



Inion Oy is a medical devices company focused on the development and commercialisation of innovative biodegradable and bioactive implants for applications in Spine and Speciality Orthopaedics. By targeting key strategic markets in the USA and select territories in the rest of the world, Inion has built a product portfolio sold through a dedicated network of specialist distributors.

Inion's products include biodegradable plates, screws, pins and membranes, which are used to enhance the healing of bone or soft tissue injuries, such as those caused by trauma or by reconstructive surgery. Inion's core expertise is in the design and manufacture of implants from its proprietary Inion® family of biomaterials, which enables the Company to develop medical implants with properties tailored for specific surgical applications, in terms of strength, malleability and rate of degradation.

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

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2008 in brief

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 Orthopaedic 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
- > 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)
- > 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

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 maximising 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.

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 an 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 Orthopaedic 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 Orthopaedic 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, they 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 into 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.

Chief Executive Officer's review continued

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, he 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 on page 9 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.

Year ended 31 December 2008	Before one-off items €'000	One-off items €'000	Income statement €'000
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)
Net finance expense	(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)

Year ended 31 December 2007	Before one-off items €'000	One-off items €'000	Income statement €'000
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)
Net finance 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)

Financial review continued

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.

	2008 €'000	2007 €'000	Change €'000	Change %
Spine	725	383	342	89%
Speciality Orthopaedics	2,587	2,376	211	9%
Craniomaxillofacial (CMF)	2,371	2,338	33	1%
Dental	95	135	(40)	(30%)
Total	5,778	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 Orthopaedic 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 authorities' decision and failing this, appeal to the Finnish administrative court. Further details are disclosed in note 18 of the 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 5 of the 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 of €0.1 million (2007: €0.7 million) and finance lease liabilities of €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 \$6.0 million 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.

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 authorities' 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

Board of Directors

Ian Paling

Non-Executive Chairman

Mr Paling (56) is a highly regarded businessman with more than 30 years' senior management and Board-level experience. He was CEO of Corin Group PLC (LSE: CRG), having been with the company through private ownership and then leading a highly successful IPO on the main market of the London Stock Exchange in May 2002.

Mr Paling was awarded the Ernst & Young Entrepreneur of the Year Award for the Southern Region for 2006 and was voted LSE Mediscience Chief Executive of the Year in 2008.

Mr Paling's other current directorships are CellCoTec Limited, where he is chairman and chief executive officer. He is also a non-executive director of Sphere Medical Limited and Metalrax Group plc.

David Anderson

Non-Executive Director

Mr Anderson (56) is president and chief executive officer of Gentis, Inc. a clinical stage spinal implant company.

Mr Anderson has more than 20 years' experience in the medical devices field, mostly focused on orthopaedics, where he has been a part of the creation and growth of four orthopaedic organisations: Osteotech (executive vice president), Bionx Implants (CEO), Replication Medical (founder and director) and Gentis (CEO). He currently serves as a non-executive director for PhotoMedex (PHMD: NASDAQ), Vision Sciences (VSCI: NASDAQ) and Orteq Ltd.

Jim Beery

Non-Executive Director

Mr Beery (67) was elected as Non-Executive Director in August 2006. He has served since March 2002 as senior counsel in the London office of Covington & Burling, an international law firm based in Washington, D.C. Prior to his retirement in June 2001, Mr Beery served as senior vice president and general counsel of GlaxoSmithKline PLC. Prior to the merger of SmithKline Beecham and Glaxo Wellcome, Mr Beery served as senior vice president, general counsel and secretary of SmithKline Beecham PLC. Mr Beery holds a BA from Harvard College and a JD from Stanford Law School. He is currently a director of deCode genetics, Inc., Orchid Cellmark, Inc., Martek Biosciences Corporation and the London Centre for the International Education of Students, and is a member of the Advisory Board of the Stanford Law School Program in Law, Science and Technology.

Julien Cotta

Chief Financial Officer and Company Secretary

Mr Cotta (45) joined Inion as CFO, Company Secretary and Director in May 2006, and has 16 years' financial experience from companies within the pharmaceutical and life sciences sector. He joined Inion from Whatman Plc, a FTSE 250-listed UK company, at which he held the position of group financial controller since 2004, managing a large financial team and reporting to the CFO. Before this, Mr Cotta was vice president financial accounting at Chiron UK, following its takeover of Powderject Pharmaceuticals plc, which he joined as group financial controller in 1999. Mr Cotta qualified as a Chartered Accountant from Coopers & Lybrand (now PricewaterhouseCoopers) in 1992.

Peter Jensen

Non-Executive Director

Mr Jensen (58) has extensive corporate management experience, gained primarily during his 21 years at GlaxoSmithKline/SmithKline Beecham, where most recently he was president Worldwide Supply Operations (1998–2000). Prior to that Mr Jensen held a number of other senior roles including chairman Consumer Healthcare Europe (1992–1998) and managing director Health & Personal Care UK (1986–1992). Mr Jensen currently holds non-executive directorships at Genetix Group plc (chairman Audit Committee, LSE: GTX), Newmarket Racecourses Limited and Celsis plc (chairman remuneration committee and member audit committee). He is also chairman of Screen Dragon Limited, Creation Company Limited and a director of Osborne Studio Gallery Limited.

Chris Lee

Chief Executive Officer

Mr Lee (46) joined Inion at the start of January 2007, as Chief Commercial Officer and was appointed CEO and Director in May 2007. He joined from Ethicon Products, a major subsidiary of Johnson & Johnson, where he was president, Europe, Middle East & Africa. Mr Lee has significant commercial experience in the medical devices sector. For the majority of his more than 22 years' business experience in the sector, he has worked at Johnson & Johnson where, during the last six years, he has had P&L responsibility for three businesses with multi-million dollar sales. Mr Lee was president, Europe, Middle East & Africa for Ethicon Products, a market-leading wound closure business and also chairman of the Medical Devices and Diagnostics Group in the UK. Prior to this, he was worldwide vice president of DePuy Trauma, Extremities and Biologics. Before that, he was managing director of Ethicon Endo-Surgery UK, where he was a statutory director and head of the legal entity from 2001–2003. Mr Lee is a member of the Chartered Institute of Marketing. He received an MBA from Cranfield University in 1997.

Markku Silén

Non-Executive Director

Mr Silén (52) has more than 25 years' management experience in high tech industry and professional services. Most recently he was a chairman and CEO of Accenture Nordic Region (2002–2006). Prior to this, Mr Silén served as CEO of Accenture Finland. Mr Silén currently holds non-executive directorships at mobile technology company Fifth Element Oy, management consulting company Synocus Oy and Chinese software services company Ethos Technologies Inc.

Report of the Directors

Results

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Details of losses are included in the Financial Review.

Principal activities

Inion is a company of limited liability domiciled and incorporated in Finland. It is governed by its Articles of Association and by the provisions of the Finnish Companies Act. Inion is listed on the London Stock Exchange and complies with the requirements of the UK Listing Rules for overseas companies.

The address of the registered office is Inion Oy, Lääkärinkatu 2, 33520 Tampere, Finland.

The principal activities of the Group continue to be the development, manufacture and marketing of innovative biodegradable polymer implants for the orthopaedic fixation market. The Group has developed and launched a number of implants in five specific treatment areas. These are spine, dental surgery, sports medicine, craniomaxillofacial and speciality orthopaedics.

Review of the business and future developments

A review of the Group's activities and future developments is contained within the Chairman's statement, Chief Executive Officer's review and Financial Review. A review of the management of business risk is given in the Corporate Governance Report.

Research and development

Expenditure on the development of new products in 2008 amounted to €2.8 million (2007: €5.4 million).

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.

Dividend

The Directors recommend that no dividend will be paid in respect of 2008.

Directors

The Directors of the Company during the year were:

Executive

Mr Chris Lee
Mr Julien Cotta
Dr Auvo Kaikkonen (resigned 1 January 2008)

Non-Executive

Mr Ian Paling (appointed 13 August 2008)
Mr James Beery
Mr David Anderson
Mr Peter Jensen
Mr Markku Silén
Mr Peter Allen (resigned 24 April 2008)
Dr Göran Ando (resigned 13 August 2008)

Biographical details of the Directors are given on pages 14 and 15.

The beneficial interests of Directors in the shares of the Company and details of service contracts are shown in the Remuneration Report.

The number of Board meetings and attendance by individual Directors is disclosed in the Corporate Governance Report.

Issue of shares

During the year the Company issued 767,946 shares for a total consideration of €3,000. Of these 676,659 shares were issued to Non-Executive Directors in respect of 50% of their fees 91,287 shares were issued to employees exercising share options under the Group's share option schemes.

Donations

During 2008, no donations were made to charities or political parties.

Suppliers

It is the Company's policy to settle payment of creditors in line with terms agreed with suppliers when agreeing the terms of each transaction.

The Company's trade creditors at 31 December 2008 represented 26 days (2007: 73 days) of average purchases over the financial year.

Auditors

In so far as the Directors are aware, the Auditors are aware of all information that is relevant to their report on the financial statements.

The auditors, PricewaterhouseCoopers Oy, have indicated their willingness to continue in office, and a resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board

J Cotta

CFO and Company Secretary
30 April 2009

Corporate Governance

The Directors have set out below their application of current best practice corporate governance procedures within the Group and the extent to which the Group has complied with the Listing Rules of the Financial Services Authority relating to the provisions of the Principles of Good Governance and Code of Best Practice (the "Combined Code").

As a Company incorporated in Finland, Inion is governed by its Articles of Association and by the provisions of the Finnish Companies Act. As a UK-listed company, Inion complies with the provisions of the Combined Code to the extent appropriate for a company of its size and development.

Board of Directors

The Board is responsible for the Group's system of Corporate Governance.

The Board of Directors comprises two Executive and five Non-Executive Directors including the Chairman.

Mr Peter Allen resigned as Non-Executive Director on 24 April 2008 and Dr Göran Ando resigned as Chairman and Non-Executive Director on 13 August 2008. Mr Paling was appointed as Non-Executive Director on 13 August 2008. He was elected Chairman by the Board on the same day.

All Directors bring strong judgement and considerable knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. All Non-Executive Directors are considered by the Board to be independent.

Mr Jim Beery is the senior independent Non-Executive Director.

The Board meets formally at least six times a year. Additional meetings are arranged as necessary to consider urgent business. In addition, the Chairman holds separate meetings with the other Non-Executive Directors. The Board periodically delegates responsibility for certain business matters to sub-committees of the Board set up in accordance with the provisions of the Company's Articles of Association.

Information provided to the Board includes monthly Group operating reports and management accounts, specific business plans, reports and budgets. The Board meets for in-depth reviews of strategy and discussions of particular business issues and risks including annual reviews of business development plans. The Board has a formal schedule of matters reserved for its approval. These matters include acquisition and disposal of businesses, issue of shares, significant contractual commitments, effectiveness of risk management review processes and major capital expenditure.

Mr Paling is chairman and chief executive officer of CellCoTec Limited. He is also a non-executive director of Sphere Medical Limited and Metalrax Group plc.

Principal Board committees

The Board has established a number of committees and provides sufficient resources to enable them to undertake their duties. Current membership of these committees is set out in the table below.

