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ROMEINSE STRAAT 12 – BUS 2
B-3001 LEUVEN**

**V.A.T. BE 0471.340.123
RECHTSPERSONENREGISTER LEUVEN**

ANNUAL FINANCIAL REPORT

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1. GENERAL INFORMATION

On March 13, 2009, 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, 2008.

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 16, 2009. 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 Annual 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 13, 2009.

Both annual reports were approved by the Board of Directors for issuance on March 16, 2009. 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 Annual Financial Report.

The statutory auditor's report on the consolidated financial statements is presented in chapter 3.4 as part of the Annual Financial Report. The statutory auditor has also issued an unqualified audit opinion on the statutory accounts on March 13, 2009.

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 Annual 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) as from March 16, 2009 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.

This English version of the Annual Financial Report is a translation from the Dutch original version. In the event of any conflict between the Dutch and English versions, the Dutch version will always prevail.

2. STATEMENT BY THE CEO

In accordance with Article 12 § 2 3°, a) and b) 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, 13 March 2009

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

	Notes	Years ended December 31	
		2008	2007
<i>Thousands of Euro (€)</i>			
CONSOLIDATED INCOME STATEMENT			
Sales		0	0
Other revenues	3.2.23 (1)	321	227
Revenues		321	227
Research and development expenses	3.2.23 (2)	9,975	8,139
Selling, general and administrative expenses	3.2.23 (2)	6,851	5,232
Other operating income		0	0
Other operating expenses		0	0
Total operating charges		16,825	13,371
Operating Result (EBIT*)		(16,505)	(13,144)
Financial result	3.2.23 (4)	1,340	1,175
Profit/(Loss) before taxes		(15,165)	(11,969)
Income taxes		0	0
Net Profit/(Loss)		(15,165)	(11,969)
Net profit (loss) per share - base		(0.62)	(0.50)
Number of outstanding shares – base		24,564,489	23,851,079

* EBIT: Earnings before interest and taxes

3.1.2 Consolidated balance sheet

	Thousands of Euro (€)	Notes	Years ended December 31	
			2008	2007
ASSETS				
Intangible assets		3.2.23 (7)	441	474
Tangible assets		3.2.23 (8)	2,484	1,374
Other non current assets			34	46
Non-current assets			2,959	1,894
Inventories		3.2.23 (9)	158	81
Receivables		3.2.23 (10)	792	523
Cash and cash equivalents		3.2.23 (11)	25,162	39,101
Deferred charges & Accrued income			335	448
Current assets			26,447	40,153
TOTAL ASSETS			29,406	42,047

	Thousands of Euro (€)	Notes	Years ended December 31	
			2008	2007
EQUITY AND LIABILITIES				
Share capital		3.2.23 (12)	19,484	18,879
Share premium			52,633	52,240
Accumulated profit/(loss)			(33,881)	(21,912)
Result of the year			(15,165)	(11,969)
Share-based compensation		3.2.23 (18)	2,369	1,438
Translation reserves			(86)	38
Equity attributable to equity holders			25,355	38,714
Total equity			25,355	38,714
Subordinated loan		3.2.23 (13)	391	391
Financial loan		3.2.23 (14)	600	680
Finance lease obligations		3.2.23 (15)	40	4
Non-current liabilities			1,031	1,075
Current portion of lease debt			28	4
Current portion of financial loan			80	80
Trade payables		3.2.23 (16)	1,498	1,267
Other current liabilities		3.2.23 (16)	1,414	907
Current liabilities			3,020	2,258
TOTAL EQUITY AND LIABILITIES			29,406	42,047

3.1.3 Consolidated cash flow statement

	Years ended December 31	
	2008	2007
	<i>Thousands of Euro (€)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Result	(16,505)	(13,144)
Depreciation, amortisation and impairment results	697	416
Share-based compensation	931	745
Other financial result	102	(172)
Income taxes	0	0
Increase/(decrease) in Trade payables	151	457
Increase/(decrease) in Other current liabilities	507	139
(Increase)/decrease in Inventories	(76)	(81)
(Increase)/decrease in Receivables	(300)	(79)
(Increase)/decrease in Deferred charges & Accrued income	(61)	(331)
Total Adjustments	1,951	1,094
Net cash provided by/(used in) operating activities	(14,554)	(12,050)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,490	1,372
Interest paid	(47)	(25)
Purchase of tangible assets	(1,446)	(1,150)
Purchase of intangible assets	(247)	(306)
Net cash provided by/(used in) investing activities	(250)	(109)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments cash deposits	11	(13)
Payments on financial loan	(80)	0
Payments on leases	(24)	(5)
Proceeds of subordinated loan	0	0
Proceeds of financial loan	0	760
Proceeds from long-term leases	82	0
Proceeds from issuance of shares (net of issue costs)	999	42,740
Net cash provided by/(used in) financing activities	989	43,482
Net increase/(decrease) in cash and cash equivalents	(13,815)	31,323
Cash and cash equivalents at beginning of year	39,101	7,738
Effect on exchange rate changes	(124)	40
Cash and cash equivalents at end of period	25,162	39,101

3.1.4 Consolidated statement of changes in equity

Thousands of Euro (€)	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 reserve s	
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
Issuance of shares	713,410	713	(108)	393				999
Net Loss					(15,165)			(15,165)
Share-based compensation						931		931
Translation reserves							(124)	(124)
Balance at Dec. 31, 2008	24,564,489	24,002	(4,518)	52,633	(49,045)	2,369	(86)	25,355

3.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 biomedical company that focuses on innovative local treatments for damaged and osteoarthritic joints. The Company is exploiting the power of regenerative medicine for the development of durable treatments, validated through controlled clinical studies, for these indications. TiGenix is located in Leuven and was founded as a spin-off of the Catholic University of Leuven and the University of Ghent.

