TiGenix

NAAMLOZE VENNOOTSCHAP
ROMEINSE STRAAT 12 – BUS 2
B-3001 LEUVEN

V.A.T. BE 0471.340.123
RECHTSPERSONENREGISTER LEUVEN

ANNUAL FINANCIAL REPORT 2010

1. GENERAL INFORMATION

On March 30, 2011, 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, 2010.

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 31, 2011. The consolidated financial statements can be found in section 3.1 and 3.2; an extract of the statutory financial statements can be found in section 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 30, 2011.

Both annual reports were approved by the Board of Directors for issuance on March 31, 2011. The annual report on the consolidated financial statements can be found in section 3.3 and a summary of the annual report on the statutory financial statements can be found in section 4.3 as part of the Annual Financial Report.

The statutory auditor's report on the consolidated financial statements is presented in section 3.4 as part of the Annual Financial Report. The statutory auditor has also issued an unqualified audit opinion with explanatory paragraph on the statutory accounts on March 31, 2011.

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 section 5 of the Annual Financial Report.

This Annual 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 31, 2011 and can be obtained free of charge.

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

2. STATEMENT BY THE CEO

In accordance with Article 12 § 2 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, 30 March 2011

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. The consolidation scope can be found in section 3.2.9.

3.1 CONSOLIDATED FINANCIAL STATEMENTS

3.1.1 Consolidated income statement & statement of comprehensive income

Thousands of Euro (€)	Notes	Years ended December 31 2010	2009
CONSOLIDATED INCOME STATEMENT			
Sales billed		*982*	
Deferred sales		*(361)*	
Sales	3.2.4 (1)	621	46
Other revenues	3.2.4 (1)	1,802	986
Revenues		**2,423**	**1,032**
Cost of sales		(860)	0
Gross profit		**1,563**	**1,032**
Research and development expenses	3.2.4 (2)	9,873	8,114
Selling, general and administrative expenses	3.2.4 (2)	8,353	7,316
Other operating income		0	0
Other operating expenses		0	0
Total operating charges		**18,226**	**15,430**
Operating Result (EBIT*)		**(16,663)**	**(14,398)**
Financial result	3.2.4 (4)	579	300
Profit/(Loss) before taxes		**(16,084)**	**(14,098)**
Income taxes	3.2.4 (17)	368	0
Net Profit/(Loss)		**(15,716)**	**(14,098)**
Attributable to equity holders of TiGenix NV		(15,716)	(14,098)
Basic loss per share	3.2.4 (6)	**(0.51)**	**(0.55)**
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Net Profit/(Loss)		(15,716)	(14,098)
Currency translation differences		(376)	107
Other comprehensive income/(loss)		**(376)**	**107**
Total comprehensive income/(loss)		**(16,092)**	**(13,991)**
Attributable to equity holders of TiGenix NV		*(16,092)*	*(13,991)*

* EBIT: Earnings before interest and taxes

3.1.2 Consolidated statement of financial position

Thousands of Euro (€)	Notes	Years ended December 31 2010	2009
ASSETS			
Intangible assets	3.2.4 (7)	20,683	20,562
Tangible assets	3.2.4 (8)	4,738	2,856
Available-for-sale investments		153	0
Other non current assets		254	130
Non-current assets		**25,828**	**23,548**
Inventories	3.2.4 (9)	244	156
Receivables	3.2.4 (10)	1,812	1,315
Cash and cash equivalents	3.2.4 (11)	5,555	24,745
Deferred charges & Accrued income	3.2.4 (12)	907	282
Current assets		**8,518**	**26,497**
TOTAL ASSETS		**34,346**	**50,045**

Thousands of Euro (€)	Notes	Years ended December 31 2010	2009
EQUITY AND LIABILITIES			
Share capital	3.2.4 (13)	25,197	24,956
Share premium		73,357	72,480
Shares to be issued	3.2.4 (21)	2,296	3,377
Accumulated profit/(loss)		(63,144)	(49,045)
Result of the year		(15,716)	(14,098)
Share-based compensation	3.2.4 (20)	4,185	3,509
Translation reserves		(355)	21
Equity attributable to equity holders		**25,820**	**41,199**
Total equity		**25,820**	**41,199**
Subordinated loan	3.2.4 (14)	130	260
Financial loan	3.2.4 (15)	440	520
Finance lease obligations	3.2.4 (16)	0	12
Deferred tax liability	3.2.4 (17)	3,519	3,886
Non-current liabilities		**4,089**	**4,679**
Current portion of subordinated loan		130	130
Current portion of financial loan		80	80
Current portion of finance lease obligation		12	28
Trade payables	3.2.4 (18)	2,557	2,045
Other current liabilities	3.2.4 (18)	1,657	1,884
Current liabilities		**4,437**	**4,167**
TOTAL EQUITY AND LIABILITIES		**34,346**	**50,045**

