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# ANNUAL FINANCIAL REPORT

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## 1. GENERAL INFORMATION

On March 20, 2008, The Board of Directors made up the consolidated financial statements and the statutory financial statements of TiGenix with respect to the financial year ending on December 31, 2007.

The consolidated financial statements, including the notes, and the statutory financial statements of TiGenix were approved by the Board of Directors for issuance on March 21, 2008. The consolidated financial statements can be found in chapter 3.1 and 3.2; an extract of the statutory financial statements can be found in chapter 4.1 and 4.2 as part of the Financial Report.

The Board of Directors made up the annual report on the consolidated financial statements and on the statutory financial statements of TiGenix on March 20, 2008.

Both annual reports were approved by the Board of Directors for issuance on March 21, 2008. The annual report on the consolidated financial statements can be found in chapter 3.3 and a summary of the annual report on the statutory financial statements can be found in chapter 4.3 as part of the Financial Report.

The statutory auditor's report on the consolidated financial statements is presented in chapter 3.4 as part of the Financial Report. The statutory auditor has also issued an unqualified audit opinion on the statutory accounts on March 20, 2008.

The Board of Directors is committed to the corporate governance principles as described by the Belgian Code on Corporate Governance and the Corporate Governance Charter of TiGenix. A corporate governance report is presented in chapter 5 of the Financial Report.

This Financial Report, together with the complete version of the statutory accounts, the annual report of the Board of Directors on the statutory accounts and the auditor's report on the statutory accounts are made available on the website of TiGenix ([www.tigenix.com](http://www.tigenix.com)) as from March, 21, 2008 and can be obtained free of charge.

Certain financial information in this report has been subject to rounding adjustments and currency conversion adjustments. Accordingly, the sum of certain data may not be equal to the expressed total.

## 2. STATEMENT BY THE CEO

In accordance with Article 12 § 2 of the Royal Decree of 14 November 2007 on the obligations of issuers of financial instruments admitted to trading on a regulated market, the undersigned, Gil Beyen BVBA, represented by Gil Beyen, CEO of TiGenix NV, states on behalf of TiGenix NV that, to the best of his knowledge,

- a) the annual financial statements prepared in accordance with the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of TiGenix NV and the undertakings included in the consolidation taken as a whole; and
- b) the annual report of the Board of Directors provides for a true and fair overview of the development and results of the business and the position of TiGenix NV and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Leuven, 20 March 2008

Gil Beyen BVBA, CEO of TiGenix NV  
Represented by Gil Beyen

### 3. TIGENIX GROUP

The consolidated financial statements of TiGenix have been drawn up in accordance with the IFRS accounting principles as adopted by the EU, which are set out in the coming pages.

#### 3.1 CONSOLIDATED FINANCIAL STATEMENTS

##### 3.1.1 Consolidated income statement

<i>Thousands of Euro (€)</i>	Notes	Years ended December 31	
		2007	2006
<b>CONSOLIDATED INCOME STATEMENT</b>			
Sales		0	0
Other revenues	3.2.23 (1)	227	416
<b>Revenues</b>		<b>227</b>	<b>416</b>
Research and development expenses	3.2.23 (2)	8,139	5,765
Selling, general and administrative expenses	3.2.23 (2)	5,232	3,201
Other operating income		0	0
Other operating expenses		0	0
<b>Total operating charges</b>		<b>13,371</b>	<b>8,966</b>
<b>Operating Result (EBIT*)</b>		<b>(13,144)</b>	<b>(8,550)</b>
Financial result	3.2.23 (4)	1,175	304
<b>Profit/(Loss) before taxes</b>		<b>(11,969)</b>	<b>(8,246)</b>
Income taxes		0	0
<b>Net Profit/(Loss)</b>		<b>(11,969)</b>	<b>(8,246)</b>

\* EBIT : Earnings before interest and taxes

### 3.1.2 Consolidated Balance sheet

	Thousands of Euro (€)	Notes	Years ended December 31	
			2007	2006
<b>ASSETS</b>				
Intangible assets		3.2.23 (7)	474	311
Tangible assets		3.2.23 (8)	1,374	437
Other non current assets			46	32
<b>Non-current assets</b>			<b>1,894</b>	<b>780</b>
Inventories		3.2.23 (9)	81	0
Receivables		3.2.23 (10)	523	444
Cash and cash equivalents		3.2.23 (11)	39,101	7,738
Deferred charges & Accrued income			448	117
<b>Current assets</b>			<b>40,153</b>	<b>8,299</b>
<b>TOTAL ASSETS</b>			<b>42,047</b>	<b>9,079</b>

	Thousands of Euro (€)	Notes	Years ended December 31	
			2007	2006
<b>EQUITY AND LIABILITIES</b>				
Share capital		3.2.23 (12)	18,879	13,044
Share premium			52,240	15,335
Accumulated profit/(loss)			(21,912)	(13,665)
Result of the year			(11,969)	(8,246)
Share-based compensation		3.2.23 (18)	1,438	693
Translation reserves			38	(3)
<b>Equity attributable to equity holders</b>			<b>38,714</b>	<b>7,158</b>
<b>Total equity</b>			<b>38,714</b>	<b>7,158</b>
Subordinated loan		3.2.23 (13)	391	391
Financial loan		3.2.23 (14)	680	0
Finance lease obligations		3.2.23 (15)	4	8
<b>Non-current liabilities</b>			<b>1,075</b>	<b>399</b>
Current portion of lease debt			4	5
Current portion of financial loan			80	0
Trade payables		3.2.23 (16)	1,267	749
Other current liabilities		3.2.23 (16)	907	768
<b>Current liabilities</b>			<b>2,258</b>	<b>1,522</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			<b>42,047</b>	<b>9,079</b>

### 3.1.3 Consolidated Cash flow statement

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Result	(13,144)	(8,550)
Depreciation, amortisation and impairment results	416	226
Share-based compensation	745	277
Other financial result	(172)	(6)
Income taxes	0	0
Increase/(decrease) in Trade payables	457	(39)
Increase/(decrease) in Other current liabilities	139	441
(Increase)/decrease in Inventories	(81)	0
(Increase)/decrease in Receivables	(79)	(107)
(Increase)/decrease in Deferred charges&Accrued income	(331)	15
<b>Total Adjustments</b>	<b>1,094</b>	<b>807</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>(12,050)</b>	<b>(7,743)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,372	311
Interest paid	(25)	(1)
Purchase of tangible assets	(1,150)	(203)
Purchase of intangible assets	(306)	(332)
<b>Net cash provided by/(used in) investing activities</b>	<b>(109)</b>	<b>(225)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments cash deposits	(13)	2
Payments on long-term leases	(5)	(5)
Proceeds of subordinated loan	0	391
Proceeds of financial loan	760	0
Proceeds from long-term leases	0	0
Proceeds from issuance of shares (net of issue costs)	42,740	422
<b>Net cash provided by/(used in) financing activities</b>	<b>43,482</b>	<b>810</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>31,323</b>	<b>(7,158)</b>
Cash and cash equivalents at beginning of year	7,738	14,899
Effect on exchange rate changes	40	(3)
<b>Cash and cash equivalents at end of period</b>	<b>39,101</b>	<b>7,738</b>

### 3.1.4 Consolidated statement of changes in equity

<i>Thousands of Euro (€)</i>	Attributable to equity holders of the Company							Total Equity
	Number of shares	Issued capital	Issuance Cost	Share premium	Retained loss	Share- based compen- sation	Trans- lation reserves	
Balance at Dec. 31, 2005	13,754,514	13,713	(1,068)	15,312	(13,665)	416	0	14,707
Issuance of shares	402,500	402	(3)	23				422
Net Loss					(8,246)			(8,246)
Share-based compensation						277		277
Translation reserves							(3)	(3)
Balance at Dec. 31, 2006	14,157,014	14,115	(1,071)	15,335	(21,911)	693	(3)	7,158
Issuance of shares	9,694,065	9,173	(3,339)	36,905				42,740
Net Loss					(11,969)			(11,969)
Share-based compensation						745		745
Translation reserves							40	40
Balance at Dec. 31, 2007	23,851,079	23,288	(4,410)	52,240	(33,881)	1,438	38	38,714

## **3.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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The principal accounting policies applied in the preparation of the above consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **3.2.1 General**

TiGenix NV/SA (TiGenix or the Company) and its subsidiaries TiGenix Inc. and TC CEF LLC. (together the Group) is a late-stage biomedical company that focuses on innovative local treatments for damaged and osteoarthritic joints. TiGenix was founded in 2000 as a spin-off of the universities of Leuven and Ghent in Belgium. The Company is exploiting the power of regenerative medicine to develop durable treatments, validated through controlled clinical trials, for these indications. TiGenix is developing a portfolio of products that addresses specific musculoskeletal problems. The lead indication among these is cartilage damage, which is a debilitating affliction affecting the mobility and functioning of patients, a large and growing unmet medical need.

TiGenix NV/SA, the parent company, is a limited liability company incorporated and domiciled in Belgium. The registered office is located at 3, Technologielaan, B-3001 Leuven, Belgium.

The shares of TiGenix are listed on Euronext Brussels under the international code number ISIN BE0003864817 and symbol TIG.

### **3.2.2 Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use by the European Union. The principle accounting policies adopted when preparing these consolidated financial statements are set out below.

The financial statements have been prepared on a historical cost basis. Any exceptions to the historical cost convention are disclosed in the valuation rules described hereafter.

The financial statements have been established assuming the Group is a going concern. The Group has generated losses since its inception, which is inherent to the current stage of the Group's business life cycle as a biotech company. Sufficient funds have been raised since inception.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the notes 3.2.6 : Revenue recognition; 3.2.23. (5) : Utilization of tax carry forward losses and 3.2.23. (18) : Valuation of share-based-payments.

### **3.2.3 Basis of consolidation**

Companies controlled by the Group (i.e. in which the Group has, directly, or indirectly, an interest of more than one half of the voting rights or is able to exercise control over the operations) have been fully consolidated.



Companies over which the Group exercises joint control with a limited number of partners (joint ventures) are consolidated using the proportionate consolidation method.

All significant intra-group transactions, balances, income and expenses are eliminated in consolidation.

### **3.2.4 Foreign currency translation**

#### *Functional and presentation currency*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Euro, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

#### *Transactions and balances*

Based upon the closing rate method, assets and liabilities of the consolidated subsidiary are converted at closing rate, while the income statement is converted at the average rate of the period, which results in translation differences included in the consolidated equity (Translation Reserves).

### **3.2.5 Segment information**

The Group does not distinguish different segments, neither business nor geographical segments.

### **3.2.6 Revenue recognition**

The Group is not actively commercialising any of its products yet. Under the current legislation, the Group is allowed to offer its products to medical centres. The price asked for these products is recognised as a contribution to cost in other revenues.

License fees are recognised when the Group has fulfilled all conditions and obligations. The license fee will not be recognised if the amount cannot be reasonably estimated and if the payment is doubtful. License up-front (signature fees) and non-refundable fees for access to prior research results and databases are recognised when earned, if the Group has no continuing performance obligations and all conditions and obligations are fulfilled (this means after the delivery of the required information).