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 severely 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 Romeinse straat 12 - box 2, 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 Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, as adopted by the European Union up to December 31, 2008. The Group has not applied any new IFRS requirements that are not yet effective in 2008.

Adoption of new and revised standards

a) Standards and interpretations effective in the current period

During the current year, the Company has adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the accounting period commencing on January 1, 2008.

The following interpretation issued by the International Financial Reporting Interpretations Committee is effective for the current period:

IFRIC 14 IAS19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of this Interpretation has not led to any changes in the Company's accounting policies.

b) Standards and interpretations issued but not yet effective in the current period

The Company elected not to early adopt the following new Standards and Interpretations, which are not yet mandatory as per December 31, 2008:

IFRS 1 First Time Adoption of IFRS
IFRS 2 Share-based payment
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IAS 1 Presentation of Financial Statements
IAS 19 Employee Benefits
IAS 20 Government Grants and Disclosure of Government Assistance
IAS 23 Borrowing Costs
IAS 32 Financial Instruments: Presentation
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 13 Customer Loyalty Programmes

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2009 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

The principle accounting policies adopted when preparing these consolidated financial statements are set out below.

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

The financial statements have been established assuming the Company is in a state of 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): Taxes 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.

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, provided that 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 in general and ChondroCelect in particular preclude it from capitalising development costs. Although ChondroCelect is in the registration phase in Europe, it is the first product to go for central approval by the EMEA as a medicinal cellular therapy product for the treatment of cartilage defects in the knee. There are

currently no points of comparison of the chances of approval once in the registration phase. Observing the principle of prudence, ChondroCelect's development costs are not yet being capitalised. 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;
- Leasehold improvements: in line with the lease agreement period; and
- Leases: 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 that were 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 considered as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are at the start of the lease term 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. The financial costs need to be accounted to each term of the lease period 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 was carried at re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

3.2.12 Inventories

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.

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 products 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 exposed to material interest risk. All leases have fixed interest rates and the amount of loans is limited.

Currency risk

The Group could be subject to limited currency risk as certain of its invoices needs to be paid in US Dollars and for the operations of its US 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 Income tax

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

The Group offers retirement benefit schemes. These schemes are financed through payments to insurance companies. All retirement benefit schemes are in accordance with the system of defined contributions. These contributions are charged as personnel benefit expenses as they fall. 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 and accepted 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:

<i>Thousands of Euro (€)</i>		Years ended December 31	
		2008	2007
Grant revenues	3.2.23 (20)	245	121
License & deal revenues		49	45
Contribution to costs		27	61
Total Other revenues		321	227

The revenues from grants relate mainly to the first contribution that TiGenix has received for its research activities into osteoarthritis as part of the European Treat OA project for which a grant was awarded by the European Union under the 7th framework programme.

(2) Operating result (EBIT)

Result from operations has been arrived at after charging:

Research and development expenditures

<i>Thousands of Euro (€)</i>		Years ended December 31	
		2008	2007
Personnel costs	3.2.23 (3)	4,804	3,614
Depreciations		487	190
Operating costs		3,502	3,545
General costs		685	504
Production costs		497	286
Total		9,975	8,139

The Group's research and development costs rose 23% between 2007 and 2008. The increase is mainly the result of the increase in the cost of production, both of obtaining the GMP certificate in Europe and making the cell expansion facility fully operational in the US. The increase is also explained by an increase in personnel costs.

Selling, general and administrative expenses

	<i>Thousands of Euro (€)</i>	Years ended December 31	
		2008	2007
Personnel costs	3.2.23 (3)	3,595	2,682
Depreciations		210	227
Operating costs		2,378	1,906
General costs		667	417
Total		6,851	5,232

The selling, general and administrative expenses have increased by 31% compared to last year. The main reasons are the increase in the number of FTE's, mainly at Marketing and Sales and the costs related to the Pricing & Reimbursement in several European countries.

(3) Personnel costs

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

	<i>Thousands of Euro (€)</i>	Years ended December 31	
		2008	2007
The number of employees and mandate contractors at the end of the year was:			
- R&D staff		52	47
- SG&A staff		26	18
Total		78	65
Their aggregate remuneration comprised:			
- Wages, salaries, fees and bonuses		6,044	4,697
- Social security cost		1,025	673
- Group & Hospitalisation insurance		230	126
- Share-based compensation		931	745
- Other costs		169	55
Total		8,399	6,296

(4) Financial result

	<i>Thousands of Euro (€)</i>	Years ended December 31	
		2008	2007
Interest on bank deposits		1,285	1,372
Interest paid		(47)	(25)
Other finance costs		102	(172)
Total financial results		1,340	1,175

TiGenix receives net interest on the sums it has outstanding on its bank deposits. Interest paid consists of the interest paid for the roll-over credits from ING and Fortis. The interest rate for these loans is the 3 month Euribor plus a margin of 140 bp. Other finance costs mainly consist of exchange rate differences and the interest to be allocated from the subordinated loan by the Institute for the Promotion of Innovation by Science and Technology in Flanders (IWT).

(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 summarised as follows:

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Losses carried forward under local GAAP	(45,421)	(32,382)
Impact consolidation	(3,114)	(1,062)
IFRS Adjustments	(511)	(436)
IFRS Net loss	(49,045)	(33,880)
Non-deductible expenses	227	354
The Belgian Tax deduction for Risk Capital	(4,539)	(2,434)
Investment deduction	(44)	(43)
Total deductible temporary difference	(53,401)	(36,003)
Deferred taxes @ 34%	18,156	12,248
Tax credit research and development	77	48
Deferred taxes of the year	5,944	4,668

The Group has not recorded the total deferred net tax assets of € 18,233k 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.