	Audit	Nomination	Remuneration
I Paling (Chairman)	Y		
D Anderson (Chairman)			Y
M Silén (Chairman)	Y		
D Anderson		Y	
J Beery	Y	Y	
P Jensen	Y		Y
I Paling			Y
M Silén			Y

Dates of appointment and resignation were as follows:

Mr Allen, who was Chairman of the Audit Committee, resigned from the Audit Committee on 24 April 2008 and Dr Ando resigned from the Nomination and Remuneration Committees on 13 August 2008. Mr Beery resigned as Chairman of the Nomination Committee on 29 January 2009. Mr Jensen resigned as Chairman of the Remuneration Committee on 29 January 2009. Both Mr Beery and Mr Jensen remain as members of the Nomination and Remuneration Committees respectively.

Mr Silén was appointed Chairman of the Audit Committee on 24 April 2008. Mr Beery was appointed to the Audit Committee on 24 April 2008. Mr Paling was appointed to the Nomination and Remuneration Committees on 13 August 2008. Mr Paling was appointed as Chairman of the Nomination Committee on 29 January 2009. Mr Anderson was appointed as Chairman of the Remuneration Committee on 29 January 2009.

The roles and terms of reference of each committee are summarised below. The terms of reference for the Audit, Nomination and Remuneration Committees can be found on the Company's website at www.inion.com.

The table below summarises the total number of Board, Audit Committee, Nomination Committee and Remuneration Committee meetings held during 2008 and the attendance by each of the Directors.

	Board	Audit	Nomination	Remuneration
Total number of meetings	11	3	1	2
Meetings attended				
D Anderson	11	–	1	2
J Beery	11	2	1	–
J Cotta	11	–	–	–
P Jensen	10	3	–	2
C Lee	11	–	–	–
I Paling ¹	3	–	–	–
M Silén	11	3	–	2

¹ Attendance at the Board meetings was fewer than the total number of Board meetings in the year because Mr Paling was appointed to the Board on 13 August 2008.

Attendance at the sub-committee meetings is by invitation to non-members. Attendance by non-members is not recorded in the table.

Audit Committee

The Audit Committee reviews the financial and internal reporting process, the system of internal controls, the management of risks and the external and internal audit process. The Committee also recommends to the Board proposals for the appointment of the external auditors and is directly responsible for their remuneration, oversight of their work and monitoring of their independence. The Audit Committee meets at least twice a year.

Following Mr Allen's resignation on 24 April 2008, the services of an independent financial consultant were provided to the Audit Committee to 4 September 2008.

The Board has determined that for the period to 24 April 2008, Mr Allen, who was Chairman of the Audit Committee had sufficient recent and relevant financial experience which gives the Committee the financial expertise necessary to discharge its responsibilities. For the period 25 April to the end of the year, although all three members of the Audit Committee have had extensive corporate experience with financial matters they are not qualified as experts within the meaning of the Combined Code.

Nomination Committee

The Nomination Committee meets as required to review the structure, size and composition of the Board and the appointment of the members of the Board and makes recommendations to the Board as appropriate. The Committee appoints search consultants as appropriate for the recruitment of new Board members.

Remuneration Committee

The Remuneration Committee meets as required to determine the terms of service and remuneration of the Executive Directors and senior executives and the remuneration policy for Non-Executive Directors. The Remuneration Committee report appears on pages 23 to 28.

Evaluation of the Board

The Board has evaluated its own performance and that of its Audit, Nomination and Remuneration Committees on a broad range of issues including functionality, meeting of objectives, conduct of meetings, structure, corporate governance and relationships with shareholders. The Non-Executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman taking into account the views of the Executive Directors.

The performance of the Executive Directors is reviewed by the Chairman and discussed with the Remuneration Committee by reference to achievement of individual and corporate objectives.

Relationships with investors

The Company reports formally to shareholders twice a year when its half year and full year results are announced. The full year results are included in the Company's annual results and the half year results are included in the Interim report.

In addition, there are presentations of the interim announcement and preliminary announcement of the Annual Report to institutional investors, analysts and the media in which Non-Executive Directors are involved as appropriate. This provides an opportunity for the Non-Executive Directors to develop an understanding of the views of the major shareholders.

Press releases and other financial and business information are available on the Company's website at www.inion.com.

Corporate Governance continued

The Annual General Meeting (AGM) takes place in Tampere and formal notification is sent to shareholders. All Board members usually attend and are available to respond to questions both formally in the meeting and informally afterwards. All resolutions at the AGM are decided on by a majority of votes of those shareholders registered on the Finnish shareholders' register. In order to vote at the AGM, holders of Crest Depository Interests (CDIs) must seek temporary registration on the Finnish shareholders' register. The results are announced at the AGM.

The Combined Code

The Combined Code incorporates recommendations of best practice in respect of the control and reporting functions of the Board. It sets out principles under the headings of:

- > Directors
- > Directors' remuneration
- > Relations with shareholders
- > Accountability and audit

Detailed provisions in respect of each principle are provided within the Code. These require Directors to report in the Annual Report on:

- > Directors' remuneration
- > Directors' responsibility for the accounts
- > Going concern
- > Internal control

Directors' remuneration is addressed in the Report of the Remuneration Committee on pages 23 to 28. The other provisions are addressed below.

Directors' responsibility for the accounts

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- > Select suitable accounting policies and then apply them consistently
- > Make judgements and estimates that are reasonable and prudent
- > State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- > Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and the Group will not continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements included with the Annual Report for the year ended 31 December 2008 are published in hard-copy printed form and on the Company's website. The Directors are

responsible for the maintenance and integrity of the website in accordance with Finnish legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside Finland, where comparable legislation may be different.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 made a further announcement 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.

Internal control

Internal control is defined in the Combined Code as “all controls, including financial, operational and compliance controls and risk management”.

In accordance with the provisions of the Combined Code, the Directors are responsible for the Group’s system of internal control and for reviewing its effectiveness. In response to the requirements of the Combined Code in respect of internal control, the Board has reviewed and updated its assessment of the risks affecting both short-term and long-term value of the business and the policies and procedures by which these risks are managed.

The Board has reviewed the Group’s system of internal controls. The review process, which has been in place throughout the period covered by the Annual Report, comprises appropriate consideration and discussion of business and financial reports, strategic plans, capital expenditure projects, product development projects, tax and treasury issues, risk management and legal issues.

Such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group’s system of internal controls is communicated through policy and procedure manuals. The Group uses the corporate intranet as a communication channel to ensure that all employees have easy access to the procedures.

The key features of the Group’s internal control system are:

- > Identification of Group goals, strategy and business objectives
- > Appropriate organisation structure which is subject to periodic review to ensure changing business needs are continuously served and which identifies responsibilities and reporting structures
- > Financial approval and reporting procedures which enable progress of the business to be monitored and performance against plan to be compared each month
- > Framework of operating policies and procedures which help ensure that manufacturing and other operating activities are carried out to the best possible recognised standards
- > Policies in respect of business conduct and ethical values are clearly communicated to employees
- > A risk review process inherent in the system of Board approval and consideration of matters for the management of risk

Throughout 2008, the Audit Committee has worked to a clear programme of activities with standing items that the Committee is required to consider at each meeting together with other items which are addressed at specific times in the year:

- > The external auditors reported to the Committee on areas including all critical accounting policies and judgements used by the Company, draft interim and annual financial statements, taxation, audit strategy and approach and internal financial controls
- > The CFO reported on financial and accounting matters

- > The CFO reported on Corporate Governance matters including a summary of risk control issues considered by the Board during the year following the review of internal financial and non financial controls
- > The Committee has monitored the objectivity, effectiveness and independence of the external auditors, including the nature and extent of the non-audit services provided; in addition, the external auditors have processes in place to ensure that their independence is maintained, including safeguards to ensure that where they do provide non-audit services, their independence is not compromised; they have confirmed to the Audit Committee that in their opinion they are independent
- > The Committee has reviewed arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and by which the Company investigates such matters and implements appropriate actions

The Group has implemented a policy for reporting fraud or malpractice. This enables employees to report matters to the Company Secretary, any human resources manager or any senior manager of the Group. Where the report is made to a human resources manager or senior manager of the Group, the Company Secretary is to be notified immediately. Where an employee considers that it is not appropriate to report the concern to an Officer of the Company or having reported the concern, an adequate response has not been provided, the employee may, where available, report the concern to a staff representative body or an external agency.

Managing business risk

Commercial risk

Inion’s products, along with the Group’s products under development, are targeted at medical conditions for which a number of marketed products already exist and where other companies also have new products in development. Inion’s products may also experience competition from the products of other companies which have greater research, development, marketing, financial and personnel resources than the Group.

Market acceptance of Inion’s products will largely depend on the Group’s ability to demonstrate their relative safety, efficacy, cost-effectiveness and ease of use and the level of customer service provided by the Group and its partners.

This risk is being actively managed in a number of ways. These include:

- > Commission of post-marketing studies to support efficacy and safety claims with clinical data
- > Establishment of key opinion leaders among surgeons in particular in the USA
- > Implementation of a well-resourced comprehensive training plan for sales managers, agents and surgeons

Corporate Governance continued

Operational risk

This relates to the risk of financial loss resulting from inadequate or failed internal systems and from the actions of people or external events. The Group manages this risk through appropriate controls. Key examples include:

- > Ensuring an appropriate level of insurance cover is in place to cover risks such as business interruption
- > Maintaining appropriate data back-up procedures
- > Constant review and monitoring of international regulatory requirements

Credit risk

The Group assesses the creditworthiness of new customers before commencing trade with them and authorised limits of credit are set. Trade receivables are monitored each month and a pro-active approach to the identification and control of bad and doubtful debts is maintained.

Internal audit

There is presently no internal audit function as the Group is not sufficiently large to justify the function. However, the need for the function is kept under review.

Statement of compliance with the Combined Code

Throughout the year ended 31 December 2008 the Company has been in compliance with the Code provisions set out in Section 1 of the Combined Code with the exception of the following:

Section C.3.1 requires that the Board should satisfy itself that at least one member of the Audit Committee should have recent and relevant financial experience. Following the resignation of Mr Allen on 24 April, although all three members of the Audit Committee have had extensive corporate experience with financial matters they are not qualified as experts within the meaning of the Combined Code.

By order of the Board

Julien Cotta

CFO and Company Secretary
30 April 2009

Report of the Remuneration Committee

This Remuneration Committee Report is unaudited except for those parts which are indicated otherwise.

Policy for Directors' remuneration

The remuneration policy of the Group, including the policy for Executive Directors, is determined by the Remuneration Committee of the Board, the membership of which comprises solely Non-Executive Directors.

The remuneration policy for Non-Executive Directors is determined by the Board.

In determining remuneration policy, the objectives of the Committee are, in relation to both the current and subsequent years, to provide competitive remuneration arrangements for Executive Directors and senior executives, which are commensurate with those of other companies of a similar nature, size and standing, which reflect the Group's business and financial objectives, and reward individuals' personal contributions to the Group's overall performance.

Consistent with this policy, benefit packages awarded to Directors comprise a mix of performance-related and non-performance-related remuneration designed to incentivise Directors and align their interests with those of shareholders, but not to detract from the goals of corporate governance.

In developing remuneration arrangements, the Remuneration Committee and, in regard to Non-Executive Directors, the Board, refers to external market survey data and has received advice from New Bridge Street Consultants.