If the Group has continuing performance obligations towards the fees, the fee will be recognised on a straight line basis over the contractual performance period.

Research and development service fees are recognised as revenue over the life of the research agreement as the required services are provided and costs are incurred. These services are usually in the form of a defined number of full-time equivalents ("FTE") at a specified rate per FTE.

Government grants are recognised as revenue over the life of the grant as the required or planned activities are performed and the related costs incurred and when there is reasonable assurance that the Group will comply with the conditions of the grant. The grants are usually in the form of periodic progress payments.

Deferred revenue represents amounts received prior to revenue being earned.

### **3.2.7 Research & development costs**

Development costs are capitalised to the extent that all conditions for capitalisation have been satisfied. The Company considers that the regulatory and clinical risks inherent to the development of its products preclude it from capitalising development costs. In the consolidated IFRS financial statements of the Group, no research and development costs have been capitalised.

### **3.2.8 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Repair and maintenance costs are charged to the income statement as incurred. Gains and losses on the disposal of property, plant and equipment are included in other income or expense. Depreciation is charged so as to write off the cost or valuation of assets over their useful lives, using the straight-line method pro rata in the year of purchase, on the following basis:

- equipment: 5 years;
- IT hardware: 3 years;
- furniture: 5 years; and
- leasehold improvements: in line with the lease agreement period.

### **3.2.9 Intangible assets**

Software licenses and software development costs are measured internally at purchase cost and are amortised on a straight-line basis over 3 years and pro rata in the year of purchase.

Costs related to patents which are in-licensed are expensed as incurred. Costs related to the filing, maintenance and defence of patents are expensed as incurred.

### **3.2.10 Leases**

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### **3.2.11 Impairment of tangible and intangible assets**

At each balance sheet date and at each interim reporting date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount

of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and at each interim reporting date, and whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense, unless the relevant asset is carried at re-valued amount, in which case the impairment is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the relevant asset is carried at re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

### **3.2.12 Inventories**

In 2007, raw materials, consumables and goods purchased for resale are valued at the lower of their cost determined according to the FIFO-method (first in first out) or their net realisable value. In 2006 all purchases were expensed as incurred.

The Group does not account for work in progress and finished products, as the production process is short and finished goods are shipped to customers immediately thereafter, resulting in no such items on the balance sheet at year-end for any of the periods reported.

### **3.2.13 Financial Risk Management**

#### ***Credit risk***

The Group is not commercialising its product yet. For the medical centres that receive the products and that need to pay a contribution to costs, the credit risk is limited.

#### ***Interest risk***

The Group is not subject to material interest risk. All leases have fixed interest rates and the amount of loans is limited.

#### ***Currency risk***

The Group may be subject to limited currency risk as certain of its invoices needs to be paid in U.S. Dollars and for the operations of its U.S. wholly-owned subsidiary. The Company has not engaged in hedging of the foreign currency risk via derivative instruments.

### **3.2.14 Trade receivables**

Trade receivables do not carry any interest and are stated at their nominal value.

### **3.2.15 Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at nominal value. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand and deposits held on call with banks. In the balance sheet, bank overdrafts, if any, are included in borrowings in current liabilities.

### **3.2.16 Taxation**

Deferred income tax is provided in full using the “balance sheet liability method”, on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets relating to tax losses carried forward are recognised to the extent that it is probable that the related tax benefits will be realised.

### **3.2.17 Borrowings**

Interest-bearing loans and overdrafts are accounted for in the amount of the net proceeds received. Financial charges are charged over the term of the facility.

### **3.2.18 Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

### **3.2.19 Equity instruments**

Equity instruments issued by the Company are recorded in the amount of the proceeds received, net of direct issue costs.

### **3.2.20 Derivative instruments**

The Company has not used any derivative financial instruments.

### **3.2.21 Retirement benefit schemes and employee savings schemes**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. The Company does not offer nor operate any defined benefit schemes for its employees.

### **3.2.22 Share-based compensation plans for personnel**

The Company has share-based compensation plans for both personnel, directors and business associates. The fair value of the employee services received for the granted compensation plans are measured as an expense. The corresponding credit is recorded directly into equity.

The total cost to be charged as an expense over the vesting period is measured at the fair value of the granted compensation plans. The estimate of the number of compensation plans which will be vested is

revised at each reporting date. The change in estimates will be recorded as expense with a corresponding correction in equity.

At the moment of exercise of the compensation plans no adjustments will be made into the share based compensation reserve.

### **3.2.23 Notes to the specific items of the consolidated financial statements**

#### **(1) Revenues**

The revenues consist of Other revenues that can be split into:

		Years ended December 31	
		2007	2006
<i>Thousands of Euro (€)</i>			
Grant revenues	3.2.23 (20)	121	94
License & deal revenues		45	15
Contribution to costs		61	307
<b>Total Other revenues</b>		<b>227</b>	<b>416</b>

Contribution to costs decreased in 2007 as ChondroCelect was offered at no cost to selected reference centers throughout Europe in anticipation of the Marketing Authorisation Application (MAA) filing of ChondroCelect at the European Medicines Agency for the Evaluation of Medicinal Products (EMA) in 2007.

#### **(2) Operating result (EBIT)**

Result from operations has been arrived at after charging :

#### **Research and development expenditures**

		Years ended December 31	
		2007	2006
<i>Thousands of Euro (€)</i>			
Personnel costs	3.2.23 (3)	3,614	2,620
Depreciations		190	113
Operating costs		3,545	2,455
General costs		504	284
Production costs		286	293
<b>Total</b>		<b>8,139</b>	<b>5,765</b>

The Group's research and development costs rose 41% between 2006 and 2007. The increase is mainly due to the MAA filing in Europe and the subsequent activities in the registration process, the first milestone payment to FAB and an increase in the number of FTE's.

### **Selling, general and administrative expenses**

	<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
		<b>2007</b>	<b>2006</b>
Personnel costs	3.2.23 (3)	2,682	1,498
Depreciations		227	113
Operating costs		1,906	1,338
General costs		417	252
<b>Total</b>		<b>5,232</b>	<b>3,201</b>

The selling, general and administrative expenses have increased by 63% compared to last year. The main reasons for the increase are the consultancy costs related to the preparation of the Pricing & Reimbursement and an increase in the number of FTE's.

### **(3) Personnel costs**

The number of employees and mandate contractors at the end of the year was:

	<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
		<b>2007</b>	<b>2006</b>
<b>The number of employees and mandate contractors at the end of the year was:</b>			
- R&D staff		47	32
- SG&A staff		18	12
<b>Total</b>		<b>65</b>	<b>44</b>
<b>Their aggregate remuneration comprised:</b>			
- Wages, salaries, fees and bonuses		4,697	3,336
- Social security cost		673	420
- Group & Hospitalisation insurance		126	58
- Share-based compensation		745	277
- Other costs		55	27
<b>Total</b>		<b>6,296</b>	<b>4,118</b>

### **(4) Financial result**

	<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
		<b>2007</b>	<b>2006</b>
Interest on bank deposits		1,372	311
Interest paid		(25)	(1)
Other finance costs		(172)	(6)
<b>Total financial results</b>		<b>1,175</b>	<b>304</b>

Interest paid consists of the interest paid to the bank and accrued interests related to the subordinated loan of the Flemish Innovation Institute IWT. Other finance costs mainly consist of exchange rate differences.

## (5) Taxes

There is no current tax accounted for in any of the periods presented.

The Group has net tax loss carry forwards available to reduce future corporate income taxes, if any. These carry forwards can be offset against future income of the Group for an indefinite period and can be summarized as follows:

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Losses carried forward under local GAAP</b>	<b>(32,382)</b>	<b>(21,524)</b>
Impact consolidation	(1,062)	(54)
IFRS Adjustments	(436)	(334)
<b>IFRS Net loss</b>	<b>(33,880)</b>	<b>(21,912)</b>
Non deductible expenses	354	221
The Belgian Tax deduction for Risk Capital	(2,434)	(617)
Investment deduction	(43)	(41)
<b>Total deductible temporary difference</b>	<b>(36,003)</b>	<b>(22,349)</b>
Deferred taxes @ 34%	12,248	7,599
Tax credit research and development	48	29
<b>Deferred taxes of the year</b>	<b>4,668</b>	<b>2,805</b>

The Group has not recorded the total deferred net tax assets of € 12,296k on the basis that in the past no profits were realised and that there is no certainty that it will generate profits in the future which could be offset against current losses.

The deferred taxes are calculated on the following items:

- Tax losses as per tax return;
- Tax deductions offered under the Belgian tax legislation such as the Belgian Tax Deduction for Risk Capital (notional interest deduction) and investment deduction;
- The financial figures under IFRS are not necessarily the same as the local GAAP financial figures used for tax declarations. Tax losses as per tax return refers to accounting rules of the tax authorities which in certain cases differ from IFRS accounting rules;
  - in the statutory accounts the issuance cost is capitalised and amortised on a straight-line basis pro rata in the year of purchase and over a period of 5 years. In the IFRS statements the issuance costs related to realised capital increases are deducted directly from the share capital, the others are directly expensed in the income statement;
  - in the statutory accounts certain intangible assets are capitalised and amortised on a straight-line basis over a period of 5 years. According to IAS 38, these intangible assets need to be expensed directly in the income statement;
  - the total share based compensation is not accounted for in the statutory accounts;
  - According to IAS 20, the interests related to the subordinated loan of IWT are taken into expenses over the duration of the loan;
- Tax credits offered under the Belgian tax legislation such as tax credits for research and development.

### (6) Loss per share

Basic loss per share is calculated by dividing the net result attributable to shareholders by the weighted average number of shares outstanding during the year.

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Result for the purpose of basic loss per share, being net loss	(11,969)	(8,246)
Number of shares (common and preferred)	21,427,563	13,836,493
<i>Weighted average number of shares for the purpose of basic loss per share</i>		
Basic loss per share (in Euro (€))	(0.56)	(0.60)

At December 31, 2007, the Company has granted warrants to staff members (see note 3.2.23 (18)), which have a dilutive potential. Under IAS 33, no disclosure is required of the diluted result per share, since as long as the Company is reporting a net loss, the warrants have an anti-dilutive effect rather than a dilutive effect.

### (7) Intangible assets

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Gross value</b>		
At January 1	414	63
Additions	343	351
Subsidy		
Impairment		
Gross value at December 31	757	414
<b>Accumulated amortisation</b>		
At January 1	103	31
Additions	180	72
Disposals		
Related to subsidy		
Impairment		
Accumm. Amortisation at December 31	283	103
<b>Net value at December 31</b>	<b>474</b>	<b>311</b>

The intangible asset consists of software rights purchased and development costs of an integrated ERP system. The amortisation period for software is 3 years pro rata in the year of purchase. The straight-line method of amortisation is used.