	Years ended December 31	
	2008	2007
	<i>Thousands of Euro (€)</i>	
Result for the purpose of basic loss per share, being net loss	(15,165)	(11,969)
Number of shares	24,301,661	21,427,563
<i>Weighted average number of shares for the purpose of basic loss per share</i>		
Basic loss per share (in Euro (€))	(0.62)	(0.56)

In 2007 and 2008, 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

	Years ended December 31	
	2008	2007
	<i>Thousands of Euro (€)</i>	
Gross value		
At January 1	757	414
Additions	247	343
Subsidy		
Impairment		
Gross value at December 31	1,004	757
Accumulated amortisation		
At January 1	283	103
Additions	280	180
Disposals		
Related to subsidy		
Impairment		
Accumm. amortisation at December 31	563	283
Net value at December 31	441	474

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

Gross value						
At January 1, 2008	1,109	149	198	681	23	2,160
Additions	267	180	4	1,003	83	1,536
Disposals	0	(76)	(4)	(13)	(23)	(116)
Translation Reserves	15	0	0	24	0	39
At December 31, 2008	1,390	252	198	1,696	83	3,618
Accumulated amortisation						
At January 1, 2008	515	86	137	32	16	786
Additions	212	33	37	120	15	417
Disposals	0	(47)	(2)	(9)	(16)	(74)
Translation Reserves	4	0	0	3	0	7
At December 31, 2008	730	71	172	145	15	1,135
Net value at Dec. 31, '08	660	181	26	1,550	67	2,484

The investments are mainly related to the improvements in the new R&D labs and offices in the leased building located at the Romeinse straat 12 box 2, 3001 Leuven, Belgium.

(9) Inventories

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

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Raw materials and consumables	144	62
Goods purchased for resale	13	19
Total inventories	158	81

Inventories are valued according to the FIFO-method (first in first out) or, if lower, at the realisable value.

(10) Receivables

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Receivables	101	43
Recoverable taxes	666	474
Other	25	6
Total other accounts receivable	792	523

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>	Years ended December 31	
	2008	2007
Cash at bank and in hand	25,162	39,101
Total cash and cash equivalents	25,162	39,101

In December 2008, the Company invested 20 million € in time deposits of 3 and 6 months, taking into consideration the cash needs of the period in between.

(12) Share capital

The share capital of TiGenix amounts to € 24.0 million at 31 December 2008, represented by 24,564,489 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 change in the number of shares during 2008 is as follows:

Per January 01, 2008	23,851,079
Exercise of warrants 17/04/2008	603,910
Exercise of warrants 13/10/2008	109,500
December 31, 2008	24,564,489

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>	Years ended December 31	
	2008	2007
Subordinated loan	391	391

In 2006, the Company obtained from the Flemish Innovation Institute IWT 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>	Years ended December 31			
	2010	2011	2012	2013+
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>	Years ended December 31	
	2008	2007
Amounts payable under financial loan:		
Within one year	80	80
In the second to fifth year	320	320
After five years	280	360
Total	680	760
Less future finance charges	0	0
Present value of financial loan	680	760

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 €. Each quarter 20k € is paid back.

(15) Finance lease obligations and other lease obligations

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Amounts payable under finance lease:		
Within one year	28	4
In the second to fifth year	40	4
After five years	0	0
Total	68	8
Less future finance charges	0	0
Present value of lease obligations	68	8
Outstanding commitments for future minimum rent payments, which fall due as follows:		
Within one year	611	417
In the second to fifth year	1,913	754
After five years	1,117	316

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, such as the new building Romeinse Straat 12 box 2, 3001 Leuven, 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) Current liabilities

Trade accounts payable

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Trade accounts payable	1,386	923
Accruals for invoices to be received	112	344
Total trade accounts payable	1,498	1,267

Other current liabilities

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Other debts relating to remuneration and social security contributions	710	562
Other accruals	704	345
Total other current liabilities	1,414	907

(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 214k € in 2008 (88k € in 2007) 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, 2008 of all outstanding warrant pools remaining together with the activities under the different pools of warrants during 2008.

	Weighted average exercise price	TOTAL	warrants issued in					
			20 Mar 2008	Febr 26, 2007	Nov 03, 2005	April 20, 2005	May 14, 2004	
Creation date								
Total number created		400,000	800,000	454,570	45,268	135,802	784,290	
<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>
Granted	4.08	362,000	362,000					
Lapsed	5.65	67,744	2,500	54,000	6,142		5,102	
Exercised	1.54	713,410						713,410
Expired	3.00	48,944						48,944
<i>Outstanding 31 Dec 2008</i>	<i>4.80</i>	<i>1,335,736</i>	<i>359,500</i>	<i>523,750</i>	<i>295,663</i>	<i>45,268</i>	<i>111,555</i>	<i>0</i>
Exercisable 31 Dec 2008	3.00	89,291					89,291	

On March 20, 2008, 400,000 new warrants were created. 362,000 warrants were granted to selected beneficiaries by decision of the Board of Directors. The warrants that were not granted before September 20, 2008 became automatically null and void.

Under the existing plans in September 2003, May 2004, April 2005, November 2005 and February 2007, respectively 784,290, 135,802, 45,268, 454,570 and 800,000 warrants were created.

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, 2012 onwards for warrants granted in 2008). 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 on or after February 26, 2007 is 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:

	Years ended December 31	
	2008	2007
	<i>Thousands of Euro (€)</i>	
Research and development expenses	569	488
Selling, general and administrative expenses	362	257
Total for the year	931	745
Total per year end	2,369	1,438

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

- The historic volatility of the Company (currently determined at 60%).
- 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 4.6%.
- The expected lifetime 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, TiGenix Inc. and TC CEF LLC, which are related parties, have been eliminated in consolidation and are not disclosed in this note. In 2008, there were no material 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:

	Thousands of Euro (€)	
	2008 ⁽¹⁾	2007
Number of management members	7	8
Short-term benefits	1,437	1,972
Pensions	46	17
Share-based compensation	391	360
Other employment costs	62	45
Total benefits	1,936	2,394
Number of warrants offered	151,000	232,500
Cumulative outstanding warrants	527,377	846,250
Exercised warrants	173,623	0
Exercisable warrants	29,198	254,210
Outstanding receivables from persons	0	0
Outstanding payables to persons	0	0
Shares owned	357,123	9,750

(1) In 2008, the management team has changed. As a result the 2007 and 2008 figures are not fully comparable.