Remuneration of Non-Executive Directors

Non-Executive Directors received remuneration comprising fees as detailed in the notes to this Remuneration Committee Report. Of the fees payable, 50% are payable as new issue shares and the remaining 50% is payable in cash in order to help cover the income tax payable on the shares. Fees are paid each quarter and the value date for determining the number of shares to be issued is the closing mid-point share price on the London Stock Exchange on the last working day of each calendar quarter.

Remuneration of Executive Directors

In addition to base salaries, which are determined by the Remuneration Committee in relation to specific job responsibilities and individual capabilities, Executive Directors are entitled to performance-related bonuses with a maximum bonus potential in 2008 of up to 100% and 80% of base salary, for the CEO and CFO respectively, subject to achievement of defined Group performance targets related to net sales and gross cash.

The CEO and CFO may be entitled to receive bonuses in 2008 of a maximum of 70% and 56% of basic salaries respectively for achievement of defined Group performance targets related to net sales and gross cash. These are then subject to a further multiplier of 1.5 times for the achievement of certain personal objectives but limited to a maximum potential of 100% and 80% respectively for the CEO and CFO.

Executive Directors also receive a cash allowance in lieu of a company car, Defined Contribution Pensions and health, sickness and life insurance schemes as well as participating in the Share Option Schemes.

Details of the elements of Executive Directors' remuneration are contained in the notes to this Remuneration Committee Report.

Long-term incentives

The Group currently has seven share option schemes. Of these, three were approved in 2004 prior to flotation on the London Stock Exchange on 1 December 2004, one, was approved in April 2005, two in May 2007 and one in April 2008.

No further options will be granted under the 2004, 2005 and 2007 option schemes.

The scheme approved in 2007 is in two parts. The first, the Group 2007 scheme, is for the grant of no more than 3,700,000 shares (approximately 4.8% of the current issued share capital) for issue to Executive Directors and employees by 1 May 2008. This scheme is structured so that on exercise only the gain on the exercise of an option is delivered in shares. These options structures are called Share Appreciation Rights ("SARs"). As only the gain is delivered, fewer shares need to be issued and this has the benefit of reducing the overall dilution of the existing share capital of the Company.

The key terms of the 2007 scheme include:

- > Options are exercisable provided that the share price of the Company exceeds the total shareholder return of the techMARK index by an average of 10% or more for 30 consecutive days after the exercise period has begun
- > Options can normally be exercised between three and ten years from date of grant
- > Options are exercisable in the event that the Group is acquired or in certain good leaver situations
- > Exercise price is determined by the market value of shares at or shortly prior to the date of grant
- > Options are not transferable or pensionable

The second is a scheme for Mr Lee. This was designed as part of his terms of recruitment and is intended to provide compensation for the value of long-term incentive plans surrendered at his previous employer. Under this scheme, options for a maximum of 2,843,015 shares (3.7%) of the issued share capital of the company were issued at an exercise price of 24.5p. This was the closing price of the shares prior to announcement that Mr Lee would join the Group.

The key terms for this scheme are the same as the 2007 scheme with the exception of the share price performance criteria. The scheme for Mr Lee contains no share price performance criteria.

These options are also structured as share appreciation rights in order to minimise the dilution effect. Mr Lee is also eligible to participate in the Group 2007 scheme.

Report of the Remuneration Committee

continued

The new SARs scheme approved in April 2008 was for the issue of no more than 2,240,000 shares (2.9%). The Scheme Rules are the same as those of the Group 2007 Scheme and is intended for issue to Executive Directors and senior management.

Service contracts

Executive Directors have contracts which are terminable by the Company or by the executive on 12 months' notice unless otherwise mutually agreed.

The Chairman and the Non-Executive Directors do not have service contracts. It is the Company's policy to enter into letter agreements with Non-Executive Directors. Under Finnish law and the Articles of Association, engagement continues until the first Annual General Meeting following appointment and thereafter may be terminated by the Company in general meeting (without compensation) at any time.

Membership of the Remuneration Committee

Dr Ando resigned as Chairman and Mr Beery resigned as a member of the Remuneration Committee on 3 May 2007. Mr Jensen was appointed as Chairman and Mr Anderson and Mr Silén were appointed as members of the Remuneration Committee on 3 May 2007. Mr Paling was appointed as a member of the Remuneration on 13 August 2008. On 29 January 2009, Mr Jensen resigned as Chairman of the Remuneration Committee and Mr Anderson was appointed in his place. Mr Jensen remained a member of the Remuneration Committee.

Share price performance and total shareholder return

The graphs on page 25 show the Total Shareholder Return on a holding of Inion Oy ordinary shares compared to that of the FTSE techMARK All-Share index over the periods 1 December 2004 to 31 December 2007 and 2 January 2007 to 31 December 2007.

(As the Company is a constituent of the FTSE techMARK All-Share index, the Directors consider this index to be the most appropriate comparator.)

An investment in Inion shares on 30 November 2004 would have produced a loss of 98%¹ at 31 December 2008 compared to a return of 9%¹ in the FTSE techMARK All-Share index over that same period.

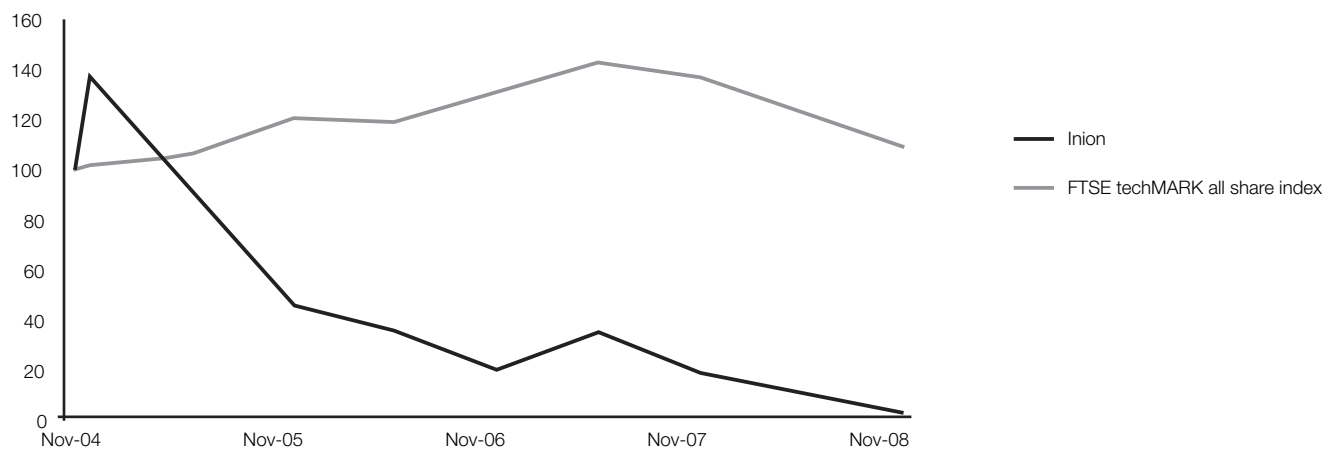
An investment in Inion shares on 1 January 2008 would have produced a loss of 87%¹ at 31 December 2008 compared to a loss of 21%¹ in the FTSE techMARK All-Share index over that same period.

Notes

Total Shareholder Return shows the theoretical growth in value of a shareholding over a specified period, assuming that dividends are re-invested to purchase additional units of an equity or unit trust at the closing price applicable on the ex-dividend date. Gross dividends are used where available and the calculation ignores tax and re-investment charges.

¹ Source: Datastream

Total shareholder return, 30 November 2004–31 December 2008
Re-based to 100 on 30 November 2004



Total shareholder return, 1 January 2008–31 December 2008
Re-based to 100 on 1 January 2008



The closing mid-market price of the shares at 31 December 2008 was 3.13p (31 December 2007: 24.00p). The highest closing mid-market price during 2008 was 25.00p and the lowest 1.60p.

By order of the Board

David Anderson
 Chairman, Remuneration Committee
 30 April 2009

Report of the Remuneration Committee

continued

Notes

(Except for note (a), these notes to the Remuneration Report comprise audited information.)

a) The composition of each Director's remuneration (excluding share-based incentives, pensions and benefits) is targeted to be:

	Non- performance- related %	Performance- related %
Executive Directors		
C Lee	50	50
J Cotta	56	44
Non-Executive Directors		
G Ando	100	–
P Allen	100	–
D Anderson	100	–
J Beery	100	–
P Jensen	100	–
M Silén	100	–

b) Directors' monetary remuneration in 2008

	Salary/fees €'000	Benefits €'000	2008 Total €'000	2007 Total €'000
C Lee	258	18	276	635
J Cotta	188	17	205	279
I Paling	4	–	4	–
D Anderson	14	–	14	15
J Beery	15	–	15	28
P Jensen	16	–	16	17
M Silén	15	–	15	16
Total	510	35	545	990¹

1 Total Directors' monetary remuneration in 2007 was €1,726,000.

- The Non-Executive Directors receive fees as 50% shares and 50% cash. The table above reflects fees paid in cash only. The value of shares issued as part remuneration for the Non-Executive Directors was €65,385. This excludes former Non-Executive Directors who served during the course of 2008. Including these Directors, the total value of shares issued as part remuneration for the Non-Executive Directors was €82,391 (2007: €104,000).
- Mr Lee was the highest paid Director in 2008.
- Benefits in kind include the provision of a car allowance, medical, sickness and life insurances (pension contributions are stated in section (e) on page 28).
- Total remuneration paid to Directors in 2008 of €545,000 excludes fees paid to former Directors who served in 2008. Total remuneration including amounts paid to former Directors was €566,000.
- No expense allowances chargeable to UK or Finnish tax have been paid.
- With effect from 1 October 2008, the Non-Executive Directors have deferred payment of their fees until there is sufficient funding to enable payment to be made. This decision was taken in order to preserve cash.
- Mr Lee was entitled to a cash bonus in respect of 2008 of £27,204 (€34,153). Mr Cotta was entitled to a cash bonus of £15,900 (€19,961). Mr Lee and Mr Cotta have both elected to take these payments in the form of share options in the Company in order to preserve the Company's cash.

c) Directors' interests in the share capital of the Company

The beneficial interests of Directors and their families in the ordinary €0.03 shares of the Company were:

	30 April 2008	31 December 2008	31 December 2007
C Lee	30,000	30,000	–
J Cotta	30,000	30,000	–
I Paling	40,128 ¹	40,128 ¹	–
D Anderson	126,578	126,578	15,217
J Beery	137,127	137,127	16,486
P Jensen	147,674	147,674	17,753
M Silén	137,127	137,127	16,486

1 This includes 2,085 shares which are held by Mr Paling as Trustee for the beneficial ownership of connected persons.

d) Share-based incentive schemes

(i) 2004 option schemes

The 2004 option schemes are made up of three separate schemes approved for issue in January, April and October 2004. The exercise price of the options is €0.03 and each option entitles the holder to one ordinary share with a nominal value of €0.03. There are no performance criteria for these schemes. The shares are exercisable in three tranches as set out below. No further options are awarded under these schemes.

There are no options outstanding under this scheme.

(ii) 2005 option scheme

The exercise price of shares awarded under the 2005 option scheme is the market value at the date of grant. Options issued under this scheme are subject to performance criteria before becoming exercisable. Options are exercisable provided that the share price of the Company exceeds the total shareholder return of the techMARK index by an average of 10% or more for 30 consecutive days after the exercise period has begun.