**(8) Tangible assets**

<i>Thousands of Euro (€)</i>	<b>IT &amp; mach equipment</b>	<b>Furniture</b>	<b>Laboratory equipment</b>	<b>Leasehold improvements</b>	<b>Leasing</b>	<b>TOTAL</b>
<b>Gross value</b>						
At January 1, 2006	449	107	183	10	23	<b>772</b>
Additions	180	28	5	3	0	<b>216</b>
At December 31, 2006	629	135	188	13	23	<b>988</b>
<b>Accumulated amortisation</b>						
At January 1, 2006	296	36	57	3	6	<b>398</b>
Additions	85	25	37	2	4	<b>153</b>
At December 31, 2006	381	61	94	5	10	<b>551</b>
<b>Net value at Dec. 31, '06</b>	<b>248</b>	<b>74</b>	<b>94</b>	<b>8</b>	<b>13</b>	<b>437</b>

<b>Gross value</b>						
At January 1, 2007	629	135	188	13	23	<b>988</b>
Additions	480	14	10	668	0	<b>1,172</b>
At December 31, 2007	1,109	149	198	681	23	<b>2,160</b>
<b>Accumulated amortisation</b>						
At January 1, 2007	381	61	94	5	10	<b>551</b>
Additions	134	25	43	27	6	<b>235</b>
At December 31, 2007	515	86	137	32	16	<b>786</b>
<b>Net value at Dec. 31, '07</b>	<b>594</b>	<b>63</b>	<b>61</b>	<b>649</b>	<b>7</b>	<b>1,374</b>

The additions are mainly related to the acquisition of the manufacturing equipment in the US and construction costs related to the new offices.

**(9) Inventories**

The carrying values of the different components of the inventory are as follows :

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Raw materials and consumables	62	0
Goods purchased for resale	19	0
<b>Total inventories</b>	<b>81</b>	<b>0</b>

In 2006 all purchases were expensed as incurred.

### (10) Receivables

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Trade accounts receivable	43	184
Recoverable taxes	474	260
Other	6	0
<b>Total other accounts receivable</b>	<b>523</b>	<b>444</b>

Trade receivables mainly consist of amounts due from the medical centres. Recoverable taxes mainly consist of VAT and withholding taxes. The Company considers that the carrying amount of trade and other receivables approximates their fair value.

### (11) Cash and cash equivalents

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Cash at bank and in hand	39,101	7,738
<b>Total cash and cash equivalents</b>	<b>39,101</b>	<b>7,738</b>

In March 2007, the Company issued new shares, providing the Company with about € 46 million of new funds (including the issuance cost of € 3.3 million). The Group has historically kept its cash in business accounts. These cash and cash equivalents have no restriction upon them.

### (12) Share capital

The issued capital of TiGenix amounts to € 23.3 million at 31 December 2007, represented by 23,851,079 ordinary shares. The Company's shares are without par value. At 31 December 2007, 14,651,079 shares were registered and 9,200,000 were dematerialised shares. The holders of TiGenix shares are entitled to receive dividends as declared and to one vote per share at the shareholders' meeting of the Company. All shares issued are fully paid in and subscribed. At December 31, 2007, the authorised capital of the Company amounted to € 22.1 million.

The issuance cost related to the capital increases amounts to € (4.4) million at December 2007, leading to a share capital of € 18.9 million.

The change in the number of shares during 2007 is as follows:

<b>Per January 01, 2007</b>	<b>14,157,014</b>
Capital increase (initial public offering)	8,000,000
Capital increase (exercise of over-allotment warrant)	1,200,000
Exercise of warrants	494,065
<b>December 31, 2007</b>	<b>23,851,079</b>

More details can be found in section 3.3.2 of the Report of the Board of Directors on the Consolidated Statements.

**(13) Subordinated loan**

<i>Non current portion of long-term debt</i> <i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Subordinated loan	391	391

In 2006, the Company obtained from the Flemish Innovation Institute I.W.T. a subordinated loan of € 391k to support the project "Novel treatment approaches for Osteoarthritic joints: from stem cells to nutraceuticals". This loan needs to be paid back in quarterly instalments partly consisting of capital and partly of interest. The first instalment of € 48.4k needs to be paid back on January 31, 2010 and the last instalment of € 41.2k on October 31, 2012.

<i>Term and debt repayment schedule</i> <i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>			
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013+</b>
IWT loan-base amount	131	130	130	0
IWT loan-interests	59	49	38	0
IWT loan-total	190	179	168	0

**(14) Financial loan**

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Amounts payable under financial loan :</b>		
Within one year	80	0
In the second to fifth year	320	0
After five years	360	0
<b>Total</b>	<b>760</b>	<b>0</b>
Less future finance charges	0	0
<b>Present value of financial loan</b>	<b>760</b>	<b>0</b>

The acquisition of the manufacturing equipment in the US has been financed with a bank loan. ING and Fortis each provided a roll-over credit of € 400k. The interest rate on the loan is Euribor 3 months increased with a margin of 140 bp.

**(15) Finance lease obligations and other lease obligations**

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Amounts payable under finance lease :</b>		
Within one year	4	5
In the second to fifth year	4	8
After five years	0	0
<b>Total</b>	<b>8</b>	<b>13</b>
Less future finance charges	0	0
<b>Present value of lease obligations</b>	<b>8</b>	<b>13</b>
<b>Outstanding commitments for future minimum rent payments, which fall due as follows :</b>		
Within one year	417	367
In the second to fifth year	754	611
After five years	316	395

The fair value of the Group's finance lease obligations approximated their carrying value. Outstanding operating lease commitments for future minimum rent payments include rental fees related to leased facilities, vehicles and equipment. These operating lease contracts can be terminated early with certain indemnity fees. All figures shown assume that the lease contracts will not be terminated early. Rentals payable under operating leases are charged to the income statement as operating charges on a straight-line basis over the term of the lease.

**(16) Accounts payable**

**Trade accounts payable**

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Trade accounts payable	923	673
Accruals for invoices to be received	344	76
<b>Total trade accounts payable</b>	<b>1,267</b>	<b>749</b>

**Other current liabilities**

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Payroll	562	542
Other accruals	345	226
<b>Total other current liabilities</b>	<b>907</b>	<b>768</b>

### **(17) Retirement benefit schemes**

The Company operates defined contribution systems for all its qualifying employees. The assets of the schemes are held separately from those of the Company in designated funds.

A total cost of € 88,381 in 2007 (€ 49,249 in 2006) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans.

### **(18) "Stock option" plans**

The Company has created several pools of warrants for grant to employees, directors, and consultants.

The table below provides an overview as per December 31, 2007 of all outstanding warrant pools remaining together with the activities under the different pools of warrants during 2007.

	Weighted average exercise price	TOTAL	warrants issued in				
Creation date			Febr 26, 2007	Nov 03, 2005	April 20, 2005	May 14, 2004	Sept 30, 2003 Sept 15, 2003
<b>Total number created</b>		<b>800,000</b>	<b>454,570</b>	<b>45,268</b>	<b>135,802</b>	<b>784,290</b>	
<i>Outstanding 31 Dec 2006</i>	<i>2.29</i>	<i>1,226,084</i>		<i>301,805</i>	<i>45,268</i>	<i>116,657</i>	<i>762,354</i>
Granted	6.50	577,750	577,750				
Lapsed	-	-					
Exercised	-	-					
Expired	-	-					
<i>Outstanding 31 Dec 2007</i>	<i>3.64</i>	<i>1,803,834</i>	<i>577,750</i>	<i>301,805</i>	<i>45,268</i>	<i>116,657</i>	<i>762,354</i>
<b>Exercisable 31 Dec 2007</b>	<b>1.00</b>	<b>519,351</b>	-	-	-	-	<b>519,351</b>

On February 26, 2007, 800,000 new warrants for inter alia the staff members were created subject to a successful IPO. 577,750 warrants were granted to selected beneficiaries by decision of the Board of Directors. The warrants that were not granted before September 26, 2007 became automatically null and void.

Under the existing plans in September 2003, May 2004, April 2005, November 2005, respectively 784,290, 135,802, 45,268, 454,570 warrants were issued.

Under the plans, 25% of the warrants become vested on each anniversary of the date of the grant, provided that the beneficiary still has a relationship with the Company via an employment contract agreement, a director's mandate or another collaboration agreement. The warrants can only be exercised once vested, it being understood that they can only be exercised as from January 1 of the fourth year following the year in which they are granted (*i.e.*, from January 1, 2011 onwards for warrants granted in 2007). Non-exercisable warrants issued prior to February 26, 2007 become exercisable in case of a trade sale of the Company. All warrants were granted for free. The duration of the warrants issued prior to February 26, 2007 and the warrants issued on February 26, 2007 is respectively 5 and 10 years as of the respective issue date of the warrants. Warrants that have not been exercised within such periods become null and void.

The warrants have been accounted for in accordance with IFRS 2 Share-based payment. The share-based compensation expense recognised in the income statements as such is given below:

<i>Thousands of Euro (€)</i>	<b>Years ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Research and development expenses	488	124
Selling, general and administrative expenses	257	153
<b>Total for the year</b>	<b>745</b>	<b>277</b>
<b>Total per year end</b>	<b>1,438</b>	<b>693</b>

The fair value of each warrant is estimated on the date of grant using the binomial model by Black Scholes with the following assumptions:

- Expected stock price volatility of 40% based on the historical volatility of Benelux based biotech companies.
- Weighted average risk-free interests rates based on Belgian Sovereign Strips at the date of grant with a term equal to the expected life of the warrants, ranging between 2.6% and 4.4%.
- The expected life time of the warrants, which is on average about 4 years for the warrants with a maximum duration of 5 years and about 7,5 years for the warrants with a maximum duration of 10 years.

#### ***(19) Related parties***

Transactions between TiGenix NV/SA and TiGenix Inc. and TC CEF LLC, which are related parties, have been eliminated in consolidation and are not disclosed in this note. In 2007, there were no material intercompany services. Transactions between the Company and its employees, consultants or directors are disclosed below.

There were no other related party transactions.

#### ***Remuneration of key management personnel***

The combined remuneration package, excluding employer taxes, amounted to the following:

	<i>Thousands of Euro (€)</i>	
	Years ended December 31	
	2007 <sup>(1)</sup>	2006
Number of management members	8	8
Short-term employee benefits	1,972	1,415
Post-employment benefits	17	9
Share based compensation	360	153
Other employment costs	45	39
<b>Total benefits</b>	<b>2,394</b>	<b>1,616</b>
Number of warrants offered	232,500	194,124
Cumulative outstanding warrants	846,250	661,250
Exercised warrants	0	3,750
Exercisable warrants	254,210	0
Outstanding receivables from persons	0	0
Outstanding payables to persons	0	0
Shares owned	9,750	17,250

(1) In 2007, the management team has changed. As a result the 2006 and 2007 figures are not fully comparable.

No loans, quasi-loans or other guarantees are outstanding with members of the executive management team.

#### ***Transactions with non-executive directors***

Non-executive directors that represent shareholders of the Company receive no compensation for their position as directors. The reimbursement for expenses in 2007 was € 0 (€ 2,003 in 2006) in total.

The independent directors receive a fee for attending and preparing the meetings of the Board of Directors and they receive reimbursement for expenses directly related to the board meetings. In 2007 an amount of € 44,089 (€ 14,494 in 2006) in total was paid as fees and expense reimbursement to independent members of the board of directors.