No loans, quasi-loans or other guarantees are outstanding with members of the 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 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 2008 an amount of 61k € (44k € in 2007) 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 2008 was 61k € excluding VAT (44k € in 2007). 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 for research: "Tissue engineering for joint repair", "Novel therapeutic approaches for OA joints: from stem cells to nutraceuticals" and one from the European government for research in the treatment of osteoarthritis: "Translational research in Europe – Applied Technologies for Osteoarthritis". The period for the first Belgian grant ended in 2003 and for the second grant the last cash instalment was received in 2007. In 2008, a first instalment was received for the European grant.

In 2008, TiGenix has also received a grant for the set-up of its office in the USA.

To date, TiGenix has received grant payments for a total of 2,022k € out of the 4,584k € approved.

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) Tissue engineering for joint repair (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) Novel therapeutic approaches for OA joints: from stem cells to nutraceuticals (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
(1) Financial support for office USA (2) Flemish government (Flanders Investment en Trade) (3) Set-up of an office in the USA (4) Covers part of travel expenses and general costs in the USA.	1/5/06	30/04/07	49,500	49,500	Testing the subsidisable expenses against supporting documents
(1) Translational Research in Europe – Applied Technologies for Osteoarthritis (Treat OA) (2) Commission of the European communities (3) Research and coordination to develop new treatments (4) Covers part of personnel/lab costs,	1/01/08	31/12/12	1,156,500	404,775	Respect plans and budget.

(1) Name (2) Source (3) Description (4) Applicability	Start date	End date	€ amount approved	€ amount received	Main conditions
collaborator costs.					
(1) IWT 080365 An investigation into biology of meniscus tissue formation, homeostasis and repair towards the development of novel cellular therapies for treatment of damaged menisci. (2) Flemish government (IWT) (3) Meniscus Biology (4) Covers part of personnel/lag costs, collaborator costs.	1/10/08	30/09/10	1,800,000	0	General conditions IWT 2008.1

(21) Subsequent events

No material events took place after the closing of 2008.

(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:

Thousands of Euro (€)	Years ended December 31			
	2008		2007	
	Equity	Loss of the year	Equity	Loss of the year
Under local GAAP (non consolidated)	31,214	(13,039)	43,146	(10,858)
Impact consolidation	(3,114)	(2,051)	(1,062)	(1,008)
Translation reserves	(86)		38	
Issuance cost	(4,528)	0	(4,420)	0
Depreciation of incorporation cost	1,987	864	1,123	684
Purchase of intangible assets	(171)	(12)	(159)	(42)
Depreciation of intangible assets	101	29	72	24
Share-based compensation		(931)		(745)
Interests subordinated loan	(48)	(24)	(24)	(24)
Total IFRS restatements	(2,659)	(74)	(3,408)	(103)
Under IFRS	25,355	(15,165)	38,714	(11,969)

(23) TiGenix companies – consolidation scope

Consolidation scope

The consolidated financial statements incorporate the financial statements of TiGenix NV/SA (Belgium legal entity), TiGenix Inc. (United States legal entity) and TC CEF LLC. (United States legal entity).

Subsidiaries

	2008 Ownership %	2007 Ownership %
<u>Fully consolidated</u>		
BELGIUM		
TiGenix NV <i>Romeinse straat 12 – Box 2, 3001 Leuven</i>	100%	100%
US		
TiGenix Inc <i>1209 Orange Street Wilmington, Delaware, USA</i>	100%	100%
<u>Proportionate consolidated</u>		
US		
TC CEF LLC <i>2711 Centerville Road, Suite 400, Wilmington, Delaware, USA</i>	50%	50%

3.3 ANNUAL REPORT OF THE BOARD OF DIRECTORS

Dear Shareholder,

We are pleased to present to you the consolidated financial statements for the fiscal year ended December 31, 2008.

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 16, 2009.

Main achievements in 2008

- The publication of the positive phase III results of the clinical study and more particularly of the structural superiority of the ChondroCelect therapy over 12 months in comparison with microfracture in “The American Journal of Sports Medicine”, one of the most prestigious journals in orthopaedics and sports medicine;
- Besides this structural superiority, further longitudinal analysis of the data also shows a clinical superiority of the ChondroCelect therapy over 36 months in comparison with microfracture. This data was presented at a meeting of the International Cartilage Repair Society (ICRS) in Miami, Florida, US;
- The European registration procedure for ChondroCelect is progressing well and the majority of the

remaining outstanding questions have been answered. TiGenix is engaged in compiling the remaining information and expects that the Committee for Medicinal Products for Human Use (CHMP) will be issuing an opinion on the marketing license for ChondroCelect in mid-2009;

