Income tax paid		<b>(51)</b>	-
<b>Net cash flow used in operating activities</b>		<b>(8,458)</b>	(9,861)
<b>Cash flows from investing activities</b>			
Purchase of property, plant & equipment		<b>(57)</b>	(332)
Purchase of intangible fixed assets		<b>(126)</b>	(237)
Disposal of other financial assets at fair value through profit or loss		<b>13,302</b>	13,488
<b>Net cash flow from investing activities</b>		<b>13,119</b>	12,919
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		<b>3</b>	11
Repayment of borrowings		<b>(610)</b>	(5,729)
Finance lease principal payments		<b>(940)</b>	(942)
<b>Net cash flow from financing activities</b>		<b>(1,547)</b>	(6,660)
<b>Increase/(decrease) cash and cash equivalents</b>		<b>3,114</b>	(3,602)
Cash and cash equivalents at 1 January		<b>516</b>	4,118
<b>Cash and cash equivalents at 31 December</b>		<b>3,630</b>	516

The notes on pages 22 to 24 form an integral part of the preliminary financial statements.

## Notes to the preliminary financial statements

### 1. Basis of preparation

The preliminary financial statements have been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 December 2008.

### 2. Segmental analysis

#### Primary reporting format – business segments

The Group is organised into five operating segments. The operating segments are Spine Speciality Orthopaedics, CMF (Cranio-maxillofacial), Sports and Dental. These business segments are aggregated into one reportable business segment being the manufacture and sale of biodegradable implants.

#### Secondary reporting format – geographical segments

Year ended 31 December	2008	2007
	€'000	€'000
Europe	1,725	1,785
Americas	2,021	1,238
Asia, Australia, Pacific	2,032	2,209
Total	5,778	5,232

### 3. Finance income and expense

Year ended 31 December	2008	2007
	€'000	€'000
Interest income	155	39
Interest expense	(362)	(450)
Exchange loss	(42)	(293)
Fair value (losses)/gains other financial assets at fair value through profit or loss	(121)	482
Other financial items	(16)	(22)
	(386)	(244)

Interest expense includes interest arising on capital loans of €88,000 (2007: €70,000).

### 4. Taxation

Year ended 31 December	2008	2007
	€'000	€'000
Income tax –current year	51	106
Deferred tax charge	246	31
	297	137

## 5. Loss per share

<b>Year ended 31 December</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
Loss for the year	<b>(13,880)</b>	(12,408)
	<b>Number</b>	<b>Number</b>
Basic and diluted: Weighted average number of shares	<b>75,901,348</b>	74,988,739
Effect of anti-dilutive securities:		
Stock options	-	2,514,489
Anti-dilutive: Adjusted weighted average number of shares and assumed conversions	<b>75,901,348</b>	77,503,228

The exercise price of the options was higher than the share market price at 31 December 2008.

## 6. Provisions

<b>Year ended 31 December</b>	<b>2008</b>	<b>2007</b>
	<b>€'000</b>	<b>€'000</b>
At 1 January	-	133
Increase in provision	<b>795</b>	-
Utilised during the year	-	(133)
At 31 December	<b>795</b>	-

The restructuring related costs (€133,000) provided in 2006 were utilised during 2007.

There is a pending tax audit liability following an inspection carried out by a unit of the Central Finland Regional Tax Office at the Company's premises. The audit was in respect of the tax years 2004 - 2006. The Company has been provided with a final tax report following the audit. The proposals included in the final tax report may trigger estimated tax liabilities of approximately €795,000. This includes estimates for penalties and interest.

The Company has the right to file a response to the final tax report and respond to the findings included in the report. If the response is not accepted, the Company can file for an appeal against the tax authority's decision and after that appeal to the Finnish administrative court.

The provision has been charged to administrative expenses within the income statement. This is expected to be utilised in the second half of 2009.

## 7. Statement of changes in shareholders' equity

	Share capital	Share issue	Share premium	Other reserves	Translation differences	Retained earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 1 January 2007	2,239	5	80,598	2,313	829	(58,324)	27,660
Translation differences	-	-	-	-	230	-	230
Loss for the year	-	-	-	-	-	(12,408)	(12,408)
Employee services – share option scheme	-	-	-	640	-	-	640
Proceeds from shares issued – share option scheme	23	(5)	-	-	-	-	18
At 31 December 2007	2,262	-	80,598	2,953	1,059	(70,732)	16,140
Translation differences	-	-	-	-	207	-	207
Loss for the year	-	-	-	-	-	(13,880)	(13,880)
Employee services – share option scheme	-	-	-	829	-	-	829
Proceeds from shares issued – share option scheme	3	-	-	-	-	-	3
<b>At 31 December 2008</b>	<b>2,265</b>	<b>-</b>	<b>80,598</b>	<b>3,782</b>	<b>1,266</b>	<b>(84,612)</b>	<b>3,299</b>

## 8. Reconciliation of loss for the year to cash used in operations

	2008	2007
	€'000	€'000
Loss for the year	<b>(13,880)</b>	(12,408)
Income taxes	<b>51</b>	-
Deferred taxes	<b>246</b>	31
Depreciation and amortisation	<b>717</b>	796
Share based compensations	<b>829</b>	600
Loss on disposal of property, plant and equipment	-	199
Impairment charge on intangible assets	<b>1,150</b>	-
Impairment charge on property, plant and equipment	<b>525</b>	-
Other adjustments	<b>43</b>	209
Fair value losses/(gains) on other financial assets	<b>121</b>	(482)
Net interest expense	<b>207</b>	411
Exchange loss	<b>42</b>	293
Net loss before changes in working capital	<b>(9,949)</b>	(10,351)
Decrease in inventory	<b>1,160</b>	392
Decrease in debtors	<b>951</b>	366
(Decrease)/increase in non-interest bearing liabilities	<b>(1,480)</b>	219
Increase in provisions	<b>795</b>	-
Cash used in operations	<b>(8,523)</b>	(9,374)