	At 1 January and 31 December 2008	Exercise price	Date from which exercisable	Expiry date
J Cotta	415,385	£0.345	1 May 2009	1 May 2012
J Cotta	181,000	£0.345	1 May 2009	1 May 2012

(iii) 2007 option scheme

The 2007 option scheme was approved at the 2007 AGM. This scheme is structured so that on exercise only the gain on the exercise of an option is delivered in shares. These options structures are called Share Appreciation Rights ("SARs"). As only the gain is delivered, fewer shares need to be issued and this has the benefit of reducing the overall dilution of the existing share capital of the Company.

The key terms of this scheme are described earlier in the report.

	At 1 January and 31 December 2008	Exercise price	Date from which exercisable	Expiry date
J Cotta	352,941	£0.4555	7 July 2010	7 July 2017
C Lee	2,843,015	£0.245	4 May 2010	4 May 2017
C Lee	482,353	£0.4555	7 July 2010	7 July 2017

(iv) 2008 option scheme

The 2008 option scheme was approved at the 2008 AGM. The scheme is structured in the same way as the 2007 option scheme and the key elements of the scheme rules are described earlier in the report.

	At 1 January 2008	Granted	At 31 December 2008	Exercise price	Date from which exercisable	Expiry date
J Cotta	–	469,000	469,000	£0.079	4 Sept 2011	4 September 2018
C Lee	–	825,000	825,000	£0.079	4 Sept 2011	4 September 2018

Report of the Remuneration Committee

continued

e) Directors' pensions

Executive Directors participate in defined contribution personal pension schemes. The Company made a contribution of 16.8% of base salary to these schemes. In 2008, pension contributions by the Group were as follows:

Mr Cotta	£25,200 (€31,637) (2007: £23,940 (€34,969))
Mr Lee	£34,493 (€43,303) (2007: £33,159 (€48,435))

Individuals are able to make their own arrangements in respect of personal contributions.

The Chairman and the Non-Executive Directors are not eligible for any pension entitlements.

f) Directors' service contracts

	Date of contract	Notice period	Contractual termination provisions
D Anderson	3 May 2007	Not applicable ¹	None
J Beery	15 August 2006	Not applicable ¹	None
J Cotta	19 April 2006	12 months by Company or six months by Director at any time	At the Company's discretion, payment in lieu of notice
P Jensen	3 May 2007	Not applicable ¹	None
C Lee	29 December 2006	12 months by Company or Director at any time	At the Company's discretion, payment in lieu of notice
I Paling	13 August 2008	Not applicable ¹	None
M Silén	3 May 2007	Not applicable ¹	None

¹ The letters of appointment for Non-Executive Directors do not include any provision for compensation in the event of termination. The agreement may be terminated by the Company in general meeting (without compensation) at any time.

Auditor's report

Translation of the original and signed document in the Finnish language.
In case of discrepancy, the Finnish language is prevailing.

To the Annual General Meeting of Inion Oy

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Inion Oy for the year ended on 31 December, 2008. The financial statements comprise both the consolidated and the parent company's balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the financial statements of both the consolidated and the parent company in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the Company's accounts and finances, and the Managing Director shall see to it that the accounts of the Company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion,

- > the financial statements give a true and fair view of both the consolidated and the parent company's financial position, financial performance, and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- > the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland.
- > the information in the report of the Board of Directors is consistent with the information in the financial statements.

Emphasis of matter

Without qualifying our opinion we draw attention to the report of the Board of Directors and to note 2 to the financial statements. The Company's ability to carry on its operations is dependent on additional financing arrangements or the divestment of certain assets. These conditions, along with other matters as set forth in the report of the Board of Directors and in the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Tampere, 30 April 2009

PricewaterhouseCoopers Oy
Authorised Public Accountants

Janne Rajalahti
Authorised Public Accountant

Income statements

for the year ended 31 December

	Notes	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Revenue	3	5,778	5,232	6,940	4,907
Cost of sales		(6,085)	(3,618)	(6,010)	(3,770)
Gross profit		(307)	1,614	930	1,137
Other operating income	6	169	420	169	420
Research and development costs		(2,842)	(5,422)	(2,957)	(4,836)
Sales and marketing		(4,944)	(3,942)	(5,171)	(2,613)
Administrative expenses		(5,273)	(4,697)	(7,007)	(5,592)
Operating loss		(13,197)	(12,027)	(14,036)	(11,484)
Finance income	5	155	521	153	521
Finance expense	5	(541)	(765)	(529)	(704)
Loss before income tax	6	(13,583)	(12,271)	(14,412)	(11,667)
Income tax	7	(297)	(137)	(226)	(127)
Loss for the year		(13,880)	(12,408)	(14,638)	(11,794)
Loss attributable to equity shareholders		(13,880)	(12,408)	–	–
Loss per share ¹					
Basic and diluted	8	(0.18)	(0.17)	(0.19)	(0.16)

1 Earnings per share for loss attributable to equity holders of the Company (expressed in € per share).

Statements of recognised income and expense

for the year ended 31 December

	Notes	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Loss for the year		(13,880)	(12,408)	(14,638)	(11,794)
Net exchange adjustment	21	207	230	–	–
Total recognised expense for the year		(13,673)	(12,178)	(14,638)	(11,794)

The notes on pages 33 to 57 form an integral part of the financial statements

Balance sheets

As at 31 December

	Notes	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Assets					
Non-current assets					
Intangible assets	9	–	1,143	–	1,143
Property, plant and equipment	10	3,797	4,760	3,797	4,760
Investments in subsidiaries		–	–	–	128
Deferred tax assets	16	–	252	–	225
		3,797	6,155	3,797	6,256
Current assets					
Inventories	12	858	2,018	579	1,806
Trade receivables	13	1,699	1,709	1,466	1,822
Other receivables and prepaid expenses	13	652	1,593	637	4,205
Other financial assets at fair value through profit or loss	11	–	13,302	–	13,302
Cash and cash equivalents		3,630	516	3,383	237
		6,839	19,138	6,065	21,372
Total assets		10,636	25,293	9,862	27,628
Capital and reserves attributable to equity holders of the Company					
Shareholders' equity					
Share capital	14	2,265	2,262	2,265	2,262
Share premium	14	80,598	80,598	80,598	80,598
Fair value and other reserves	21	3,782	2,953	3,782	2,953
Translation differences	21	1,266	1,059	–	–
Retained earnings	21	(84,612)	(70,732)	(83,856)	(69,218)
Total equity		3,299	16,140	2,789	16,595
Non-current liabilities					
Capital loans	15	2,342	2,342	2,342	2,342
Borrowings	15	–	92	–	92
Finance lease liabilities	15	1,107	1,742	1,107	1,742
Other non-current liabilities		515	427	515	427
		3,964	4,603	3,964	4,603
Current liabilities					
Trade payables		585	1,143	539	1,002
Borrowings	15	92	609	92	609
Finance lease liabilities	15	716	690	716	689
Other current liabilities	19	1,185	2,108	967	4,130
Provisions	18	795	–	795	–
		3,373	4,550	3,109	6,430
Total liabilities		7,337	9,153	7,073	11,033
Total equity and liabilities		10,636	25,293	9,862	27,628

The 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 33 to 57 form an integral part of the financial statements.

Cash flow statements

for the year ended 31 December

	Notes	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Cash flows from operating activities					
Cash used in operations	23	(8,523)	(9,374)	(8,540)	(9,162)
Interest received		155	39	153	39
Interest paid		(39)	(526)	(39)	(522)
Income tax paid	7	(51)	–	–	–
Net cash flow used in operating activities		(8,458)	(9,861)	(8,426)	(9,645)
Cash flows from investing activities					
Purchase of property plant and equipment		(57)	(332)	(57)	(332)
Purchase of intangible fixed assets		(126)	(237)	(126)	(237)
Disposal of other financial assets at fair value through profit or loss	11	13,302	13,488	13,302	13,488
Net cash flow generated from investing activities		13,119	12,919	13,119	12,919
Cash flows from financing activities					
Proceeds from issue of ordinary shares		3	11	3	11
Repayment of borrowings		(610)	(5,729)	(610)	(5,653)
Finance lease principal payments		(940)	(942)	(940)	(942)
Net cash flow used in financing activities		(1,547)	(6,660)	(1,547)	(6,584)
Increase/(decrease) in cash and cash equivalents		3,114	(3,602)	3,146	(3,310)
Cash and cash equivalents at 1 January		516	4 118	237	3,547
Cash and cash equivalents as at 31 December		3,630	516	3,383	237

The notes on pages 33 to 57 form an integral part of the financial statements.

Notes to the financial statements

1 General information

Inion Oy (the "Company") Lääkäriinkatu 2, Tampere, is a Finnish limited liability company domiciled in Tampere and governed by the laws of the Republic of Finland. The consolidated financial statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

Inion Oy is a medical devices company focused on the development and commercialisation of innovative biodegradable and bioactive implants for applications in Spine and Speciality Orthopaedics applications. By targeting key strategic markets in the USA and select territories in the rest of the world, Inion has built a product portfolio sold through a dedicated network of specialist distributors.

Inion's products include biodegradable plates, screws, pins and membranes, which are used to enhance the healing of bone or soft tissue injuries, such as those caused by trauma or by reconstructive surgery. Inion's core expertise is in the design and manufacture of implants from its proprietary Inion Optima™ family of biomaterials, which enables the Company to develop medical implants with properties tailored for specific surgical applications, in terms of strength, flexibility and rate of degradation.

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

The financial statements were authorised for issue by the Board on 30 April 2009. Under the Finnish Companies Act, these are subject to approval at the AGM by shareholders.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been applied to all years presented and have been applied consistently by Group entities unless otherwise stated.

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 made a further announcement 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.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in compliance with IFRS reporting requirements as well as the SIC and IFRIC interpretations in force as at 31 December 2008. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit and loss. A summary of the significant Group accounting policies are set out on pages 33 to 38.

Notes to the financial statements

continued

2 Significant accounting policies continued

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further information is given in note 25.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects current and future periods.

The financial statements which comply with Finnish GAAP have been lodged in Finland with the Trade Register. Disclosures of requirements under Finnish GAAP have been excluded from the Annual Report. Copies of the Finnish financial statements are available from the Finnish Trade Register.

Basis of consolidation

The Group financial statements are the consolidation of the financial statements of the Company and all of its subsidiary undertakings. Entities over which the Group has the ability to exercise control are accounted for as subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Interests acquired in entities are consolidated from the effective date of acquisition, when control commences. Interests sold are consolidated up to the date of disposal, when control ceases.

Transactions, balances and unrealised gains between subsidiaries are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred. No profit is taken on sales between subsidiaries until the products are sold to customers outside the Group. A deferred tax asset is recognised on unrealised intra-Group profit only to the extent that it is considered recoverable.

Assets and liabilities of overseas subsidiaries are translated into euros at rates of exchange ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into euros using average rates of exchange.

Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

Foreign currency transactions by Group companies are booked in functional currency at the exchange rate ruling on the date of the transaction. Foreign currency assets and liabilities are retranslated into functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement.