- The preparation of the Biologics License Application (BLA) to obtain a marketing license in the US is proceeding. TiGenix plans to start the registration process with the American Food and Drug Administration (FDA) in 2009;
- With the launch of ChondroCelect in prospect, the team was further strengthened. In particular the commercial team was expanded further with regional sales managers for Germany and the United Kingdom. Patrick Haelterman was recruited as the new VP Marketing and Sales Europe. Patrick has almost 20 years experience in the medical device industry and has held various senior commercial and management positions with Lilly, Guidant and Abbott;
- The company moved to a new office and R&D building in Louvain with 2,200 m² of office and laboratory space;
- The existing European cell expansion facility is acquiring GMP status (Good Manufacturing Practices). This will make commercial production of ChondroCelect possible once it has received a marketing licence in Europe;
- Treatment of a growing number of patients with ChondroCelect on a 'Compassionate Use' basis and/or in a patient follow-up programme (Registry) in a number of top-flight reference centres. At the end of 2008 over 500 patients had already been treated with ChondroCelect;
- TiGenix' basic patent "in vivo assay and molecular markers for testing the phenotypic stability of cell populations, and selected cell populations for autologous transplantation" was granted in the US;
- On the basis of the feedback from the FDA, TiGenix began a number of formulation studies of the development of ChondroCelect in combination with Hyalograft C, a biocompatible and biodegradable three-dimensional cell culture matrix, developed by Fidia Advanced Biopolymers (FAB). Depending on the outcome of these experiments and further feedback of the regulatory authorities, it is intended to start a phase II study;
- Further efforts to develop the pipeline have led to local and European grants being obtained for the research into meniscus repair (€ 1.8 million over the next two years) and for the development of new diagnostic methods and treatments for osteoarthritis (€ 1.2 million over the next five years).

Consolidation scope

The consolidated financial statements consist of TiGenix NV, TiGenix Inc. and TC CEF LLC for the figures ending December 31, 2007 and for the figures ending December 31, 2008.

Revenues

	Years ended December 31	
	2008	2007
<i>Thousands of Euro (€)</i>		
Sales	0	0
Other revenues	321	277
Revenues	321	277

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	
	2008	2007
Research and development expenses (R&D)	9,975	8,139
Selling, general and administrative expenses (SG&A)	6,851	5,232
Other operating income	0	0
Other operating expenses	0	0
Total operating charges	16,825	13,371

The Group's research and development costs rose 23% between 2007 and 2008. The increase is mainly the result of the increase in the cost of production, both of obtaining the GMP certificate in Europe and of making the cell expansion facility fully operational in the US. The increase is also explained by an increase in personnel costs.

The selling, general and administrative expenses have increased by 31% compared to last year. The main reasons for the increase are the increase in the number of FTEs, especially in Marketing and Sales and the costs incurred in preparing the pricing and reimbursement in different European countries.

Operating result (EBIT) and Net results

<i>Thousands of Euro (€)</i>	Years ended December 31	
	2008	2007
Revenues	321	227
Total operating charges	(16,825)	(13,371)
Operating Result (EBIT)	(16,505)	(13,144)
Financial result	1,340	1,175
Profit/(Loss) before taxes	(15,165)	(11,969)
Income taxes	0	0
Net Profit/(Loss)	(15,165)	(11,969)

The operating result (EBIT) increased to € (16.5) million in 2008 from € (13.1) million in 2007 mainly due to the increase of the operating charges with 26% as explained above.

The net loss increased to € (15.2) million in 2008 from € (12.0) million in 2007. Part of the operating loss was offset by the positive financial result of € 1.3 million in 2008.

Taxation

The losses of the Group in the past imply that no income taxes were payable. On December 31, 2008 the Group had net tax losses carried forward amounting to € 49 million, implying a potential deferred net tax asset of € 18.2 million. Due to the uncertainty surrounding TiGenix' ability to realise taxable profits in the near future, the Company did not recognise any deferred tax assets on its balance sheet.

Cash flow

	Years ended December 31		
	Thousands of Euro (€)	2008	2007
Operating Result (EBIT)		(16,505)	(13,144)
Depreciation, amortisation and impairment results		697	417
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		(15,808)	(12,727)
Adjustments		1,254	677
Net cash provided by/(used in) operating activities		(14,554)	(12,050)
Net cash provided by/(used in) investing activities		(250)	(109)
Net cash provided by/(used in) financing activities		989	43,482
Net increase/(decrease) in cash and cash equivalents		(13,815)	31,323
Cash and cash equivalents at beginning of year		39,101	7,738
Effect on exchange rate changes		(124)	40
Cash and cash equivalents at end of period		25,162	39,101

The net cash used in operating activities increased from € 12.1 million in 2007 to € 14.6 million in 2008 mainly due to the increase in the operating loss.

The net cash used in investing activities increased to € 0.3 million in 2008, compared to € 0.1 million in 2007. The increase of net purchase of tangible assets, mainly for the improvements of the new R&D labs and offices in the leased building located at the Romeinse straat 12 box 2, 3001 Leuven, was partially offset by the interest received out of the cash & cash equivalents in 2008.

The additional funds from financing activities of € 1.0 million mainly arise from the capital increase following the exercise of existing warrants.

Taking into account the translation reserves resulting from the closing rate method, the cash position of TiGenix totalled € 25.2 million at December 31, 2008.

Balance sheet

The balance sheet at December 31, 2008 remained very solid as evidenced by the following key ratios:

As a %	Years ended December 31	
	2008	2007
Cash & cash equivalents as a % of total assets	86%	93%
Working capital as a % of total assets	80%	90%
Solvency ratio (equity/total assets)	86%	92%
Gearing ratio (financial debt/equity)	4%	3%

Cash and cash equivalents of € 25.2 million account for 86% of total assets at December 31, 2008. The other major assets are:

- the tangible assets of € 2.5 million, mainly the assets for the improvements of the new R&D labs and offices in the leased building situated at Romeinse straat 12 box 2, 3001 Leuven, for about 9% of total assets
- the intangible assets, the receivables and the deferred charges & accrued income, each for about 5% of total assets.

Total equity of € 25.4 million accounts for 86% of the total balance sheet at December 31, 2008. 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 € 1.0 million or 4% of total balance sheet;
- the trade payables of € 1.5 million or 5% of total balance sheet, and
- the other current liabilities of € 1.4 million representing 5%.