As a result, the total remuneration of the Board of Directors in 2007 was € 44,089 excluding VAT (€ 16,497 in 2006). No advances or credits have been granted to any member of the board of directors. None of the members of the board of directors have received any non-monetary remuneration other than warrants.

#### ***(20) Significant agreements, commitments and contingencies***

##### ***Collaborative research agreements and clinical research agreements***

The Company has entered into several agreements with universities, medical centres and external researchers for research and development work and for the validation of the Company's technology and products. These agreements typically have durations of one to three years. The Company must pay fixed fees to the collaborators and in exchange receives access and rights to the results of the work.

##### ***Intellectual property in-licensing agreements***

The Company has entered into several agreements with universities and companies for in-licensing intellectual property. These agreements typically require the Company to pay an up-front fee, annual

maintenance fees and/or minimum annual royalty fees, legal fees related to the patents, and certain milestone and royalty fees if the patents are eventually used in a commercialised product. In addition, the Company must provide the licensor with periodic reports.

### **Legal proceedings**

On the date of this report and since the incorporation of the Company, TiGenix is and has not been involved in any legal proceeding. As a result, the Company has no provisions for legal proceeding at this time.

### **Grants**

Since its incorporation, TiGenix has been awarded two grants from the Belgian government : “Tissue engineering for joint repair” and “Novel therapeutic approaches for OA joints : from stem cells to nutraceuticals”. The first grant ended in 2003 and for the second grant the last cash instalment was received in 2007.

To date, TiGenix has received grant payments for a total of € 1,567k out of the € 1,578k approved as less was spend on the project than the original budgets. In 2007 € 121k (€ 94k in 2006) was recognised as revenues.

The main grants are the following:

(1) Name (2) Source (3) Description (4) Applicability	Start date	End date	€ amount approved	€ amount received	Main conditions
(1) <b>Tissue engineering for joint repair</b> (2) Flemish government (IWT) (3) research into cellular treatments for cartilage defect repair (4) covers part of personnel/lab costs, and collaborator costs	1/07/00	31/10/03	992,465	992,465	Respect plans and budget. Advances paid at start of each semi-annual period, except last period paid at end
(1) <b>Novel therapeutic approaches for OA joints: from stem cells to nutraceuticals</b> (2) Flemish government (IWT) (3) research into cellular and drug treatments for OA (4) covers part of personnel/lab costs, collaborator costs	1/11/03	31/10/06	585,990	574,899	Respect plans and budget. Advances paid at start of each semi-annual period, except last period paid at end

### **(21) Subsequent events**

On March 20, 2008, the Board of Directors has decided to create up to 400,000 new warrants for the personnel. The warrants can be granted within a period of 6 months after which they will become automatically null and void. The related special board reports are available on TiGenix’ website.

### **(22) Reconciliation between the financial statements under local GAAP and IFRS**

The Group’s consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EU.

The statutory annual accounts presented under section 4 are prepared on a non-consolidated basis and under local (Belgian) GAAP.



In the table below an equity reconciliation and profit & loss reconciliation between local (Belgian) GAAP and IFRS can be found :

<i>Thousands of Euro (€)</i>	Years ended December 31			
	2007		2006	
	Equity	Loss of the year	Equity	Loss of the year
<b>Under local GAAP (non consolidated)</b>	<b>43,146</b>	<b>(10,858)</b>	<b>7,926</b>	<b>(8,117)</b>
Impact consolidation	(1,062)	(1,008)	(54)	(54)
Translation reserves	38		(3)	
Issuance cost	(4,420)	0	(1,081)	(10)
Depreciation of incorporation cost	1,123	684	438	208
Purchase of intangible assets	(159)	(42)	(117)	(14)
Depreciation of intangible assets	72	24	48	18
Share based compensation		(745)		(277)
Interests subordinated loan	(24)	(24)		
<b>Total IFRS restatements</b>	<b>(3,408)</b>	<b>(103)</b>	<b>(711)</b>	<b>(75)</b>
<b>Under IFRS</b>	<b>38,714</b>	<b>(11,969)</b>	<b>7,158</b>	<b>(8,246)</b>

### **(23) TiGenix companies – consolidation scope**

#### **Consolidation scope**

The change in the scope of consolidation was due to the incorporation of TC CEF LLC. As a result, the consolidated financial statements incorporate the financial statements of TiGenix NV/SA (Belgium legal entity) and of TiGenix Inc. (United States legal entity) made up to December 31, 2006 and 2007 and of TC CEF LLC. (United States legal entity) made up to December 31, 2007.

#### **Subsidiaries**

	<b>2007 Ownership %</b>	<b>2006 Ownership %</b>
<b><u>Fully consolidated</u></b>		
<b>BELGIUM</b>		
TiGenix NV <i>Technologielaan 3, 3001 Haasrode</i>	100%	100%
<b>US</b>		
TiGenix Inc <i>1209 Orange Street Wilmington, Delaware, U.S.A.</i>	100%	100%
<b><u>Proportionate consolidated</u></b>		
<b>US</b>		
TC CEF LLC <i>2711 Centerville Road, Suite 400, Wilmington, Delaware, U.S.A.</i>	50%	0%

### **3.3 ANNUAL REPORT OF THE BOARD OF DIRECTORS**

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Dear Shareholder,

We are pleased to present to you the consolidated financial statements for the fiscal year ended December 31, 2007.

#### **3.3.1 Discussion and analysis of the consolidated financial statements**

The consolidated financial statements have been prepared in accordance with IFRS and have been approved for issue by the Board of Directors on March 20, 2008.

##### **Main achievements in 2007**

- Collaboration agreement with Fidia Advanced Biomaterials (FAB) concerning the use of their biodegradable scaffold material in combination with the ChondroCelect cells for the development of a no-stitch combined product. This combined product, ChondroCelect-3D (TGX002) will not only enhance the user-friendliness for the surgeon, but it also renders the surgery more patient-friendly and offers the prospect to broaden the indication for ChondroCelect to the repair of cartilage defects in joints already affected by osteoarthritis;
- Positive phase III trial results for ChondroCelect, the Company's lead product candidate for the treatment of full thickness cartilage defects in the knee. The primary endpoints were met in this landmark clinical trial. The results have been published in the February 2008 issue of the American Journal of Sports Medicine, one of the highest ranked peer-reviewed orthopaedic and sport sciences journals;
- Successful IPO in March 2007. The proceeds raised through the offering amount to € 46 million (including the exercise of the over-allotment option). The total offering was oversubscribed 4.5 times at a price of € 5.00 per share;
- Incorporation of TC CEF LLC, a joint venture between TiGenix and Cognate BioServices, and the subsequent acquisition of the assets of a fully equipped cell expansion facility in Memphis US from Cell Genesys. This transaction secures TiGenix manufacturing capabilities for the filing of the Biological Licence Application (BLA) for ChondroCelect, anticipated in 2008, and the clinical and commercial production in the coming years;
- Submission of a Marketing Authorisation Application (MAA) for ChondroCelect to the European Medicines Agency for the Evaluation of Medicinal Products (EMA). This submission initiates the process to obtain central approval for ChondroCelect in the European Union;
- Treatment of a growing number of patients with ChondroCelect on a 'Compassionate Use' basis, and/or in a patient monitoring programme (Registry) at a number of top reference centres throughout Europe. By the end of 2007, 40 orthopaedic centers had been trained for the use of ChondroCelect. About 15 of them have been able to offer the product to their patients;
- Continuous follow-up of the patients in the extension study of the Phase III ChondroCelect clinical trial. At the end of 2007, all patients were treated for a period of at least 3 year. A recent initial analysis of the three year data of the pivotal phase III trial demonstrates a clear continued improvement of the clinical outcome of the ChondroCelect patients, whereas the clinical outcome of the microfracture patients stagnates and shows signs of decline compared to the outcome at 18 months;
- Pre-IND meeting with FDA for the next generation ChondroCelect product (ChondroCelect 3D or TGX002). Based on the input received, the company has updated the clinical development plan, and

aims at filing an Investigational New Drug (IND) application for a phase II study in the US before the end of 2008;

- Reinforcement of the management team. Wilfried Dalemans joined the team as Vice President Regulatory Affairs and Quality Control. Before joining TiGenix, Wilfried held several senior management positions at GlaxoSmithKline Biologicals, Belgium. As Director Regulatory Strategy and Development, he was responsible for the worldwide registration activities of GlaxoSmithKline's Flu franchise. He has also been Director of Molecular Biology and Research, responsible for the development of nucleic acid and tuberculosis vaccines, as well as the immunology research activities;
- Hiring of an International Marketing Director and a Regional Sales Director Germany, and appointment of a Director Market Access, Pricing & Reimbursement, further building out the commercial core team in anticipation of the launch of ChondroCelect in Europe;
- Strengthening of the research team and increased efforts on the development of TGX-003, a cell based product intended to treat meniscal damage, and on the broadening of the stem cells platform.

### Consolidation scope

The consolidated financial statements consist of TiGenix NV and TiGenix Inc. for the figures ending December 31, 2006 and consist of TiGenix NV, TiGenix Inc. and TC CEF LLC for the figures ending December 31, 2007.

### Revenues

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2007	2006
Sales	0	0
Other revenues	277	416
<b>Revenues</b>	<b>277</b>	<b>416</b>

Substantially all of the Group's revenues have been derived from government grants and from commercial collaboration agreements. These revenues are by definition irregular in terms of the timing and the amounts. The revenues of TiGenix will continue to be limited and irregular until ChondroCelect will be commercially launched.

### Operating charges

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2007	2006
Research and development expenses (R&D)	8,139	5,765
Selling, general and administrative expenses (SG&A)	5,232	3,201
Other operating income	0	0
Other operating expenses	0	0
<b>Total operating charges</b>	<b>13,371</b>	<b>8,966</b>

The Group's research and development costs rose 41% between 2006 and 2007. The increase is mainly due to the MAA filing in Europe and the subsequent answering of the questions, the first milestone payment to FAB and an increase in the number of FTE's.

The selling, general and administrative expenses have increased by 63% on last year. The main reasons for the increase are the consultancy costs related to the preparation of the Pricing & Reimbursement and an increase in the number of FTE's.

## Operating result (EBIT) and Net results

	Years ended December 31	
	2007	2006
<i>Thousands of Euro (€)</i>		
Revenues	227	416
Total operating charges	(13,371)	(8,966)
<b>Operating Result (EBIT)</b>	<b>(13,144)</b>	<b>(8,550)</b>
Financial result	1,175	304
<b>Profit/(Loss) before taxes</b>	<b>(11,969)</b>	<b>(8,246)</b>
Income taxes	0	0
<b>Net Profit/(Loss)</b>	<b>(11,969)</b>	<b>(8,246)</b>

The operating result (EBIT) increased to € (13.1) million in 2007 from € (8.6) million in 2006 mainly due to the increase of the operating charges with 49% as explained above.

The net loss increased to € (12.0) million in 2007 from € (8.2) million in 2006. Part of the operating loss was offset by the positive financial result of € 1.2 million in 2007.