Revenue

Revenue is recognised in the income statement when goods are despatched and invoiced to external customers and when risk of loss passes to the customer or the carrier. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due or the possible return of the goods.

Revenue comprises the fair value of the sale of goods to external customers, net of discounts and allowances given and accruals for estimated future rebates and returns. Estimates for rebates and returns are made on the basis of contractual and historical information and past experience. Revenue excludes value added tax and other sales taxes.

Dividend income is recognised when the shareholders' right to receive payment is established. No dividend payments have been recommended.

Government grants

On 8 August 2005, the Group announced the award of a grant of €1.9 million from the Finnish Technology funding body TEKES. The matching grant was used to fund 50% of a three-year €3.8 million development project. The remaining half was funded by the Group.

Income from the grant is disclosed under "other operating income" on the face of the income statement and is recognised on an accruals basis. It is calculated in accordance with expenditure qualifying for reimbursement under the TEKES agreement.

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.

Research and development

Research expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised as an intangible asset when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. The expenditure capitalisable includes the cost of materials, direct labour and an appropriate proportion of overheads. It is amortised on a straight line basis over the period of the expected benefit and is reviewed for impairment at each balance sheet date. No development expenditure has been capitalised to date.

Other development expenditure is recognised as an expense as incurred. Property, plant and equipment used for research and development is depreciated in accordance with the Group's policy.

Property, plant and equipment

Property, plant and equipment is stated at cost of purchase or construction less accumulated depreciation and impairment losses. Financing costs associated with the purchase of property, plant and equipment are not capitalised. Depreciation is calculated to write off the cost of property, plant and equipment to their residual values, using the straight line basis over its expected useful life. The normal expected useful lives of the major categories of property, plant and equipment are:

Building and leasehold improvements	10–25 years
Machinery & equipment	5 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Intangible assets

Intangible assets comprise patents, trade marks, patents under construction and computer software.

Intangible assets acquired separately or as part of a business combination are stated at cost less provision for amortisation and impairment.

Amortisation is calculated to write off the cost of intangible assets in equal annual instalments over the lower of their legal and estimated useful lives. The carrying values of intangible assets together with their useful lives are subject to annual review and any impairment is charged to the income statement. The amortisation periods for patents and trademarks currently being used does not exceed 10 years.

The cost of acquiring and developing computer software for internal use and internet sites for external use are capitalised as intangible assets where the software supports a significant business system. This software is amortised over a range of 3–5 years.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other operating income/loss" in the income statement.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value over which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Taxation

The tax expense for the year is made up of corporate tax and deferred tax. Corporate tax arises on taxable income in Inion Ltd, the UK subsidiary. Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is accounted for using the balance sheet liability method, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realisation or settlement based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be simultaneously utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the financial statements

continued

2 Significant accounting policies continued

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill not deductible for tax purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Inventories

Inventories are included in the financial statements at the lower of cost and net realisable value. The cost of finished goods and work in progress includes the direct cost of raw materials, direct labour, other direct costs and related production overheads. Cost is determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less variable selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets

The Group classifies its financial assets into financial assets at fair value through profit or loss, loans and receivables. The classification is dependent on the purpose for which the investments were acquired. Financial assets at fair value through profit or loss are designated as such at inception. Classification of investments is determined at the time of the initial recognition. Financial assets are initially measured at fair value plus transaction costs of all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss are included in non-current assets unless the investment is intended to be held for less than 12 months from the balance sheet date or unless the investments need to be sold to raise working capital, in which case they are included in current assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise other receivables and cash and cash equivalents in the balance sheet.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Loans and receivables are carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are subsequently carried at fair value. All unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss and realised gains and losses through sale or disposal are recognised in the income statement in financial income and expenses. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Any impairment, measured as the difference between the fair value of the asset and the cost, is charged to the income statement.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision is established when there is objective evidence that the Group will not be able to collect amounts due in accordance with the terms of the invoice.

Provisions

A provision is recognised when the following criteria are met: an obligation exists for a future liability in respect of a past event; it is more likely than not that an outflow of economic resource will be needed to settle the obligation; and the amount of the obligation can be reliably estimated.

A provision for restructuring is recognised in respect of the direct expenditure of a business reorganisation where the plans are sufficiently detailed and well advanced and where the appropriate communication to those affected has been undertaken at the balance sheet date. Future operating costs are not provided.

Leases: accounting by lessee

Lease agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as finance leases, as if the asset had been purchased outright.

The assets are included in property, plant and equipment. The capital elements of the leasing commitments are shown as obligations under finance leases and represent the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

All other leases are operating leases and the annual rentals are included in the income statement on a straight line basis over the lease term.

Borrowings and capital loans

Borrowings and capital loans are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Government loans with nil or low interest are measured at the amount of loan received and interest is recorded on the balance sheet as it accrues. The capital loans are granted by the Finnish State Treasury.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The carrying amounts of the Group's financial instruments approximate to their fair values due to their short maturities and the similarity of the borrowing rates for capital loans, borrowings and finance lease liabilities.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Defined benefit plans

The Group has no defined benefit plans.

Share-based payment transactions

Incentives in the form of shares are provided to employees under share option schemes. These options are fair valued at their grant dates and the cost is charged to the income statement over the relevant vesting periods. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. At each balance sheet date, the number of options expected to vest is revised. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

The proceeds net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in either providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary segment reporting is based on business segment and secondary segment reporting on geographical segments. The primary segments are aggregated into one reportable business segment, the manufacture and sale of biodegradable implants. Each of the Group's operating segments has similar economic characteristics, technology, manufacturing processes, distribution and marketing strategies, regulatory environments and shared infrastructures.

New accounting standards

New and amended standards and interpretation that are effective in 2008, but not relevant to the Group's financial statements:

- IAS 39 (Amendment) and IFRS 7 (Amendment), "Reclassification of financial assets". The amendment permits an entity to reclassify non-derivative financial assets out of the held for trading category and from the available-for-sale category in particular circumstances and with certain criteria. In case of reclassification additional disclosures are required. The amendment is effective from 1 July 2008. The Group has not applied the treatment allowed by the amendment during the financial year.

The IASB has published the following standards and interpretations whose application will be mandatory in 2009 or later. The Group has not early adopted these standards, but will adopt them in later periods. Management is assessing the impact of these amendments, revisions and interpretation on the financial statements of the Group.

Notes to the financial statements

continued

2 Significant accounting policies continued

- > IAS 1 (Revised), "Presentation of Financial Statements". The revised standard is aimed at improving users' ability to analyse and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity. Non-owner changed in equity will be presented in the statement of comprehensive income
- > Amendment to IAS 23, "Borrowing Costs". The amended standard requires an entity to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed
- > Amendments to IAS 32, "Financial Instruments: Presentation" and IAS 1, "Presentation of Financial Statements" —Puttable Financial Instruments and Obligations Arising on Liquidation. The amendments require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity
- > Amendment to IFRS 2, "Share-based payment", clarifies that only service conditions and performance conditions are vesting conditions. All other features need to be included in the grant date fair value and do not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment
- > IFRS 8, "Operating Segments". The new standard replaces IAS 14. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes
- > IFRIC 11, "IFRS 2 – Group and treasury share transactions". The interpretation provides guidance on whether share-based transactions involving treasury shares or involving Group entities should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies
- > IFRIC 13, "Customer Loyalty Programmes". The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values
- > IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The interpretation is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions
- > IFRIC 15, "Agreements for the Construction of Real Estate". The interpretation clarifies whether an agreement for the construction of real estate is within the scope of IAS 11, "Construction Contracts", or IAS 18, "Revenue", and when revenue from such construction projects can be recognised on a percentage of completion basis¹
- > IFRIC 16, "Hedges of a Net Investment in a Foreign Operation". IFRIC 16 clarifies the accounting treatment in respect of a hedge of a net investment in a foreign operation. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency. In addition hedging instruments may be held anywhere in the Group. The requirements of IAS 21, "The effects of changes in foreign exchange rates", do apply to the hedged item¹
- > IFRS 7 (Amendment) Financial Instrument: Presentation – Improving Disclosures about Financial Instruments. The amendment requires enhanced disclosures about fair value measurements and liquidity risk¹

¹ The revision, amendment or interpretation to published standards is still subject to endorsement by the European Union.

3 Segment information

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

The Group operates in three main geographical areas. The following table provides geographical information regarding sales to external customers. Sales are presented by destination:

Revenue

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Europe	1,725	1,785	1,725	1,785
Americas	2,021	1,238	3,183	913
Asia, Australia, Pacific	2,032	2,209	2,032	2,209
Total revenue	5,778	5,232	6,940	4,907

Segment assets are located as follows:

Assets

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Europe	9,968	24,582	9,862	27,628
Americas	668	711	-	-
Total assets	10,636	25,293	9,862	27,628

Capital expenditure by market area:

Capital expenditure

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Europe	183	569	183	569

4 Staff costs

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Wages and salaries	5,040	5,804	3,536	4,007
Share options granted	715	540	715	540
Compensation in shares	82	104	82	104
Social security costs	369	370	146	202
Pension costs	667	880	528	638
Termination of contracts	-	809	-	299
	6,873	8,507	5,007	5,790

Staff costs have been included as follows:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Cost of sales	1,407	1,109	1,407	1,109
Research and development costs	1,522	2,073	1,474	1,505
Sales and marketing	2,121	2,495	1,093	1,664
Administrative expenses	1,823	2,830	1,033	1,512
	6,873	8,507	5,007	5,790

The average number of employees in 2008 was 83 (2007: 94). The number of employees at the year end was 83 (2007: 88).

Total remuneration excluding pension costs for the CEO was €276,000 (2007: €635,000). Total remuneration excluding pension costs for the Board was €648,000 (2007: €1,830,000).

Executive Directors participate in defined contribution personal pension schemes. The Company made a contribution of 16.8% of base salary to these schemes. In 2008, pension contributions to the CEO were €43,303 (2007: €48,435). The Chairman and the Non-Executive Directors are not eligible for pension entitlements.

Notes to the financial statements

continued

5 Finance income and expenses

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Interest income	155	39	153	39
Interest expense	(362)	(450)	(362)	(446)
Exchange loss	(42)	(293)	(33)	(236)
Fair value (losses)/gains other financial assets at fair value through profit or loss	(121)	482	(121)	482
Other financial items	(16)	(22)	(13)	(22)
	(386)	(244)	(376)	(183)

Interest expense includes interest arising on capital loans of €88,000 (2007: €70,000) (see note 15).