Off-balance sheet commitments

The Group has off-balance sheet commitments related to rent for leased facilities, vehicles and equipment. At December 31, 2008, these commitments amounted to € 3.6 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 2008:

- Exercise of 603,910 existing warrants, which led to an increase in capital, including issue premiums, of € 603,910 completed on 17 April 2008;
- Exercise of 109,500 existing warrants, which led to an increase in capital, including issue premiums, of € 109,500 completed on 13 October 2008.

At 31 December 2008, a total of 1,335,736 warrants are outstanding at an average weighted exercise price of € 4.80.

On March 20, 2008, 400,000 new warrants for inter alia the staff members and consultants were created. These warrants may be granted over a period of 6 months. 362,000 warrants were granted to and

accepted by selected beneficiaries by decision of the Board of Directors. The warrants that were not granted before September 20, 2008 became automatically null and void.

Under the existing plans in September 2003, May 2004, April 2005, November 2005 and February 2007 respectively 784,290, 135,802, 45,268, 454,570 and 800,000 warrants were created.

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:

- Resulting from costs incurred in research and clinical development, losses have been incurred since the inception of the Company. These losses are inherent to the development of advanced medicinal products. 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' studies, which would cause delay in the authorisation process for the lead product;
- Despite positive clinical studies and initial advice received related to the reimbursement, 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' 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' property rights cannot be affected by new patents or technologies of third parties;

Financial risk management involved 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 US Dollars and for the operations of its US 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 € 37,637 in fees to the auditors in 2008. The aggregate fee is composed of:

- € 31,400 for the statutory audit
- € 2,550 for other review assignments according to corporate law
- € 2,885 for assistance Audit Committee
- € 802 for other fees and out of pocket expenses

3.3.5 Subsequent events

No material events took place after the closing of 2008.

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. In addition, TiGenix received significant Flemish and European grants in 2008 for research in meniscus repair and osteoarthritis.

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

Done on March 13, 2009

On behalf of the Board of Directors

3.4 STATUTORY AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Unqualified audit opinion on the consolidated financial statements

We have audited the consolidated financial statements for the ended as at December 31, 2008, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which show a balance sheet total of 29.406 KEUR and a loss for the year of 15.165 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, 2008 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

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 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 13, 2009

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

4. TIGENIX NV/SA

4.1 STATUTORY FINANCIAL STATEMENTS

The statutory accounts are based upon Belgian GAAP.

An unqualified audit opinion has been issued by the statutory auditor on March 13, 2009.

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 20, 2009 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 <i>Thousands of Euro (€)</i>	Year ended December 31	
	2008	2007
I. Operating income	351	440
A. Turnover	47	106
D. Other operating income	304	334
II. Operating charges	(14,852)	(12,526)
A. Raw materials, consumables, goods for resale	832	469
B. Services and other goods	7,767	7,556
C. Remuneration, social security contributions and pensions	4,719	3,418
D. Depreciation & amounts written off formation expenses, intangible and tangible fixed assets	1,472	1,071
G. Other operating charges	63	12
III. Operating profit/(loss)	(14,502)	(12,086)
IV. Financial income	1,609	1,421
A. Income from financial fixed assets	142	0
B. Income from current assets	1,284	1,409
C. Other financial income	183	12
V. Financial charges	(118)	(193)
A. Debt charges	47	25
C. Other financial charges	71	168
VI. Current profit/(loss) before taxes	(13,010)	(10,858)
VII. Extraordinary income	0	0
VIII. Extraordinary charges	(28)	0
IX. Profit/(loss) before taxes	(13,039)	(10,858)
X. Income taxes	0	0
XI. Profit/(loss) for the year after taxes	(13,039)	(10,858)

APPROPRIATION ACCOUNT	Year ended December 31	
	Thousands of Euro (€)	
	2008	2007
A. Loss to be appropriated		
A1. Loss for the period available for appropriation	(13,039)	(10,858)
A2. Loss to be carried forward	(32,382)	(21,524)
B. Transfer from capital and reserves		
B1. From capital and share premium		
D. Result to be carried forward		
D2. Loss to be carried forward	45,421	32,382

4.1.2 Statutory balance sheet

STATUTORY BALANCE SHEET AFTER APPROPRIATIONS	Year ended December 31	
	Thousands of Euro (€)	
	2008	2007
FIXED ASSETS	8,405	6,257
I. Formation expenses	2,541	3,297
II. Intangible fixed assets	511	561
III. Tangible fixed assets	1,718	537
B. Plant, machinery and equipment	397	282
C. Furniture and vehicles	203	124
D. Leasing and other similar rights	67	7
E. Other tangible assets	1,051	124
IV. Financial fixed assets	3,635	1,862
A. Affiliated enterprises	3,616	1,821
A1. Investments	0	0
A2. Amounts receivable	0	0
C. Other financial non-current assets	20	41
C2. Amounts received and cash guarantee	20	41
CURRENT ASSETS	26,546	40,011
V. Amounts receivable after one year	0	0
VI. Stocks and contracts in progress	158	79
VII. Amounts receivable within one year	770	522
A. Trade debtors	34	42
B. Other amounts receivable	736	480
VIII. Investments	20,000	0
IX. Cash at bank and in hand	5,113	38,927
X. Deferred charges and accrued income	505	483
TOTAL ASSETS	34,951	46,268