## Taxation

The losses of the Group in the past imply that no income taxes were payable. On December 31, 2007 the Group had net tax losses carried forward amounting to € 34 million, implying a potential deferred net tax asset of € 12.3 million. Due to the uncertainty surrounding TiGenix' ability to realise taxable profits in the near future, the Company did not recognize any deferred tax assets on its balance sheet

## Cash flow

	Years ended December 31	
	2007	2006
<i>Thousands of Euro (€)</i>		
Operating Result (EBIT)	(13,144)	(8,550)
Depreciation, amortisation and impairment results	417	226
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	<b>(12,727)</b>	<b>(8,324)</b>
Adjustments	677	581
<b>Net cash provided by/(used in) operating activities</b>	<b>(12,050)</b>	<b>(7,743)</b>
<b>Net cash provided by/(used in) investing activities</b>	<b>(109)</b>	<b>(225)</b>
<b>Net cash provided by/(used in) financing activities</b>	<b>43,482</b>	<b>810</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>31,323</b>	<b>(7,158)</b>
Cash and cash equivalents at beginning of year	7,738	14,899
Effect on exchange rate changes	40	(3)
<b>Cash and cash equivalents at end of period</b>	<b>39,101</b>	<b>7,738</b>

The net cash used in operating activities increased from € 7.7 million in 2006 to € 12.1 million in 2007 mainly due to :

- the increase in the operating loss
- offset by an increase in the share-based compensation of € 0.7 million in 2007
- offset by an increase in trade payables of € 0.5 million in 2007, and
- enforced by an increase in deferred charges & accrued income of € (0.3) million in 2007

The net cash used in investing activities decreased to € 0.1 million in 2007, compared to € 0.2 million in 2006. The increase of net purchase of tangible assets, mainly the acquisition of the assets of the fully equipped cell expansion facility in Memphis US, was more than offset by the interest received out of the cash & cash equivalents in 2007.

The net cash provided by financing activities mainly consists out of the net proceeds from the issuance of shares in the IPO for an amount of € 42.7 million.

As a result, and taking into account the translation reserves resulting from the closing rate method, the cash position of TiGenix increased to € 39.1 million at December 31, 2007.

### Balance sheet

The balance sheet at December 31, 2007 remained very solid strong as evidenced by the following key ratios :

As a %	Years ended December 31	
	2007	2006
Cash & cash equivalents as a % of total assets	93%	85%
Working capital as a % of total assets	90%	75%
Solvency ratio (equity/total assets)	92%	79%
Gearing ratio (financial debt/equity)	3%	5%

Cash and cash equivalents of € 39.1 million account for 93% of total assets at December 31, 2007. The other major assets are :

- the tangible assets of € 1.4 million, significantly increased in 2007 due to the acquisition of the assets of the cell expansion facility in the US, or 3% of total assets
- the intangible assets, the receivables and the deferred charges & accrued income, each for about 1% of total assets.

Total equity of € 38.7 million accounts for 92% of the total balance sheet at December 31, 2007. The other major liabilities are :

- the non-current liabilities, mainly being the subordinated loan of IWT and the bank loans of ING and Fortis of € 1.1 million or 3% of total balance sheet;
- the trade payables of € 1.3 million or 3% of total balance sheet, and
- the other current liabilities of € 0.9 million representing 2%.

### **Off-balance sheet commitments**

The Group has off-balance sheet commitments related to rent for leased facilities, vehicles and equipment. At December 31, 2007, these commitments amounted to € 1,5 million. There are no other off-balance sheet commitments.

### **3.3.2 Capital increases and issuance of financial instruments**

The following capital increases occurred in 2007 :

- Initial public offering on Euronext Brussels on March 22, leading to an increase of the Company's share capital with an amount of € 40 million (including issuance premium) completed on March 27, 2007;
- Exercise of the over-allotment warrant by the lead managers ING Belgium NV/SA and Piper Jaffray Ltd., leading to an increase of the Company's share capital with an amount of € 6 million (including issuance premium) completed on March 27, 2007;
- Issuance and exercise of 494,065 existing shareholder warrants at the moment of IPO, leading to an increase of the Company's share capital with an amount of € 494.47 completed on March 27, 2007.

The overall issuance cost related to these transactions amounted to € 3.3 million.

At 31 December 2007, a total of 1,803,834 warrants are outstanding at an average weighted exercise price of € 3.64.

On February 26, 2007, 800,000 new warrants for inter alia the staff members were created subject to a successful IPO. 577,750 warrants were granted to selected beneficiaries by decision of the Board of Directors. The warrants that were not granted before September 26, 2007 became automatically null and void.

Under the existing plans in September 2003, May 2004, April 2005, November 2005, respectively 784,290, 135,802, 45,268, 454,570 warrants were issued.

Under the plans, 25% of the warrants become vested on each anniversary of the date of the grant, provided that the beneficiary still has a relationship with the Company via an employment contract agreement, a director's mandate or another collaboration agreement. The warrants can only be exercised once vested, it being understood that they can only be exercised as from January 1 of the fourth year following the year in which they are granted (*i.e.*, from January 1, 2011 onwards for warrants granted in 2007). Non-exercisable warrants issued prior to February 26, 2007 become exercisable in case of a trade sale of the Company. All warrants were granted for free. The duration of the warrants issued prior to February 26, 2007 and the warrants issued on February 26, 2007 is respectively 5 and 10 years as of the respective issue date of the warrants. Warrants that have not been exercised within such periods become null and void.

### **3.3.3 Discussion of the main risks and uncertainties**

On the basis of the strong scientific basis and the importance that is attributed by the Company to sound clinical research, TiGenix can be considered as a global leading company in the field of cartilage repair.

Given the nature of the company and the complexity of the medical matter, the Company is nevertheless facing a number of important risks and uncertainties. The main ones are:

- Development of medicinal products requires significant investments over long time periods. Resulting from costs incurred in research and clinical development, losses have been incurred since the inception of the Company. Further losses are expected in the foreseeable future as its research and

development activities continue, and further funding may be needed.

- Despite the ongoing discussions with the FDA and EMEA, it cannot be guaranteed that these regulatory authorities will not impose any additional requirements on TiGenix's studies, which would cause delay in the authorization process for the lead product;
- Despite positive clinical studies, reimbursement of ChondroCelect cannot be guaranteed. Partial or lack of repayment can potentially have an impact on the sale of the product, once the product would be granted access to the market;
- Based on the available information from the clinical trials and the treatment of over 400 patients, the ChondroCelect product demonstrates no safety concerns. Product liability risks are, however, inherent in the development and use of any medicinal product, and cannot be excluded;
- TiGenix is keeping careful watch on the activities of its competitors, but cannot rule out that there may be product developments that could be potential competitors to ChondroCelect or follow-up products;
- In common with most smaller companies, TiGenix's success depends on its key people, and on its ability to attract and retain qualified management, scientific, technical and commercial personnel;
- The Company's ability to compete effectively with other companies is dependent, among other things, on the protection of its proprietary technology. Notwithstanding the issued patents and other efforts taken to protect its intellectual property, there can be no assurance that TiGenix's property rights cannot be affected by new patents or technologies of third parties;

Financial risk management involves primarily the following :

- Credit risk : the Group is not commercialising its product yet. For the medical centres that receive the products and that need to pay a contribution to costs, the credit risk is limited;
- Interest risk : the Group is not subject to material interest risk as it has limited financial debt and all leases have fixed interest rates;
- Currency risk : the Group may be subject to limited currency risk as certain of its invoices needs to be paid in U.S. Dollars and for the operations of its U.S. subsidiaries. The Company has not engaged in hedging of the foreign currency risk via derivative instruments.

### **3.3.4 Services performed by the auditor**

The Company booked € 55,094 in fees (including the statutory fee of € 7,000 for the parent company) to the auditors in 2007. The aggregate fee is composed of :

- € 38,263 from January 2007 until the IPO in March. These fees relate to (i) the audit of the consolidated financial statements under IFRS for the years ended December 31, 2004 through 2006 which were established for the first time at the occasion of the IPO, (ii) selected tasks related to the IPO such as the review of the financial figures in the prospectus, (iii) the audit of the statutory accounts of the Company, and (iv) special reports needed for the issuance of warrants and the capital increase in March 2007;
- € 9,831 from April until December 31, 2007 related to the limited review of the June 30, 2007 financial figures;
- € 7,000 provision for the audit of the December 31, 2007 financial figures.

### **3.3.5 Subsequent events**

On March 20, 2008, the Board of Directors has decided to create up to 400,000 new warrants for employees and consultants. The warrants can be granted within a period of 6 months after which they will become automatically null and void.

### **3.3.6 Research and development**

TiGenix has focussed its research and development efforts on the joint and more specifically on the cartilage and meniscus repair in the joint. As a result :

- ChondroCelect, the lead product of TiGenix, entered the registration phase in Europe after the positive phase III results in the clinical trial;
- Pre-clinical work for the ChondroCelect cells in combination with a biodegradable scaffold material, the next generation 3D-product, is ongoing and clinical validation is anticipated to start in 2008;
- Pre-clinical work for MeniscoCelect is ongoing.

Besides this pre-clinical and clinical work executed, research is done in osteoarthritis and in the field of stem cells. This research is partially financed through grants.

The Group will continue to increase its efforts in the development of medicinal products in the regenerative medicine area to strengthen its pipeline.

Done on March 20, 2008

On behalf of the Board of Directors



### **3.4 STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

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In accordance with the legal requirements, we report to you on the performance of the mandate of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the consolidated financial statements as well as the required additional statements (and information).

#### **Unqualified audit opinion on the consolidated financial statements**

We have audited the consolidated financial statements for the ended as at December 31, 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which show a balance sheet total of 42.047 KEUR and a loss for the year of 11.969 KEUR.

Management is responsible for the preparation and the fair presentation of these consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting principles and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors (Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement, as to whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we considered the group's accounting system, as well as its internal control procedures. We have obtained from management and the company's officials, the explanations and information necessary for executing our audit procedures. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the appropriateness of the accounting principles and consolidation principles, the reasonableness of the significant accounting estimates made by the company, as well as the overall presentation of the consolidated financial statements. We believe that these procedures provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements for the year ended December 31, 2007 give a true and fair view of the group's assets and liabilities, its financial position the results of its operations and cash flows in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Additional statements (and information)**

The preparation of the consolidated Directors' report and its content are the responsibility of management.

Our responsibility is to supplement our report with the following additional statements (and information) which do not modify our audit opinion on the consolidated financial statements:

- The consolidated Directors' report includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the consolidated group is facing, and of its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, March 20 2008

BDO Atrio Réviseurs d'Entreprises Soc. Civ. SCRL  
Statutory Auditor  
Represented by

Luc Annick

## 4. TIGENIX NV/SA

### 4.1 STATUTORY FINANCIAL STATEMENTS

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The statutory accounts are based upon Belgian GAAP.

An unqualified audit opinion has been issued by the statutory auditor on March 20, 2008.

The information included in this section is an extract from the statutory accounts that will be submitted for approval to the annual shareholders meeting of April 21, 2008 and that will be filed with the Belgian National Bank and do not include all information as required by articles 98 and 100 of the Belgian Company Code.