6 Loss before tax

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
The following items have been debited/(credited) to the income statement in arriving at loss before taxation				
Impairment of intangibles	1,150	–	1,150	–
Amortisation of intangibles	136	128	136	128
Impairment of tangible fixed assets	525	–	525	–
Depreciation of tangible fixed assets	581	668	581	595
Written off investments in subsidiaries	–	–	128	–
Operating lease payments	227	361	147	116
Cost of inventories included in cost of sales	634	1,373	1,333	1,373
Increase in inventory provision	1,758	24	1,954	240
Impairment losses recognised on trade and other receivables	648	37	4,523	23
Provisions	795	–	795	–
Government grants	(169)	(420)	(169)	(420)
Net exchange loss	42	293	33	236
Share-based payments	829	640	829	639
Audit fees for audit services	52	46	44	38
Non-audit fees	350	10	348	10

7 Income tax expense

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Income tax	51	106	–	–
Deferred tax charge (note 16)	246	31	226	127
	297	137	226	127

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Loss before income tax	(13,584)	(12,271)	(14,412)	(11,667)
Tax benefit at 26%	3,532	3,190	3,747	3,033
Expenses not deductible for tax purposes	(12)	(122)	(452)	(54)
Income not subject to tax	–	135	–	135
Unrecognised deferred tax asset	(3,520)	(3,203)	(3,295)	(3,114)
Reversal of previously recognised deferred tax asset of carry forward tax losses	(297)	(137)	(226)	(127)
Tax charge	(297)	(137)	(226)	(127)

8 Loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders and the weighted average number of ordinary shares outstanding during the year. The calculation for diluted loss per share is based on loss attributable to equity shareholders and the weighted average number of ordinary shares including share options outstanding during the year.

As inclusion of the options has an anti-dilutive effect on the loss per share calculation (i.e reduces the loss per share), the basic and diluted loss per share is the same as the basic loss per share calculation. The calculation is shown below.

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

9 Intangible assets Group and Inion Oy

	Patents and trademarks €'000	Patents in progress €'000	Software €'000	Software in progress €'000	Total €'000
At 1 January 2007					
Cost	297	524	791	3	1,615
Accumulated amortisation	(27)	–	(542)	–	(569)
Net book value	270	524	249	3	1,046
Year ended 31 December 2007					
Net book value at 1 January 2007	270	524	249	3	1,046
Additions	34	193	5	20	252
Disposals	–	(27)	–	–	(27)
Transfers	130	(147)	4	13	–
Amortisation charge	(40)	–	(88)	–	(128)
Net book value at 31 December 2007	394	543	170	36	1,145
At 31 December 2007					
Cost	461	543	800	36	1,840
Accumulated amortisation	(67)	–	(630)	–	(697)
Net book value	394	543	170	36	1,143
Year ended 31 December 2008					
Net book value at 1 January 2008	394	543	170	36	1,143
Additions	41	102	–	–	143
Transfers	51	(31)	16	(36)	–
Impairment charge	(440)	(614)	(96)	–	(1,150)
Amortisation charge	(46)	–	(90)	–	(136)
Net book value at 31 December 2008	–	–	–	–	–
At 31 December 2008					
Cost	553	614	816	–	1,983
Impairment charge	(440)	(614)	(96)	–	(1,150)
Amortisation charge	(113)	–	(720)	–	(833)
Net book value	–	–	–	–	–

Notes to the financial statements

continued

9 Intangible assets continued

The Company and the Group have recognised impairment losses on patents and trademarks and the patents under construction and also software due to the uncertainty of future revenues. Impairment losses have been recognised as follows in the income statement: Sales and marketing, €400,000; Research and development costs €654,000; and Administrative expenses €96,000.

10 Property, plant and equipment Group

	Buildings and leasehold improvements €'000	Machinery and equipment €'000	Advanced payments and assets under construction €'000	Total €'000
At 1 January 2007				
Cost	5,383	4,137	20	9,540
Accumulated depreciation	(1,213)	(2,968)	–	(4,181)
Net book value	4,170	1,169	20	5,359
Year ended 31 December 2007				
Net book value at 1 January 2007	4,170	1,169	20	5,359
Exchange differences	–	1	–	1
Additions	–	281	23	304
Disposals	–	(199)	–	(199)
Charged in year	–	(37)	–	(37)
Transfers	–	20	(20)	–
Depreciation charge	(264)	(404)	–	(668)
Net book value at 31 December 2007	3,906	831	23	4,760
At 31 December 2007				
Cost	5,383	4,203	23	9,609
Accumulated depreciation	(1,477)	(3,372)	–	(4,849)
Net book value	3,906	831	23	4,760
Year ended 31 December 2008				
Net book value at 1 January 2008	3,906	831	23	4,760
Additions	–	117	26	143
Transfers	–	4	(4)	–
Impairment charge	–	(480)	(45)	(525)
Depreciation charge	(264)	(317)	–	(581)
Net book value at 31 December 2008	3,642	155	–	3,797
At 31 December 2008				
Cost	5,383	4,324	45	9,752
Impairment charge	–	(480)	(45)	(525)
Accumulated depreciation	(1,741)	(3,689)	–	(5,430)
Net book value	3,642	155	–	3,797

The Group has recognised impairment losses on certain assets including production machinery and office equipment due to the uncertainty of future revenues. Impairment losses of €525,000 have been recognised in cost of sales in the income statement.

Inion Oy

	Buildings and leasehold improvements €'000	Machinery and equipment €'000	Advanced payments and assets under construction €'000	Total €'000
At 1 January 2007				
Cost	5,383	3,533	–	8,916
Accumulated depreciation	(1,213)	(2,652)	–	(3,865)
Net book value	4 170	881	–	5,051
Year ended 31 December 2007				
Net book value at 1 January 2007	4,170	881	–	5,051
Additions	–	281	23	304
Depreciation charge	(264)	(331)	–	(595)
Net book value at 31 December 2007	3,906	831	23	4,760
At 31 December 2007				
Cost	5,383	3,814	23	9,220
Accumulated depreciation	(1,477)	(2,983)	–	(4,460)
Net book value	3,906	831	23	4,760
Year ended 31 December 2008				
Net book value at 1 January 2008	3,906	831	23	4,760
Additions	–	117	26	143
Transfers	–	4	(4)	–
Impairment charge	–	(480)	(45)	(525)
Depreciation charge	(264)	(317)	–	(581)
Net book value at 31 December 2008	3,642	155	–	3,797
At 31 December 2008				
Cost	5,383	3,935	45	9,363
Impairment charge	–	(480)	(45)	(525)
Accumulated depreciation	(1,741)	(3,300)	–	(5,041)
Net book value	3,642	155	–	3,797

The Company has recognised impairment losses on certain assets including production machinery and office equipment due to the uncertainty of future revenues. Impairment losses of €525,000 have been recognised in cost of sales in income statement.

Depreciation and amortisation expense has been charged as follows:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Cost of sales	300	280	300	280
Research and development costs	173	199	173	126
Sales and marketing	36	34	36	34
Administrative expenses	208	283	208	283
	717	796	717	723

Additions of assets leased under finance leases to both the Group and Inion Oy are €81,000 (2007: €nil for Group and Inion Oy). Assets held under finance leases are given in the table on page 44.

Notes to the financial statements

continued

10 Property, plant and equipment continued

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Buildings				
Cost	4,569	4,569	4,569	4,569
Accumulated depreciation	(1,330)	(1,145)	(1,330)	(1,145)
Net book value	3,239	3,424	3,239	3,424
Machinery and equipment				
Cost	588	581	588	575
Accumulated depreciation	(476)	(445)	(476)	(442)
Net book value	112	136	112	133

11 Other financial assets at fair value through profit or loss

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
At 1 January	13,302	26,308	13,302	26,308
Disposals	(13,302)	(13,488)	(13,302)	(13,488)
Increase in fair value	-	482	-	482
At 31 December	-	13,302	-	13,302

Other financial assets at fair value through profit or loss are made up of quoted interest rate funds which are fair valued at the date of each balance sheet. The fair value is determined from quoted bid prices. All other financial assets at fair value through profit or loss were classified as current assets. This is because they are highly liquid interest bearing investments (held at call), which were held as part of the Group's cash management activities.

12 Inventories

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Raw materials	40	387	40	387
Work in progress	100	900	100	900
Finished goods	718	731	439	519
	858	2,018	579	1,806

The total value of inventory provided by the Group was €2,368,000 (2007: €642,000) and by Inion Oy €2,093,000 (2007: €642,000).

13 Receivables and prepayments

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Trade receivables	1,699	1,709	1,466	1,445
Trade receivables intercompany	-	-	-	377
	1,699	1,709	1,466	1,822
Other receivables	625	1,573	625	1,467
Other receivables intercompany	-	-	-	2,731
Prepayments	27	20	12	7
	652	1,593	637	4,205
Total receivables and prepayments	2,351	3,302	2,103	6,027

Other receivables include VAT, insurance prepayments, bank guarantee and rent deposits.

The carrying amount of trade receivables, other receivables and prepayments approximate their fair values due to their short maturities. The maximum exposure for credit risk at the balance sheet date is the fair value of each class of receivable mentioned above.

Trade receivables are stated net of a provision for doubtful debts of €1,031,000 (2007: €1,191,000) for doubtful accounts from trade receivables. No other amounts were provided.

Of the trade receivables of €1,699,000, €326,000 (2007: €422,000) were overdue. These trade receivables have not been provided for and have been aged as follows:

	Group 2008 €'000	Group 2007 €'000
Under 2 months	135	402
Over 2 months	191	20
	326	422

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group 2008 €'000	Group 2007 €'000
Euros	1,482	2,667
US dollar	626	483
UK pound	243	152
	2,351	3,302

14 Share capital, share premium and share options

	Number of ordinary shares	Ordinary shares €'000	Share premium €'000	Total €'000
At 31 December 2006	74,639,244	2,239	80,598	82,837
Issue of shares – share option scheme	784,728	23	–	23
Shares issued to Non-Executive Directors ¹	109,056	–	–	–
At 31 December 2007	75,533,028	2,262	80,598	82,860
Issue of shares – share option scheme	91,287	3	–	3
Shares issued to Non-Executive Directors ¹	676,659	–	–	–
At 31 December 2008	76,300,974	2,265	80,598	82,863

¹ Shares were issued to Non-Executive Directors as part of their remuneration. The Non-Executive Directors receive fees as 50% shares and 50% cash. The value of shares issued as part of remuneration for the Non-Executive Directors was €82,391 (2007: €104,000).

Share premium account includes the amount paid by shareholder in excess of the nominal value of the share according to previous Finnish Companies Act (29.9.1978/734). The nominal value of the share was removed by the resolution of the General Meeting of Shareholders held on 3 May 2007. Under the current Finnish Companies Act (21.7.2006/624) the subscription price of new shares is credited to the share capital, unless it is provided in the share issue decision that it is to be credited in full or in part to the reserve for invested unrestricted equity.

Share options

The Group currently has seven share option schemes. Of these, three were approved in 2004 prior to flotation on the London Stock Exchange on 1 December 2004, one, was approved in April 2005, two in May 2007 and one in April 2008.

Translations between euro and UK pound amounts are calculated at the rate of €1.2554:£1.

2004 schemes

January and April 2004 option plans

Under this scheme a total of 2,537,892 options were approved for issue. All options are exercisable no earlier than 16 January 2005. None may be exercised after 16 January 2008.

Each option right entitles its holder to subscribe for one ordinary share. The share capital of the Company will not increase by more than €76,137 on subscription.

This scheme is now closed and no further options will be awarded under this scheme. The subscription price of the shares is €0.03.

Notes to the financial statements

continued

14 Share capital, share premium and share options continued

The number of options outstanding is set out in the table below:

	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
Outstanding at 1 January 2007	715,554	2.2	2.8
Exercised	(624,267)	2.2	2.8
Outstanding at 1 January 2008	91,287	2.2	2.8
Exercised	(91,287)	2.2	2.8
Outstanding at 31 December 2008	-	-	-

October 2004 option plan

Under this scheme a total 623,700 options were approved for issue. All options are exercisable no earlier than 1 January 2005. None may be exercised after 1 January 2008.