<i>Thousands of Euro (€)</i>	Year ended December 31	
STATUTORY BALANCE SHEET AFTER APPROPRIATIONS	2008	2007
CAPITAL AND RESERVES	31,214	43,146
I. Capital	24,002	23,288
A. Issued capital	24,002	23,288
II. Share premium	52,633	52,240
III. Revaluation surpluses		
IV. Reserves		
V. Accumulated profit/(loss)	(45,421)	(32,382)
VI. Investment grants		
VII. Provisions and postponed taxes	0	0
A. Provisions for liabilities and charges	0	0
A4. Other liabilities & charges		
AMOUNTS PAYABLE	3,736	3,122
VIII. Debts payable after 1 year	1,031	1,075
A. Financial debts	1,031	1,075
A1. Subordinated loans	391	391
A3. Leasing and other similar rights	40	4
A4. Credit institutions	600	680
IX. Debts payable within 1 year	2,114	1,759
A. Current portion of debts after one year	108	84
B. Financial debts	0	0
B1. Credit institutions		
C. Trade debts	1,321	1,136
C1. Suppliers	1,321	1,136
E. Taxes, remuneration & social security	685	539
E1. Taxes	18	0
E2. Remuneration & social security	667	539
F. Other amounts payables		
X. Accrued charges and deferred income	592	288
TOTAL LIABILITIES	34,951	46,268

4.2 ACCOUNTING POLICIES (BELGIAN GAAP)

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 value 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: in line with the lease agreement period
- Leasing: in line with the lease agreement period

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 value excluding any miscellaneous costs.

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

Raw materials, consumables and goods purchased for resale are valued at the lower of their purchase value determined according to the FIFO-method (first in first out) or their net realisable value.

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

Placements with financial institutions are valued at their purchase value. Additional costs relating to the purchase of these assets are expensed as incurred.

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 value.

4.2.8 Provisions for risks and charges

At the closing of each fiscal year, the Board of Directors will examine with prudence, sincerity and in good faith the provisions that need to be established to cover the anticipated risks or losses over the previous fiscal years.

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 other 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 recorded in the statement of results as revenues.

4.3 REPORT OF THE BOARD OF DIRECTORS

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

Dear shareholders,

We are pleased to present to you the statutory financial statements for the fiscal year ended December 31, 2008.

4.3.1 Comments with the financial statements

The annual accounts cover the accounting period from January 1, 2008 to December 31, 2008.

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

Please refer to chapter 3.3.1.

Balance sheet - assets

- The company's most important asset is its cash position, which amounts to € 25.1 million on 31 December 2008;
- The non-current assets represent an amount of € 8.4 million:
 - € 2.5 million of formation expenses, being the costs - after depreciation - associated with the capital increases of 2003, 2005 and 2008 and the IPO costs in 2007;
 - € 0.5 million of intangible assets; it concerns mainly of the development cost of an integrated ERP system. The expenditure on research and development, as well as expenses for patents that have not yet been granted is recognised in the income statement;
 - € 1.7 million in tangible non-current assets, mainly investments in IT equipment and the acquisition of the assets for fitting out the new R&D labs and offices in the leased building located at Romeinse straat 12 box 2, 3001 Leuven;
 - € 3.6 million of financial assets, representing the intra-group loan between TiGenix NV and TiGenix Inc.
- The current assets, not including the cash position, amount to € 1.4 million. They mainly consist of receivables less than one year and deferred charges and accrued income.

Balance sheet - liabilities

- The issued capital of the Company amounts € 24 million and the share premium account increased to € 52.6 million;
- Accumulated losses reached € 45.4 million at December 31, 2008;
- Capital and reserves per share amounts to €1,27;
- The amounts payable of € 3.7 million consists mainly of trade creditors (€ 1.3 million), financial debt (€ 1.1 million) and liabilities in respect of salary payments and social security obligations (€ 0.7 million).

Results of the fiscal year

The operating income amounts to € 0.4 million and concerns mainly the payment of research grants by the European Commission (€ 0.2 million).

The operating charges of € 14.9 million consist of:

- The expenses for services and other goods for an amount of € 7.8 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 € 4.7 million;
- Depreciation costs of € 1.5 million;
- Raw materials, consumables and goods for resale of € 0.8 million.

The operating loss of € 14.5 million was partially offset by net financial results of € 1.5 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 € 13.0 million.

Statutory and non-distributable reserves

The company has a corporate capital of € 24 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

Please refer to chapter 3.3.2.

4.3.3. Discussion of the main risks and uncertainties

Please refer to chapter 3.3.3.

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

Please 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 2008 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, the registration process for ChondroCelect, manufacturing capacity build up and the preparation of the launch of ChondroCelect.

The favourable results of ChondroCelect in the clinical study and the positive progress of the European Registration procedure 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 2008, 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, the relevant excerpts from the minutes of meetings at which such conflicts of interest were reported, are included hereunder.

1) Excerpt from the minutes of the meeting of the board of directors held on January 21 2008

Before proceeding to discuss the agenda item in question, the board of directors TOOK NOTE that Gil Beyen BVBA, represented by Gil Beyen, states, pursuant to section 523 of the Companies Code, that it has an interest of a proprietary nature that conflicts with decisions falling within the competence of the Board of Directors, more particularly relating to the approval of bonuses and amendment of Remuneration packages, the decision to grant a power of attorney in the matter to the Appointments and Remuneration Committee and the approval of the operating targets for 2008. The conflicting interest consists of the fact that Gil Beyen BVBA will obtain a financial advantage from the decision that entails a cost to the Company (payment of a bonus and amended remuneration). The financial consequences for the Company are limited to the sum of the amended bonus principles and the amended remuneration, which is, in the opinion of the managing director, at market rates.

The board has taken note of the presentation given by the Chairman of the Appointments and Remuneration Committee (Remco) in which the conclusions of the evaluation of the members of the management team, and the principles for calculating of the bonuses for 2007 and determining the amendments to the remuneration packages for 2007 were put forward.

Having taken note of the above and after discussion (in which Gil Beyen BVBA did not take part) of the disputed agenda item, the board of directors unanimously (with the exception of Gil Beyen BVBA, which did not participate in the vote) (i) RESOLVED to grant the Remco a power of attorney to apply the principles presented and to determine the bonuses and remuneration packages of the members of management; and (ii) ENDORSED the proposed operating targets for 2008; The Board agreed that the proposed bonus principles and the amended remuneration package were justified and at market rates.