#### 4.1.1 Statutory income statement

STATUTORY INCOME STATEMENT	Year ended December 31	
	Thousands of Euro (€)	
	2007	2006
<b>I. Operating income</b>	440	416
A. Turnover	106	322
D. Other operating income	334	94
<b>II. Operating charges</b>	<b>(12,526)</b>	<b>(8,830)</b>
A. Raw materials, consumables, goods for resale	469	
B. Services and other goods	7,556	6,100
C. Remuneration, social security costs, pensions	3,418	2,251
D. Depreciation & amounts written off formation expenses, intangible and tangible fixed assets	1,071	453
G. Other operating charges	12	25
<b>III. Operating profit/(loss)</b>	<b>(12,086)</b>	<b>(8,413)</b>
<b>IV. Financial income</b>	<b>1,421</b>	<b>317</b>
B. Income from current assets	1,409	312
C. Other financial income	12	4
<b>V. Financial charges</b>	<b>(193)</b>	<b>(21)</b>
A. Debt charges	25	1
C. Other financial charges	168	20
<b>VI. Current profit/(loss) before taxes</b>	<b>(10,858)</b>	<b>(8,117)</b>
<b>VII. Extraordinary income</b>	<b>0</b>	<b>0</b>
<b>VIII. Extraordinary charges</b>	<b>0</b>	<b>0</b>
<b>IX. Profit/(loss) before taxes</b>	<b>(10,858)</b>	<b>(8,117)</b>
<b>X. Income taxes</b>	<b>0</b>	<b>0</b>
<b>XI. Profit/(loss) for the year after taxes</b>	<b>(10,858)</b>	<b>(8,117)</b>

APPROPRIATION ACCOUNT <i>Thousands of Euro (€)</i>	Year ended December 31	
	2007	2006
<b>A. Loss to be appropriated</b>		
A1. Loss for the period available for appropriation	(10,858)	(8,117)
A2. Loss to be carried forward	(21,524)	(13,407)
<b>B. Transfer from capital and reserves</b>		
B1. From capital and share premium account		
<b>D. Result to be carried forward</b>		
D2. Loss to be carried forward	32,382	21,524

#### 4.1.2 Statutory balance sheet

STATUTORY BALANCE SHEET AFTER APPROPRIATIONS <i>Thousands of Euro (€)</i>	Year ended December 31	
	2007	2006
<b>FIXED ASSETS</b>	<b>6,257</b>	<b>1,570</b>
<b>I. Formation expenses</b>	<b>3,297</b>	<b>643</b>
<b>II. Intangible fixed assets</b>	<b>561</b>	<b>380</b>
<b>III. Tangible fixed assets</b>	<b>537</b>	<b>437</b>
B. Plant, machinery and equipment	282	247
C. Furniture and vehicles	124	169
D. Leasing and other similar rights	7	13
E. Other tangible assets	124	8
<b>IV. Financial fixed assets</b>	<b>1,862</b>	<b>110</b>
A. Affiliated enterprises	1,821	78
A1. Investments	0	0
A2. Amounts receivable	0	0
C. Other financial assets	41	32
C2. Amounts received and cash guarantee	41	32
<b>CURRENT ASSETS</b>	<b>40,011</b>	<b>8,276</b>
<b>V. Amounts receivable after one year</b>	<b>0</b>	<b>0</b>
<b>VI. Stocks and contracts in progress</b>	<b>79</b>	<b>0</b>
<b>VII. Amounts receivable within one year</b>	<b>522</b>	<b>444</b>
A. Trade debtors	42	184
B. Other amounts receivable	480	260
<b>VIII. Investments</b>		
<b>IX. Cash at bank and in hand</b>	<b>38,927</b>	<b>7,714</b>
<b>X. Deferred charges and accrued income</b>	<b>483</b>	<b>118</b>
<b>TOTAL ASSETS</b>	<b>46,268</b>	<b>9,846</b>

<i>Thousands of Euro (€)</i>		Year ended December 31	
<b>STATUTORY BALANCE SHEET AFTER APPROPRIATIONS</b>			
	2007	2006	
<b>CAPITAL AND RESERVES</b>	<b>43,146</b>	<b>7,926</b>	
<b>I. Capital</b>	<b>23,288</b>	<b>14,115</b>	
A. Issued capital	23,288	14,115	
<b>II. Share premium account</b>	<b>52,240</b>	<b>15,335</b>	
<b>III. Revaluation surpluses</b>			
<b>IV. Reserves</b>			
<b>V. Accumulated profit/(loss)</b>	<b>(32,382)</b>	<b>(21,524)</b>	
<b>VI. Investment grants</b>			
<b>VII. Provisions and postponed taxes</b>	<b>0</b>	<b>0</b>	
A. Provisions for liabilities and charges	0	0	
A4. Other liabilities & charges			
<b>AMOUNTS PAYABLE</b>	<b>3,122</b>	<b>1,920</b>	
<b>VIII. Debts payable after 1 year</b>	<b>1,075</b>	<b>400</b>	
A. Financial debts	1,075	400	
A1. Subordinated loans	391	391	
A3. Leasing and other similar rights	684	9	
A4. Credit institutions			
<b>IX. Debts payable within 1 year</b>	<b>1,759</b>	<b>1,293</b>	
A. Current portion of debts after one year	84	4	
B. Financial debts	0	0	
B1. Credit institutions			
C. Trade debts	1,136	906	
C1. Suppliers	1,136	906	
E. Taxes, remuneration & social security	539	383	
E1. Taxes	0	75	
E2. Remuneration & social security	539	308	
F. Other amounts payables			
<b>X. Accrued charges and deferred income</b>	<b>288</b>	<b>227</b>	
<b>TOTAL LIABILITIES</b>	<b>46,268</b>	<b>9,846</b>	

## **4.2 ACCOUNTING POLICIES (BELGIAN GAAP)**

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The valuation rules have been prepared in accordance with the provisions of Chapter II of the Belgian Royal Decree of January 30, 2001 relating to the implementation of the Belgian Company Code (*Koninklijk besluit tot uitvoering van het wetboek van vennootschappen / Arrêté royal portant exécution du code des sociétés*). All amortisations and depreciations are done on a pro rata basis in the year of purchase.

### **4.2.1 Formation expenses and costs relating to capital increases**

These expenses, included the issuance costs, are recognised as assets and are amortised by 20% annually.

### **4.2.2 Intangible fixed assets**

#### ***Research and development costs***

Research and development costs are expensed directly in the income statement.

#### ***Patents, licenses and similar rights***

The costs relating to the request of these rights are expensed directly in the income statement. Costs relating to the maintenance of these assets are capitalised at purchase price or, if lower, at their useful value. Patents are depreciated on a straight-line basis over a period of 5 years and software rights and development costs are depreciated on a straight-line basis over a period of 3 years.

### **4.2.3 Tangible fixed assets**

These assets are capitalised and depreciated on a straight-line basis:

- IT equipment : over a period of 3 years
- Installations and equipment : over a period of 5 years
- Furniture : over a period of 5 years
- Laboratory equipment : over a period of 5 year
- Leasehold improvements : over a period of 5 year
- Leasing : over a period of 4 year

In the event where the accounting value exceeds the useful value (or the realised value for the assets that are no longer used), the Company should perform additional or exceptional depreciations.

### **4.2.4 Financial fixed assets**

These assets are capitalised at purchase price excluding any miscellaneous fees.

The shares and participations are reduced in value in case of depreciation or lasting reduction in value, as a result of the situation, the profitability or perspective of the company in which the shares or the participations are held.

Reductions in value of amounts receivable included in the financial fixed assets are recorded when the payment thereof or part thereof at their due date is uncertain or has become compromised.

#### **4.2.5 Amounts receivable (after one year – within one year)**

The amounts receivable do not carry any interest and are capitalised at their nominal value.

#### **4.2.6 Stocks and contracts in progress**

In 2007, raw materials, consumables and goods purchased for resale are valued at the lower of their cost determined according to the FIFO-method (first in first out) or their net realisable value. In 2006 all purchases were expensed as incurred.

The Company does not account for work in progress and finished products, as the production process is short and finished goods are shipped to customers immediately thereafter, resulting in no such items on the balance sheet at year-end for any of the periods reported.

#### **4.2.7 Treasury placements and available cash**

Placements with financial institutions are capitalised at their nominal value. The titles are capitalised at purchase cost excluding miscellaneous fees.

Reductions in value are recorded in the event where the realisation value at the date of the closing of the financial year is below the purchase cost.

#### **4.2.8 Provisions for risks and charges**

The provisions for risks and charges are individualised taking into account the corresponding risks and charges they are intended to cover.

The provisions for risks and charges can only be maintained provided that they exceed, as per the date of the closing of the financial year, an actual appreciation of depreciations, charges and risks for which they have been established.

#### **4.2.9 Debts (payable after one year - payable within one year)**

All debts are capitalised at their nominal value at the date of the closing of the financial year.

The valuation rules applicable to amounts receivable are also applicable for debts, with the difference however that the implicit *pro rata* interests are recorded in the regularisation accounts on the assets side.

At the date of the closing of the financial year, all charges to be paid in relation to the financial year concerned and the previous financial years are taken into account.

#### **4.2.10 Regularisation accounts**

##### ***Regularisation accounts on the assets side***

These accounts include:

- The *pro rata* parts of the charges incurred during the financial year or during a previous financial year but that are related to one or more subsequent financial years.
- The *pro rata* parts of the proceeds that will only be received during a subsequent financial year but that relate to a previous financial year.

##### ***Regularisation accounts on the liabilities side***

These accounts include:

- The *pro rata* parts of the charges that will only be paid during a subsequent financial year but that relate to a previous financial year.
- The *pro rata* parts of the proceeds received during the financial year or a previous financial year but that relate to one or more subsequent financial years.

#### **4.2.11 Currencies**

The amounts receivable and debts in currencies are converted at the applicable exchange rate at the date of the closing of the financial year.

Currency losses are recorded in the statement of results.

Unrealised currency gains are reported as proceeds to be recorded on the regularisation accounts on the liabilities side.



## **4.3 REPORT OF THE BOARD OF DIRECTORS**

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The following report is a summary of the statutory report of the Board of Directors.

Dear Shareholder,

We are pleased to present to you the statutory financial statements for the fiscal year ended December 31, 2007.

### **4.3.1 Comments on the annual accounts**

The annual accounts cover the accounting period from January 1, 2007 to December 31, 2007.

The annual accounts give a true and fair view of the course of affairs of the Company during the past fiscal year. From the annual accounts, the following can be derived :

#### **Main achievements**

We refer to chapter 3.3.1

#### **Balance sheet - assets**

- The most important asset of the Company is the cash at bank and in hand amounting to € 38.9 million on 31 December 2007;
- The fixed assets represent an amount of € 6.3 million :
  - € 3.3 million of formation expenses, being the costs - after depreciation - associated with the capital increases of 2003, 2005 and the IPO costs in 2007;
  - € 0.6 million of intangible assets; it concerns mainly of the development costs of an integrated ERP system. The expenditure on research and development, as well as expenses for patents not yet granted have been included by the company in the results;
  - € 0.5 million of tangible assets, mainly investments in laboratory and IT equipment;
  - € 1.8 million of financial assets, representing the intra-group loan between TiGenix NV and TiGenix Inc.;
- The current assets, excluding the cash at bank and in hand, represent an amount of € 1.1 million. They consist of amounts receivable within one year and deferred charges and accrued income.