Each option right entitles its holder to subscribe for one ordinary share. The share capital of the Company will not increase by more than €16,664 on subscription.

This scheme is now closed and no further options will be awarded under this scheme. The subscription price of the shares was €1.72.

The number of options outstanding is set out in the table below:

	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
Outstanding at 1 January 2007	491,947	137	172
Lapsed	(3,581)	137	172
Outstanding at 1 January 2008	488,366	137	172
Lapsed	(488,366)	137	172
Outstanding at 31 December 2008	-	-	-

2005 scheme

Under this scheme a total 2,197,395 of options were approved for issue. All options are exercisable no earlier than 1 May 2009. None may be exercised after 1 May 2012.

Each option right entitles its holder to subscribe for one ordinary share. The share capital of the Company will not increase by more than €65,921 on subscription.

This scheme is now closed and no further options will be awarded under this scheme.

The number of options outstanding is set out in the table below:

	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
Outstanding at 1 January 2007	674,582	81	102
Granted	770,481	34.5	43
Lapsed	(135,512)	105	132
Outstanding at 1 January 2008	1,309,551	51	64
Lapsed	(614,392)	66	83
Outstanding at 31 December 2008	695,159	38	48

2007 Share appreciation rights (SARs) schemes

The scheme approved in 2007 is in two parts. Part A, the Group 2007 scheme, is for the grant of no more than 3,700,000 shares for issue to Executive Directors and employees by 1 May 2008. This scheme is structured so that on exercise only the gain on the exercise of an option is delivered in shares. These options structures are called Share Appreciation Rights ("SARs"). As only the gain is delivered, fewer shares need to be issued and this has the benefit of reducing the overall dilution of the existing share capital of the Company.

Part B is a scheme for Mr Lee. This was designed as part of his terms of recruitment and is intended to provide compensation for the value of long term incentive plans surrendered at his previous employer. Under this scheme, options for a maximum of 2,843,015 shares (3.8%) of the issued share capital of the Company were issued at an exercise price of 24.5p. This was the closing price of the shares prior to announcement that Mr Lee would join the Group.

Options are exercisable between 3 and 10 years from the date of grant.

	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
Part A			
Outstanding at 1 January 2007	–	–	–
Granted	3,693,865	45.55	57.18
Lapsed	(66,962)	45.55	57.18
Outstanding at 1 January 2008	3,626,903	45.55	57.18
Granted	766,504	45.55	57.18
Lapsed	(893,134)	45.55	57.18
Outstanding at 31 December 2008	3,500,273	45.55	57.18
Part B			
Outstanding at 31 December 2007 and 2008	2,843,015	24.50	30.76

2008 Share appreciation rights (SARs) scheme

The scheme approved in 2008 is for the grant of no more than 2,240,000 shares for issue to Executive Directors and employees by 1 May 2009. This scheme is structured so that on exercise only the gain on the exercise of an option is delivered in shares. These options structures are called Share Appreciation Rights (“SARs”). As only the gain is delivered, fewer shares need to be issued and this has the benefit of reducing the overall dilution of the existing share capital of the Company.

Options are exercisable between 3 and 10 years from the date of grant.

	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
Outstanding at 1 January 2008	–	–	–
Granted	1,806,000	7.94	10.00
Outstanding at 31 December 2008	1,806,000	7.94	10.00

Summary

The table below summarises the total number of options outstanding

Summary of options outstanding As at 31 December 2008	Number	Weighted average exercise price (pence)	Weighted average exercise price (euro cents)
2005 scheme	695,159	38.40	48.21
Part A 2007 Scheme	3,500,273	45.55	57.18
Part B 2007 scheme	2,843,015	24.50	30.76
2008 Scheme	1,806,000	7.94	10.00
Total	8,844,447	28.61	35.92

Notes to the financial statements

continued

14 Share capital, share premium and share options continued

Of the 8,844,447 outstanding options (2007: 8,356,287) at 31 December 2008, none (2007: 576,818) was exercisable. Options exercised in 2008 resulted in 91,287 shares (2007: 784,728) being issued as follows:

	2008 shares issued € per share	2008 weighted average price at time of exercise		2007 shares issued € per share	2007 weighted average price at time of exercise
Total 91,287 shares issued at	0.03	0.30	Total 784,728 shares issued at	0.03	0.50

The fair value of options is determined using the Black-Scholes valuation model. In addition to the option vesting periods disclosed above the significant inputs for the model are as follows:

	April 2005 option plan	June 2007 option plan	August 2007 option plan	May 2008 option plan
Share price at date of grant	1.58	0.59	0.66	0.11
Exercise price	1.58	0.36	0.67	0.11
Standard deviation of expected share price returns	40%	44%	44%	44%
Annual risk free interest	2.20%	3.88%	3.88%	3.88%

Share price volatility is measured from the statistical analysis of daily share prices over the period during which the Company has been listed.

15 Capital loans, borrowings from financial institutions and finance lease liabilities

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Non-current				
Capital loans	2,342	2,342	2,342	2,342
Borrowings from financial institutions	–	92	–	92
Finance lease liabilities	1,107	1,742	1,107	1,742
	3,449	4,176	3,449	4,176
Current				
Borrowings from financial institutions	92	609	92	609
Finance lease liabilities	716	690	716	689
	808	1,299	808	1,298
Total borrowings	4,257	5,475	4,257	5,474

The ageing of the borrowings is presented in note 20. The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group 2008 €'000	Group 2007 €'000
Euros	4,257	4,360
US dollar	–	128
UK pound	–	943
Swiss franc	–	35
Swedish krona	–	9
	4,257	5,475

Capital loans due to State Treasury

The interest rate applied to the outstanding capital loans is the 12-month Euribor minus 1% (minimum interest rate is 3%). The loans are repayable in annual instalments over periods of 3 to 5 years. The loans taken out in 2003 and 2004 are repayable in 5 years; those taken out in 2005 are repayable in 3 years.

Repayments are made subject to certain criteria being met. Interest is payable only from distributable reserves. The repayment of the principal is subject to distributable retained earnings plus the capital loans being at least equal to restricted equity in accordance with Finnish GAAP. Restricted equity is defined as share capital plus share premium.

In case of bankruptcy or liquidation the loan principal and interest have the lowest priority, i.e. they are paid only after all creditors have been paid.

No payments of principal or interest have been made since inception of the loan. Interest on the loans has been accrued in the financial statements. The total amount of interest accrued in respect of capital loans is €515,000 (2007: €427,000).

Borrowings from financial institutions

The interest rate applied to Finnvera loans is between six-month Euribor plus 0.5% and six-month Euribor plus 3.8%. The principal is repaid every six months. Repayment of the principal is not required in the first year under the terms of the agreement. The balance outstanding at the end of the year on the Finnvera loans was €91,663. The Finnvera loans were fully repaid on 10 February 2009.

The effective interest rates at the balance sheet dates were as follows:

	Group 2008	Group 2007	Inion Oy 2008	Inion Oy 2007
Capital loans	3.8%	3.3%	3.8%	3.3%
Borrowings from financial institutions	6.8%	6.5%	6.8%	6.5%
Finance lease liabilities	7.0%	7.0%	7.0%	7.0%

The carrying amounts of capital loans, borrowings from financial institutions, bank overdrafts and finance lease obligations approximate to their fair values.

Maturity of non-current borrowings (excluding finance lease liabilities and capital loans):

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Between 1 and 2 years	–	92	–	92
	–	92	–	92

Finance lease liabilities

The main finance lease liability is in respect of the Group's facility in Tampere, Finland. The lessor is Tampere Science Parks Oy. The yearly lease payment is based on the construction costs of the premises plus an annual rate of 7% for the costs. The lease period is 10 years ending on 30 June 2011. During the lease period the lessee has the option to buy the premises. At the end of the lease period there is an option for ownership to transfer to the lessee.

Other finance lease liabilities include IT equipment and cars.

Finance lease liabilities – minimum lease payments:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Less than 1 year	812	829	812	827
Between 1 and 5 years	1,161	1,892	1,161	1,892
	1,973	2,721	1,973	2,719
Future finance charges on finance leases	(150)	(289)	(150)	(288)
Present value of finance lease liabilities	1,823	2,432	1,823	2,431

The present value of finance lease liabilities is as follows:

	716	690	716	689
Less than 1 year	716	690	716	689
Between 1 and 5 years	1,107	1,742	1,107	1,742
	1,823	2,432	1,823	2,431

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16 Deferred taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a tax rate of 26%.

The deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) are as follows:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Deferred tax assets				
Depreciation differences	400	445	400	445
Other	–	137	–	110
	400	582	400	555
Deferred tax liabilities				
Other	(400)	(330)	(400)	(330)
	(400)	(330)	(400)	(330)
Net deferred tax assets	–	252	–	225

The Group has not recorded all deferred tax assets in the balance sheet. Deferred tax assets not recorded as at 31 December 2008 were €21,790,000 (2007: €18,737,000).

Deferred tax assets arising from carried forward losses have not been recognised on the balance sheet. The total Group loss carried forward is €84,010,000 as at 31 December 2008 (2007: €72,267,000). These losses will begin to expire from 2010.

17 Pension obligations

The Group operates a number of defined contribution schemes. The schemes are generally funded through payments to insurance companies or trustee administered funds.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Management of the assets is independent of the Group and there is no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits accrued to employees within the scheme.

18 Provisions

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Tax liability in respect of years 2004–2006				
Increase in provision and balance at 31 December	795	–	795	–
Total provisions				
At 1 January	–	133	–	133
Increase in provision	795	–	795	–
Utilised during year	–	(133)	–	(133)
At 31 December	795	–	795	–

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 in respect of two former directors and an employee. 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.

19 Other short-term liabilities

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Other interest accruals	2	17	2	17
Accrued salaries and vacation period salaries	579	1,019	578	641
Other payables	604	1,072	387	604
Intercompany payables	-	-	-	2,868
	1,185	2,108	967	4,130

20 Financial risk management

The Group's principal financial instruments, other than derivatives, includes borrowings, finance leases, cash and equity capital. The main purpose of these financial instruments is to provide financing for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The Group enters into derivative transactions, principally forward foreign currency contracts. The purpose of these is to manage the currency risks arising from the Group's operations and its financing. It is, and has been throughout the period under review, the Group's policy that no dealing in financial instruments shall be undertaken, except for the purpose of hedging the Group's financial risks.

The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board considers each of these risks on a regular basis and the Group's policy towards each of these risks has remained unchanged during the year.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

All the tables including additional information to risk management are presented at the end of note 20.

(a) Market risk

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Costs in the US will serve as a natural hedge for revenues in the US which are denominated in US dollars. The Group's policy is to actively manage any uncovered currency risk by covering the anticipated exposures in US dollars and any other major currencies for a period of up to one year using forward foreign exchange contracts.

At 31 December 2008, if the euro had weakened by 5% against the US dollar with all other variables held constant, post-tax loss for the year would have decreased by €23,000 (2007: €40,000), mainly as a result of foreign exchange losses on translation of US dollar-denominated trade receivables and borrowings. Equity would have decreased by €23,000 (2007: €40,000). If the euro had strengthened by 5% against the US dollar with all other variables held constant, post-tax loss for the year would have increased by €23,000 (2007: €40,000), mainly as a result of foreign exchange gains on translation of US dollar-denominated trade receivables and borrowings. Equity would have increased by €23,000 (2007: €40,000).