The company's auditor will be informed of this conflict of interest in accordance with section 523 of the companies Code.

2) Excerpt from the minutes of the meeting of the board of directors held on May 19, 2008

1. Remaining part of the discretionary success fee for the IPO syndicate

[...]

The Board of directors has TAKEN NOTE of the efforts that the various bankers have made post IPO.

Before proceeding to discuss the agenda item in question, the board of directors TOOK NOTE that ING België NV (represented by Luc Van de Steen) states, pursuant to section 523 of the Companies Code, that it has an interest of a proprietary nature that conflicts with decisions falling within the competence of the Board of Directors, more particularly relating to the discretionary success payment to the banking syndicate; the conflicting interest consists of the fact that ING België NV, as one of the members of the banking syndicate, will obtain a financial advantage from the decision that entails a cost to the Company (payment of discretionary remuneration). The financial consequences for the Company are limited to the sum of the amended bonus arrangements and of this remuneration, which is, according to ING, at market rates.

Having taken note of the above and after discussion (in which ING België NV did not take part) of the disputed agenda item, the board of directors unanimously (with the exception of ING België NV, which did not participate in the vote) APPROVED the following division of the remaining part of the discretionary success remuneration on the basis of the efforts made by the different bankers: 40,000 euro for ING België NV, {...}

The company's auditor will be informed of this conflict of interest in accordance with section 523 of the companies Code.

4.3.8 Use of financial instruments

Besides the investments in time deposits, 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 2008 is presented in the Corporate Governance Report under chapter 5.

4.3.10. Research and Development

Please refer to chapter 3.3.6.

The shareholders' meeting shall be requested to approve the accounts as submitted and release the directors and auditor from liability for the performance of their duties in the course of the financial year ending December 31, 2008.

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

Done on March 13, 2009

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) 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 € 24 million at December 31, 2008, represented by 24,564,489 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 Euronext Brussels. As from January 1, 2008, all shares of TiGenix are in dematerialised or registered form.

At 31 December 2008, a total of 1,335,736 warrants are outstanding at an average weighted exercise price of € 4.80.

5.2 SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

Based on the transparency declarations of November 3, 2008, TiGenix shareholders structure could be summarised as follow:

<i>Number of shares</i>	Current	Fully diluted	Latest declaration
ING Belgium NV	4,273,196 17.40%	4,273,196 16.50%	November 3, 08
Auriga Ventures II FCPR	1,920,918 7.82%	1,920,918 7.42%	November 3, 08
Fagus NV	2,105,527 8.57%	2,105,527 8.13%	November 3, 08
F&C Asset Management	1,491,668 6.07%	1,491,668 5.76%	November 3, 08
O.G.B.B. Van Herk BV	1,471,862 5.99%	1,471,862 5.68%	November 3, 08
Gemma-Frisius Fonds K.U.Leuven NV	1,224,870 4.99%	1,224,870 4.73%	November 3, 08
Public	12,076,448 49.16%	13,412,184 51.78%	
TOTAL	24,564,489 100.00%	25,900,225 100.00%	

5.3 BOARD OF DIRECTORS AND BOARD COMMITTEES

5.3.1 Board of Directors

The present (March 13, 2009) 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

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

Capricorn Venture Partners, represented by Claude Stoufs resigned from de Board of Directors on February 15, 2008.

Marie-Hélène Plaïfs resigned from the Board of Directors on December 31, 2008.

Functioning

In 2008, the Board of Directors met 9 times. The main areas of discussion and decision were TiGenix' strategy, the reports of the Audit Committee and of the Nomination and Remuneration Committee, the capital increases through exercise of warrants, the budget 2009, 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.

Individual presence of the members of the Board of Directors

Gil Beyen BVBA, represented by Gil Beyen	9
ING België NV, represented by Luc Van de Steen	9
Fortis Private Equity Belgium NV, represented by Raf Moons	9
Frank Luyten	8
Willy Duron	9
Sven Andréasson	6
Koenraad Debackere	7
Marie-Hélène Plaïfs	7

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 2008 an amount of € 60,757 in total was paid as fees and expense reimbursement.

Name	Position	Amount
Willy Duron	Chairman, Independent director	€ 30,000
Sven Andréasson	Independent director	€ 15,000
Marie-Hélène Plaïs	Independent director	€ 15,757

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 2 times until March, 13, 2009. 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 took note of the risks of the Group as presented by the CEO and of the management letter prepared by the auditor and has reviewed the bi-annual and annual accounts over 2008.

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
Willy Duron	Independent director	2011
Koenraad Debackere	Director (non-executive)	2011

The Remuneration and Nomination Committee met 2 times until March 13, 2009. 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 on 31/12/2008 is as follows:

Name	Position
Gil Beyen BVBA, represented by Gil Beyen	Chief Executive Officer (CEO)
Wilfried Dalemans	Vice-President Regulatory Affairs and Corporate Quality
Patrick Haelterman	Vice-President Marketing & Sales Europe
Frank Hazevoets	Chief Financial Officer (CFO)
Koen Huygens	Director Manufacturing Operations
Pharmakon SA, represented by Monique Podoor	Clinical & Medical Affairs (a.i.)
Peter Tomme	Director Research & Development

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

The total gross remuneration of the management team in 2008 was € 1.9 million. A split of the amount can be found in 3.2.23 (19) under remuneration of key management personnel. In 2008, 151,000 warrants with an exercise price of € 4.84 and € 3.48 were offered to the management team, based on decisions of the Board of Directors of June, 27, 2008 and September, 15, 2008.

Contrary to the Belgian Code on Corporate Governance, the Board of Directors has currently opted not to disclose the individual remuneration of the CEO and the individual number of warrants of the management team members, due to privacy reasons and as the Board of Directors believes that the remuneration of the CEO and the granting of warrants 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 2008 fees paid by TiGenix to its auditor amounted to € 31,237.