#### **Balance sheet - liabilities**

- As a result of the IPO, the issued capital of the Company increased to € 23.3 million and the share premium account increased to € 52.2 million;
- Accumulated losses reached € 32.4 million at December 31, 2007;
- The amounts payable of € 3.1 million consist mainly of trade creditors (€ 1.1 million), financial debt (€ 1.1 million) and liabilities in respect of salary payments and social security obligations (€ 0.5 million).

## **Results of the fiscal year**

The operating income amounts to € 0.4 million and concerns mainly the payment of research grants by the IWT (€ 0.1 million) and advances of TiGenix NV for payments to be made by other companies of the Group (€ 0.2 million).

The operating charges of € 12.5 million consist of :

- The expenses for services and other goods for an amount of € 7.6 million; costs mainly connected with research and development activities, clinical and regulatory activities, S&M outsourced costs, expenses for protection of intellectual property rights and the costs of the mandate contractors;
- The total personnel costs of € 3.4 million;
- Depreciation costs of € 1.0 million;
- Raw materials, consumables and goods for resale of € 0.5 million.

The operating loss of € 12.1 million was partially offset by net financial results of € 1.2 million, being the result of the interests received on the cash at bank and in hand.

The Company has closed its annual accounts with respect to the past fiscal year with a loss of € 10.9 million.

### **Statutory and non-distributable reserves**

The company has a corporate capital of € 23.3 million. The Company has no statutory reserves. As the Company has closed its annual accounts with respect to the past fiscal year with a loss, the Company is not legally obliged to reserve additional amounts.

### **Allocation of the results**

We propose to carry the loss for the financial year forward to the next financial year.

### **4.3.2 Capital increases and issuance of financial instruments**

We refer to chapter 3.3.2

### **4.3.3 Discussion of the main risks and uncertainties**

We refer to chapter 3.3.3

### **4.3.4 Important events that took place since the end of the financial year**

We refer to chapter 3.3.5

### **4.3.5 Valuation rules**

The Board of Directors refers to the summary of the valuation rules in section 4.2. The results are presented in accordance with the Belgian accounting legislation and accounting principles, and are expressed in Euro (€).

#### **4.3.6 Continuity of the company**

As a biomedical company, TiGenix has to cope with considerable start-up losses. The results for the financial year ending 31 December 2007 show that there are losses to be carried forward. The losses sustained are mainly the result of the planned expenditure and investments in research and development, clinical trials, manufacturing capacity build up and the preparation of the launch of ChondroCelect.

The favourable results of ChondroCelect in the clinical study and the successful IPO, where € 46 million was raised, justify the application of the valuation rules under the assumption of continuity.

#### **4.3.7 Declaration of conflicts of interest**

At a number of meetings of the Board of Directors held in the course of the financial year 2007, members of the Board of Directors declared to have an interest of a patrimonial nature which is conflicting with a decision or a transaction that falls within the scope of the powers of the Board of Directors. In accordance with Article 523 of the Companies Code, relevant excerpts from the minutes of the meetings at which such conflicts of interest were declared, are included hereunder.

##### **1. Excerpt from the minutes of the meeting of the board of directors held on 21 February 2007**

###### **“1. Underwriting Agreement**

*Prior to discussing the concerned item on the agenda, the board of directors ACKNOWLEDGED that, in accordance with article 523 of the Companies Code, ING Belgium NV/SA declares to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular in respect of the approval of the draft “Underwriting Agreement”.*

*The conflicting interest consists of the fact that the decision possibly financially benefits ING Belgium NV/SA, which results in a cost (payment of a remuneration for the performance of the task as joint lead manager) for the Company. The financial consequences for the Company remain limited to the amount of this remuneration.*

*The board notes that this conflicting interest is justified on the basis of the fact that ING Belgium NV/SA, both as shareholder and as underwriter of the 2005 private placement, has acquired an extensive knowledge on the Company which can be of a great use for assisting the Company with the possible IPO and on the basis that the remuneration stipulated for by ING Belgium NV/SA is in conformity with market practice. For the same reasons the board has decided earlier to appoint ING Belgium NV/SA as joint lead manager. The Underwriting Agreement results from and is in line with what has been agreed upon at the time of the appointment of ING Belgium NV/SA.*

*In the light of the foregoing, after having discussed the issue, the meeting unanimously,*

*RESOLVED that the “Underwriting Agreement”, in the form as provided to the directors together with the invitation for this meeting and taking into account a number of minor modifications proposed during the meeting, be approved.*

*[...]*

*The Company’s auditor will be informed of the conflict of interests in accordance with article 523 of the Companies Code.”*

#### “4. Remuneration Management Team

*Prior to discussing the concerned item on the agenda, the board of directors ACKNOWLEDGED that, in accordance with article 523 of the Companies Code, Gil Beyen BVBA declares to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular in respect of the approval of the management team remuneration proposal that a.o. provides for an increased remuneration for Gil Beyen BVBA and the modifications of certain terms and conditions of its consultancy agreement subject to completion of the planned IPO.*

*The conflicting interest consists of the fact that Gil Beyen BVBA financially benefits from the decision, which results in a cost (payment of an increased remuneration) for the Company. The financial consequences for the Company remain limited to the amount of this remuneration.*

*The board notes that this conflicting interest is justified on the basis of the modified nature and scope of the management services that will be rendered by Gil Beyen BVBA to the Company after the completion of the planned IPO and on the basis that the proposed remuneration for these services is in conformity with market practice.*

*In the light of the foregoing, after having discussed the issue, the meeting unanimously,*

*RESOLVED to approve the proposal drawn up by the remuneration committee in respect of the remuneration of the management team in the form as presented to the board of directors.*

*The Company’s auditor will be informed of the conflict of interests in accordance with article 523 of the Companies Code.”*

#### **2. Excerpt from the minutes of the meeting of the board of directors held on 9 March 2007**

*“Prior to discussing the concerned item on the agenda, the board of directors ACKNOWLEDGED that, in accordance with article 523 of the Companies Code, Gil Beyen BVBA declares to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular in respect of the approval of its new management agreement with the Company.*

*The conflicting interest consists of the fact that Gil Beyen BVBA financially benefits from the decision, which results in a cost (payment of an increased remuneration and adaptation of certain termination modalities) for the Company. The financial consequences for the Company remain limited to the amount of the amended management and termination fees.*

*The board notes that this conflicting interest is justified on the basis of the modified nature and scope of the management services that will be rendered by Gil Beyen BVBA to the Company after the completion of the planned IPO and on the basis that the proposed remuneration for these services and the other terms and conditions are in conformity with market practice.*

*In the light of the foregoing, after having discussed the issue, the meeting unanimously,*

*RESOLVED to approve the proposed new management agreement with Gil Beyen BVBA, under the condition precedent of the completion of the initial public offering and listing of the shares in the Company, in the form as presented to the board of directors, but subject to clarification in the agreement that Gil Beyen BVBA shall inform the Company and shall request the Company’s consent prior to accepting new management assignments from third parties. The Company may*

*not unreasonably refuse to give such consent. Accordingly, the Company may not refuse to give its consent in case the new client of Gil Beyen BVBA can not be regarded as a direct or indirect competitor of the Company.*

*The Company's auditor will be informed of the conflict of interests in accordance with article 523 of the Companies Code."*

### **3. Excerpt from the minutes of the meeting of the board of directors held on 21 May 2007**

#### *"2. IPO Debriefing*

*[...]*

*The board of directors ACKNOWLEDGED that ING Belgium NV (represented by Alain Parthoens) informed the other directors that it has a an interest which is conflicting with the decision regarding the discretionary success fee for the syndicate banks. The conflicting interest consists of the fact that ING Belgium NV, as one of the syndicate banks, financially benefits from the decision, which results in a cost (payment of a discretionary fee) for the Company. The financial consequences for the Company remain limited to the amount of this fee. According to ING Belgium NV, a discretionary fee, which was already provided for in the existing engagement letter of ING Belgium NV, would be justified given the successful outcome of the IPO. ING Belgium NV will inform the statutory auditor of this conflict of interest, in accordance with article 523 of the Companies Code.*

*After having acknowledged the above and after deliberation of the relevant agenda item (in which ING Belgium NV did not participate), the board of directors unanimously (except for ING Belgium NV, which did not participate in the vote), APPROVED the following discretionary success fee split, which the board considers justified for the reasons mentioned above:*

- 400.000 EUR to be paid to the syndicate banks now*
- 150.000 EUR reserved for potential allocation to the syndicate banks in function of their ability to optimize the after-market performance during the first year after the IPO and the management of the end of lock-up transition. Allocation to be decided at the first board meeting after March 22, 2008.*
- [...]"*

#### *"6. Nomination and Remuneration committee: IPO bonus & granting of stock options*

*The board of directors ACKNOWLEDGED that Gil Beyen BVBA (represented by Gil Beyen BVBA) informed the other directors, on its own behalf and on behalf of Frank Luyten (excused), that Gil Beyen BVBA and Frank Luyten may have an interest which is conflicting with the decision regarding any IPO bonus and/or "employee" warrants to be paid/granted by TiGenix. With respect to the IPO bonus, the conflicting interest consists of the fact that Gil Beyen BVBA financially benefits from the decision, which results in a cost (payment of a bonus) for the Company. The financial consequences of the bonus for the Company remain limited to the amount of this bonus. According to the Nomination and Remuneration committee, a bonus would be justified given the successful outcome of the IPO and the extraordinary efforts made by Gil Beyen BVBA during the IPO process. An allocation of stock options (warrants) to Gil Beyen BVBA and Frank Luyten does not have any specific financial consequences for the company, except for the fact that upon exercise of the warrants, the company will have to issue one new share per warrant at a subscription price (incl. issuance premium) of EUR 6,75 per share (which will result in a dilution of*

the existing shareholders). In view of the motivation for the issuance of the “employee” warrants as described in the special board report of 9 February 2007 that has been drawn in view of the issuance of the “employee” warrants and since the warrants will be granted to them under the same conditions as are applicable to warrants granted to the other beneficiaries, Gil Beyen BVBA and Frank Luyten are of the opinion that the allocation of warrants to them is justified. Gil Beyen BVBA and Frank Luyten will inform the statutory auditor of their (potential) conflict of interest, in accordance with article 523 of the Companies Code.

After having acknowledged the above and after deliberation of the relevant agenda item (in which Gil Beyen BVBA did not participate), the board of directors unanimously (except for Gil Beyen BVBA, which did not participate in the vote):

- (i) APPROVED the following bonuses related to the successful IPO as proposed by the Nomination and Remuneration Committee:
  - [...]; and
  - EUR 50.000 to the CEO.
- (ii) APPROVED the attached Memorandum from the Nomination and Remuneration Committee (Remco) concerning the proposed granting of stock option warrants and DECIDED to grant in aggregate 543,500 “employee” warrants (created by the extraordinary shareholders’ meeting of 26 February 2007) to the people and in the proportions listed in ANNEX 1 of the attached Memorandum at an exercise price (incl. issuance premium) of EUR 6,75 per share. For the reasons mentioned above the board is of the opinion that the allocation of warrants to Gil Beyen BVBA and Mr. Frank Luyten is justified.”