At 31 December 2008, if the euro had weakened by 5% against the UK pound with all other variables held constant, post-tax loss for the year would have decreased by €3,000 (2007: €464,000), mainly as a result of foreign exchange losses on translation of UK pound-denominated trade receivables and borrowings. Equity would have decreased by €3,000 (2007: €464,000). If the euro had strengthened by 5% against the UK pound with all other variables held constant, post-tax loss for the year would have increased by €3,000 (2007: €464,000), mainly as a result of foreign exchange gains on translation of UK pound-denominated trade receivables and borrowings. Equity would have increased by €3,000 (2007: €464,000).

Interest rate risk

The Group finances its operations through a mixture of equity capital, cash, bank borrowings and finance leases. The Group uses interest rate swaps, as deemed appropriate, to manage the Group's exposure to interest rate fluctuations. No interest rate swaps were in use at the balance sheet date.

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20 Financial risk management continued

At 31 December, if interest rates on borrowings had been 1% higher with all other variables held constant, post-tax loss for the year would have decreased by €23,000 (2007: €30,000), mainly as a result of increased interest expense on a floating rate borrowings. If interest rates on borrowings had been 1% lower with all other variables held constant, post-tax loss for the year would have increased by €23,000 (2007: €30,000), mainly as a result of decreased interest expense on a floating rate borrowings.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers. For banks and financial institutions, our aim is to accept independently rated parties with a minimum rating of AA+ or equivalent.

The Group assesses the creditworthiness of new customers before commencing trade with them and authorised limits of credit are set and monitored. Trade receivables are monitored each month and a pro-active approach to the identification and control of bad and doubtful debts is maintained.

(c) Liquidity risk and capital risk management

During the year, the Board implemented a new commercial strategy for the business which is based on the following key elements:

- > Focus on Spine and Speciality Orthopaedics market segments and divest non-core business units
- > Use of a focused network of specialist distributors in target markets including USA and selected territories in the rest of the world
- > Focus expenditure on near term product development for key market segments with longer term focus on next generation bioactive biomaterials

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 Board has identified a number of steps which are being taken to maximise, monitor and manage its cash resources and ensure that it can continue in operation for the foreseeable future. These include:

- > Immediate divestment of non-core segments
- > Reductions in the cost base and in particular continued rigorous management of the discretionary spend
- > Monitoring of cash balances twice a week and rigorous modelling and control of short term cash expenditure to manage liquidity of the Company

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows of financial liabilities at 31 December 2008 and 2007. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 4 months €'000	Between 4 months and 1 year €'000	Between 1 and 2 years €'000	Over 2 years €'000
At 31 December 2008				
Trade payables	264	322	–	–
Borrowings	92	–	–	–
Finance lease liabilities	208	604	780	381
Capital loans	–	–	–	2,857
Other payables	697	1,281	–	–
At 31 December 2007				
Trade payables	378	765	–	–
Borrowings	299	327	92	–
Finance lease liabilities	216	613	784	1,108
Capital loans	–	–	–	2,769
Other payables	1,770	122	16	–

	Group 2008 €'000	Group 2007 €'000
Cash and cash equivalents ¹	3,630	13,818
Less: total borrowings	(4,257)	(5,475)
Net assets	(627)	8,343
Total equity	3,299	16,140
Total capital	2,672	24,483
Gearing ratio	-9%	34%

1 Includes other financial assets at fair value through profit and loss.

21 Statement of changes in shareholders' equity Group

	Share capital €'000	Share issue €'000	Share premium €'000	Fair value gain and other reserves €'000	Translation differences €'000	Retained earnings €'000	Total €'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 share option scheme							
– employee services	-	-	-	640	-	-	640
– proceeds from shares issued	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 share option scheme							
– employee services	-	-	-	829	-	-	829
– proceeds from shares issued	3	-	-	-	-	-	3
At 31 December 2008	2,265	-	80,598	3,782	1,266	(84,612)	3,299

All 76,300,974 are issued and the total share capital of €2,265,457.77 is fully paid up. In accordance with the Company Articles the minimum share capital is €1,300,000 and the maximum capital is €2,500,000. Share capital can be increased or decreased within those limits without changing the Company's Articles. The shares have no nominal value. There is only one class of share which confers the same shareholder rights to all. All the shares can be sold or transferred without constraint and each share has one vote.

Share premium includes the amount paid the value paid in respect of shares issued in excess of the nominal value under the Companies Act 29.9.1978/734. It was resolved in the AGM on 3 May 2007 that issued share capital would no longer have a nominal value. Under the Companies Act the issue price of the shares is recognised in share capital. Where options or other instruments are granted for shares to be issued, the equity entries are recognised in other reserves.

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21 Statement of changes in shareholders' equity continued

Inion Oy

	Share capital €'000	Share issue €'000	Share premium €'000	Fair value gain and other reserves €'000	Retained earnings €'000	Total €'000
At 1 January 2007	2,239	5	80,598	2,314	(57,424)	27,732
Loss for the year	–	–	–	–	(11,794)	(11,794)
Employee share option scheme						
– employee services	–	–	–	639	–	639
– proceeds from shares issued	23	(5)	–	–	–	18
At 31 December 2007	2,262	–	80,598	2,953	(69,218)	16,595
Loss for the year	–	–	–	–	(14,638)	(14,638)
Employee share option scheme						
– employee services	–	–	–	829	–	829
– proceeds from shares issued	3	–	–	–	–	3
At 31 December 2008	2,265	–	80,598	3,782	(83,856)	2,789

All 76,300,974 are issued and the total share capital of €2,265,457.77 is fully paid up. In accordance with the Company Articles the minimum share capital is €1,300,000 and the maximum capital is €2,500,000. Share capital can be increased or decreased within those limits without changing the Company's Articles. The shares have no nominal value. There is only one class of share which confers the same shareholder rights to all. All the shares can be sold or transferred without constraint and each share has one vote.

Share premium includes the amount paid the value paid in respect of shares issued in excess of the nominal value under the Companies Act 29.9.1978/734. It was resolved in the AGM on 3 May 2007 that issued share capital would no longer have a nominal value. Under the Companies Act the issue price of the shares is recognised in share capital. Where options or other instruments are granted for shares to be issued, the equity entries are recognised in other reserves.

22 Commitments

Operating lease commitments – where the Company is the lessee

The Group leases items of machinery and equipment under non-cancellable operating lease agreements. The contracts are normally for 3 years and contracts do not normally include redemption clauses. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Less than 1 year	4	23	4	23
Between 1 and 5 years	–	2	–	2
	4	25	4	25

Charges

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Charges on business assets	2,000	2,000	2,000	2,000

All Group assets excluding buildings and leasehold improvements serve as security for borrowing facilities.

Other commitments

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Rent deposit security	197	197	197	197
Salary payment bank deposit security	232	272	232	272
	429	469	429	469

23 Reconciliation of loss for the year to cash flows from operating activities

	Group 2008 €'000	Group 2007 €'000	Inion Oy 2008 €'000	Inion Oy 2007 €'000
Loss for the year	(13,880)	(12,408)	(14,638)	(11,794)
Income taxes	51	–	–	–
Deferred taxes	246	31	226	127
Depreciation and amortisation	717	796	717	723
Share-based compensation	829	600	829	600
Loss on disposal of property, plant and equipment	–	199	–	–
Impairment charge on intangible assets	1,150	–	1,150	–
Impairment charge on property, plant and equipment	525	–	525	–
Other adjustments	43	209	(32)	(73)
Fair value losses/(gains) on other financial assets at fair value through profit or loss	121	(482)	121	(482)
Net interest expense	207	411	209	407
Exchange loss	42	293	33	236
Net loss before changes in working capital	(9,949)	(10,351)	(10,860)	(10,256)
Change in net working capital				
Decrease in inventory	1,160	392	1,227	604
Decrease in debtors	951	366	3,924	355
(Decrease)/increase in non-interest bearing liabilities	(1,480)	219	(3,626)	135
Increase in provisions	795	–	795	–
Cash flows from operating activities	(8,523)	(9,374)	(8,540)	(9,162)

The principal non-cash transactions are related to the acquisition of property, plant and equipment using finance leases.

24 Related party transactions

Remuneration of senior management

Senior management remuneration for the period was €481,000 (2007: €914,000). Senior management consists of the CEO and CFO.

Board remuneration

The Board remuneration for the period was €648,000 (2007: €1,830,000).

Options granted to Board members

At 31 December 2008, a total of 5,568,694 (2007: 4,274,694) options had been granted to Board members. These options have been granted from option schemes which are available to all employees with the exception of the 2007 SARS scheme for Mr Lee. The key terms for this scheme are the same as the 2007 scheme available to all employees with the exception of the share price performance criteria. The scheme for Mr Lee contains no share price performance criteria.

The Non-Executive Directors receive fees as 50% shares and 50% cash. The value of shares issued as part remuneration for the Non-Executive Directors who served during the course of the year was €82,391 (2007: €104,000).

25 Accounting estimates and assumptions

Estimates and assumptions are continually evaluated. The development, selection and disclosure of the Group's critical accounting policies and estimates and their application are reviewed by the Audit Committee.

The key sources of estimation uncertainty are

Going concern

This is fully explained in notes 2 and 27.

Impairment of non-financial assets

Impairments are discussed in the Financial Review of this Annual Report. These 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.

Provisions for obsolescent stock

Obsolescent stock relates to inventory items which have a shelf life which may expire before their sale. The estimation uncertainty is increased in view of the significant uncertainty over future funding, revenues and therefore the going concern of the business.

Notes to the financial statements

continued

25 Accounting estimates and assumptions continued

Provision for doubtful trade receivables

The estimation uncertainty is increased in view of the significant uncertainty over future funding, revenues and therefore the going concern of the business.

Provision for tax liabilities

This is fully explained in note 18.

The accounting policy for each of these is given in note 2.

26 Principal subsidiaries

Inion Inc. (USA)	100%
Inion Ltd. (UK)	100%
Inion Schweiz GmbH (Switzerland)	100%

27 Post balance sheet events

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 further 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.

Cancellation of Listing from the Official List of the London Market

Inion announced on the 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.

Over the past year, the Directors have been seeking efficient and cost-effective ways to raise further equity capital to allow the Company to continue the development of its various projects. Regrettably, against the background of the current financial market, the Company has had difficulty raising sufficient capital at an acceptable cost and the Directors consider that the low market capitalisation of the Company and the low liquidity of trading in the ordinary shares has made an investment in the Company unattractive to certain investors.

As announced on 26 March 2009, Inion has continued to attempt to conserve its cash resources by implementing measures to reduce overhead expenditure and headcount levels. Notwithstanding these measures, the Company continues to require urgent additional funding to finance its working capital requirements in the short term. After careful consideration, 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.

Notice of an EGM, to be held at the office of Inion, Lääkärintäkatu 2, FIN-33520, Tampere, Finland at 11.00 a.m. on 26 May 2009 has been given by relevant publication in a daily newspaper in Tampere, one daily newspaper in Helsinki and one daily newspaper in the UK on or about 29 April 2009.

A copy of the notice can be found in the accompanying EGM Notice on the website at www.inion.com

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.

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.

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