#### **4. Excerpt from the minutes of the meeting of the board of directors held on 6 June 2007**

“The board of directors ACKNOWLEDGED that Gil Beyen BVBA (represented by Gil Beyen) informed the other directors that Gil Beyen BVBA may have an interest which is conflicting with the decision concerning the objectives to be met for the year 2007. With respect to the 2007 objectives, the conflicting interest consists of the fact that, depending on the fact whether or not the said objectives are met, Gil Beyen BVBA will or will not be entitled to a bonus, which therefore may result in a cost (payment of a bonus) for the Company. The financial consequences of the bonus for the Company remain limited to the amount of this bonus.

The board notes that this conflicting interest is justified given the nature and the scope of the management services rendered by Gil Beyen BVBA to the Company, the fact that the potential bonus is in conformity with market practice, and the fact that the objectives are sufficiently challenging.

After having acknowledged the above and after deliberation (in which Gil Beyen BVBA did not participate) concerning the 2007 objectives for the management team as proposed by the Nomination and Remuneration committee, the board of directors unanimously (except for Gil Beyen BVBA, which did not participate in the vote) APPROVED the proposed management team objectives in the form as attached hereto as Annex 1.”

Finally, for the sake of completeness, reference is made to the minutes of the meeting of the board of directors held on 9 February 2007 at which a number of decisions were ratified that, due to an oblivion, had been taken without complying with the conflict of interest procedure. An excerpt from the minutes of the meeting of 9 February 2007 was already included in the annual report on the financial year 2006.

#### **4.3.8 Use of financial instruments**

Besides the investments of cash in term accounts, the Company did not use any financial instruments during the financial year, given the highly volatile financial markets especially at year end.

#### **4.3.9 Corporate Governance**

The Board of Directors is committed to the highest standards of corporate governance. Factual information about TiGenix' corporate governance in 2007 is presented in the Corporate Governance Report under chapter 5.

#### **4.3.10 Research and development**

We refer to chapter 3.3.6

The shareholders' meeting shall be requested to approve the accounts as submitted and release the directors and the auditor from liability for the performance of their duties in the course of the financial year ending December 31, 2007.

The full report will be filed in accordance with the relevant legal requirements, and shall be available for inspection at the company's registered office and on its website ([www.tigenix.com](http://www.tigenix.com)).

Done on March 20, 2008

On behalf of the Board of Directors

## 5. CORPORATE GOVERNANCE REPORT

TiGenix' Board of Directors implemented the corporate governance charter on March 27, 2007. This Charter, which is available on the website ([www.tigenix.com](http://www.tigenix.com)) describes the main aspects of TiGenix' corporate governance.

The following pages provide factual information about TiGenix' corporate governance.

### 5.1 CAPITAL AND SHARES

The issued capital of TiGenix amounts to € 23.3 million at December 31, 2007, represented by 23,851,079 ordinary shares. The Company's shares are without par value. The holders of TiGenix shares are entitled to receive dividends as declared and to one vote per share at the shareholders' meeting of the Company. All shares issued are fully paid in and subscribed. The authorised capital of the Company amounts to € 22.1 million of which up to € 390,800 has been issued for the creation of up to 400,000 warrants on March 20, 2008.

All TiGenix shares are admitted for listing and trading on Eurolist by Euronext Brussels. As from January 1, 2008, all shares of TiGenix are in dematerialised or registered form.

At 31 December 2007, a total of 1,803,834 warrants are outstanding at an average weighted exercise price of € 3.64.

### 5.2 SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

Based on the transparency declarations and the fact that all shareholders agreed to a lock-up of their shares for one year after the IPO, TiGenix shareholders structure could be summarised as follow :

<i>Number of shares</i>	<b>Current</b>	<b>Fully diluted</b>	<b>Latest declaration</b>
ING Belgium NV	4,261,452 17.87%	4,261,452 16.61%	March 22, 07
Auriga Ventures II FCPR	2,440,918 10.23%	2,440,918 9.51%	March 22, 07
Fagus NV	2,105,527 8.83%	2,105,527 8.21%	March 22, 07
Capricorn Venture Fund II NV	1,572,993 6.60%	1,572,993 6.13%	March 22, 07
O.G.B.B. Van Herk BV	1,307,500 5.48%	1,307,500 5.10%	March 22, 07
Gemma-Frisius Fonds K.U.Leuven NV	1,208,697 5.07%	1,208,697 4.71%	March 22, 07
Other shareholders being part of the lock-up	3,061,492 12.84%	4,865,326 18.96%	
Public	7,892,500 33.09%	7,892,500 30.76%	
<b>TOTAL</b>	<b>23,851,079</b> <b>100.00%</b>	<b>25,654,913</b> <b>100.00%</b>	



## 5.3 BOARD OF DIRECTORS AND BOARD COMMITTEES

### 5.3.1 Board of Directors

The present (March 20, 2008) composition of the Board of Directors is as follows :

Name	Position	Term
Willy Duron	Chairman, Independent director	2011
Koenraad Debackere	Director (non-executive)	2011
Gil Beyen BVBA, represented by Gil Beyen	CEO (executive)	2011
Frank P. Luyten	Director (non-executive)	2011
Fortis Private Equity Belgium NV, represented by Raf Moons	Director (non-executive)	2011
ING Belgium NV, represented by Luc Van de Steen	Director (non-executive)	2011
Sven Andréasson	Independent director	2011
Marie-Hélène Plais	Independent director	2011

The term of the mandates of the directors will expire immediately after the annual shareholders' meeting held in the year set forth next to the director's name.

The curricula vitae of the Board members can be found on the TiGenix' website.

#### **Changes**

On September 17, 2007, the Board of Directors approved the appointment of Willy Duron as Chairman of the Board, succeeding Koenraad Debackere.

On November 28, 2007, it was announced that Luc Van de Steen is replacing Alain Parthoens as permanent representative of ING Belgium NV.

On February 15, 2008, Capricorn Venture Partners, permanently represented by Claude Stoufs, has resigned as Board member.

#### **Functioning**

In 2007, the Board of Directors met 10 times. The main areas of discussion and decision were : the financing of the Company and especially the approval of the IPO and listing on Euronext Brussels, TiGenix' strategy, the reports of the Audit Committee and of the Nomination and Remuneration Committee, the budget 2008, the financial reporting, business development proposals and reports and resolution proposals to the shareholders as published in the invitations to the shareholders meetings in compliance with the law.

There were no transactions or contractual relationships between TiGenix, including its related companies, and a member of the Board of Directors, that could create a conflict of interest not covered by the legal provisions on conflicts of interests.

#### **Remuneration**

The independent directors receive a fee for attending and preparing for meetings of the Board of Directors and they receive reimbursement for expenses directly related to the Board meetings. In 2007 an amount of € 44,089 in total was paid as fees and expense reimbursement.

Name	Position	Amount
Willy Duron	Chairman, Independent director	€ 15,000
Sven Andréasson	Independent director	€ 14,250
Marie-Hélène Plais	Independent director	€ 14,839

This amount represents the overall remuneration of the Board of Directors.

### **5.3.2 Board Committees**

#### ***Audit Committee***

Name	Position	Term
Willy Duron	Chairman, Independent director	2011
ING Belgium NV, represented by Luc Van de Steen	Director (non-executive)	2011
Sven Andréasson	Independent director	2011

The Audit Committee met 3 times until March, 20, 2008. The CEO, Gil Beyen BVBA, is invited to each of the meetings. The meetings were also attended by the CFO, Frank Hazevoets. Part of the meetings were held in the presence of the external auditor. The Committee prepared the Audit Committee Charter, made recommendations with respect to the payment authorities, assessed the purchase ordering process and IT security, took note of the risks of the Group as presented by the CEO and of the management letter prepared by the auditor and checked the 2007 annual accounts.

Although the Corporate Governance Charter stipulates that the Chairman of the Board could not be part of the Audit Committee, Willy Duron stayed as audit committee member based on his extensive experience in this field.

#### ***Nomination and Remuneration Committee***

Name	Position	Term
Sven Andréasson	Chairman, Independent director	2011
Marie-Hélène Plais	Independent director	2011
Koenraad Debackere	Director (non-executive)	2011

The Remuneration and Nomination Committee met 2 times until March, 20, 2008. The CEO, Gil Beyen BVBA, is invited to each of the committee meetings. The Committee made recommendations with respect to the annual remuneration of the management team members, the granting of warrants and the bonuses to be paid based on the realised objectives.

### **5.3.3 Management team**

The present composition of the management team is as follows :

Name	Position
Gil Beyen BVBA, represented by Gil Beyen	Chief Executive Officer (CEO)
Heico Breek (Breek Management Consultancy BV)	Vice-President Commercial Development
Wilfried Dalemans	Vice-President Regulatory Affairs and Corporate Quality
Luc Dochez (Primix Bioventures BVBA)	Vice-President Business Development
Frank Hazevoets	Chief Financial Officer (CFO)
Koen Huygens	Director Manufacturing Operations
Peter Tomme	Director Research & Development
Nancy Veulemans (4C Partner BVBA)	Vice-President Clinical Research

Only the CEO is a member of the Board of Directors.

The total gross remuneration of the management team in 2007 was € 2.4 million. A split of the amount can be found in chapter 3.2.23 (19) under remuneration of key management personnel. In 2007, 232,500 warrants with an exercise price of € 6.75 were offered to the management team, based on a decision of the Board of Directors of May 21, 2007.

In deviation of the Belgian Code on Corporate Governance, the Board of Directors has currently opted not to disclose the individual remuneration of the CEO, due to privacy reasons and as the Board of Directors believes that the remuneration of the CEO is set at reasonable market standards.

#### **5.4 PRIVATE INVESTMENT TRANSACTIONS AND TRADING IN COMPANY'S SHARES**

The Board of Directors has approved a Dealing Code on private investment transactions to prevent insider trading offences and market abuse, particularly during the periods preceding the publication of results or information which could considerably influence TiGenix' share price.

The Dealing Code establishes rules for all employees (directors, management and other employees) and mandate contractors prohibiting dealing in the Company's shares or other financial instruments of the Company during certain periods, including a designated period preceding the announcement of its financial results (closed periods). It also establishes rules to set limitations in transactions by certain persons, including employees.

Trading in TiGenix shares by any employee for their own account needs to be approved by the Compliance Officer.

The Board of Directors has designated Frank Hazevoets, CFO, as Compliance Officer whose duties and responsibilities are defined in the Dealing Code.

#### **5.5 EXTERNAL AUDIT**

BDO ATRIO Bedrijfsrevisoren - BDO ATRIO Réviseurs d'Entreprises CVBA/SCRL, with registered office at The Corporate Village, Da Vincilaan 9 - Box E.6, Elsinore Building, 1935 Zaventem, Belgium, represented by Luc Annick, or in his absence Lieven Van Brussel, has been appointed statutory auditor of the Company for a term of three years ending after closing of the shareholders' meeting to be held in 2010.

The 2007 fees paid by TiGenix to its auditor amounted to € 55,094.