3.1.3 Consolidated cash flow statement

Thousands of Euro (€)	Notes	Years ended December 31 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Result		**(16,663)**	**(14,398)**
Depreciation, amortisation and impairment results	3.2.4 (7) (8)	2,211	909
Capitalized development costs	3.2.4 (7)	(1,621)	(781)
Share-based compensation	3.2.4 (20)	676	1,140
Other financial result	3.2.4 (4)	105	(170)
Interest paid	3.2.4 (4)	(72)	(20)
Income taxes		0	0
Increase/(decrease) in Trade payables		(101)	65
Increase/(decrease) in Other current liabilities		(300)	(61)
(Increase)/decrease in Inventories		(88)	2
(Increase)/decrease in Receivables		(466)	139
(Increase)/decrease in Deferred charges & Accrued income		(647)	(76)
Total Adjustments		**(302)**	**1,146**
Net cash provided by/(used in) operating activities		**(16,964)**	**(13,252)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		174	656
Purchase of tangible assets	3.2.4 (8)	(1,925)	(428)
Purchase of intangible assets	3.2.4 (7)	(32)	(19)
Acquisition of subsidiaries, net of cash acquired	3.2.4 (21)	(1,081)	(12,595)
Net cash provided by/(used in) investing activities		**(2,863)**	**(12,387)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments cash deposits		(123)	(96)
Payments investments associates		(153)	0
Payments on financial loan	3.2.4 (15)	(80)	(80)
Payments on leases	3.2.4 (16)	(28)	(28)
Proceeds of subordinated loan		(130)	0
Proceeds of financial loan		0	0
Proceeds from long-term leases		0	0
Proceeds from issuance of shares (net of issue costs)		1,118	25,318
Net cash provided by/(used in) financing activities		**604**	**25,114**
Net increase/(decrease) in cash and cash equivalents		**(19,223)**	**(524)**
Cash and cash equivalents at beginning of year		24,745	25,162
Effect of currency translation on cash and cash equivalents		34	107
Cash and cash equivalents at end of period		**5,555**	**24,745**

3.1.4 Consolidated statement of changes in equity

Thousands of Euro (€)	Attributable to equity holders of the Company								
	Numbers of shares	Issued capital	Issuance Cost	Share premium	Shares to be issued	Retained loss	Share-based compen-sation	Trans-lation reserves	Total Equity
Balance at Dec. 31, 2008	**24,564,489**	**24,002**	**(4,518)**	**52,633**	**0**	**(49,045)**	**2,369**	**(86)**	**25,355**
Issuance of shares	6,301,679	6,176	(704)	19,847					25,318
Shares to be issued*					3,377				3,377
Share-based compensation							1,140		1,140
Total comprehensive income						(14,098)		107	(13,991)
Balance at Dec. 31, 2009	**30,866,168**	**30,178**	**(5,222)**	**72,480**	**3,377**	**(63,144)**	**3,509**	**21**	**41,199**
Issuance of shares	254,986	250	(9)	877					1,118
Shares to be issued*					(1,081)				(1,081)
Share-based compensation							676		676
Total comprehensive income						(15,716)		(376)	(16,092)
Balance at Dec. 31, 2010	**31,121,154**	**30,428**	**(5,231)**	**73,357**	**2,296**	**(78,860)**	**4,185**	**(355)**	**25,820**

* as part of the consideration in business combinations (see note 3.2.4 (21))

3.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2.1 General information

TiGenix NV/SA (TiGenix or the Company) and its subsidiaries (together the Group) is a biomedical company that focuses on innovative local treatments for damaged and osteoarthritic joints. The Group 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. The Group has research and development facilities in Belgium and the UK and production facilities in Belgium and the Netherlands (under construction). With effect as of November 23, 2010 TiGenix Inc. has withdrawn itself from TC CEF LLC and has terminated its membership interests in TC CEF LLC.

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. The Group has two approved products in Europe, ChondroCelect and Chondromimetic, and started commercialising these products in the course of 2010. ChondroCelect is a medicinal product for the regeneration of traumatic cartilage lesions and Chondromimetic is a biomaterial to repair smaller traumatic osteochondral lesions.

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 Summary of significant accounting policies

3.2.2.1 Basis of preparation

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.

All amounts are presented in th. € unless otherwise indicated, rounded to the nearest € 1.000.

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, 2010.

Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group

During the current year, the Group 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, 2010. The Group has not applied any new IFRS requirements that are not yet effective in 2010.

The following new standards, interpretations and amendments issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Improvements to IFRSs (Issued in April 2009);
- IFRS 1 (revised 2009) additional exemptions for first-time adopters;
- IFRS 2 (revised 2009) Share-based Payment - Group Cash-settled Share-based Payment transactions;
- IFRS 3 (revised 2008) Business Combinations – comprehensive revision on applying the acquisition method;
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3;
- IAS 28 (revised 2008) Investments in Associates - Consequential amendments arising from amendments to IFRS 3;
- IAS 31 (revised 2008) Investments in Joint Ventures – Consequential amendments arising from amendments to IFRS 3;
- IAS 39 (revised 2009) Financial Instruments: Recognition and Measurement;
- IFRIC 17 Distribution of Non-cash Assets to Owners;
- IFRIC 18 Transfers of Assets from Customers.

Their adoption has not led to any major changes in TiGenix' 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, Interpretations and Amendments, which have been endorsed by the by the EU but are not yet mandatory as per December 31, 2010:

- Improvements to IFRSs (Issued in May 2010);
- IAS 24 (revised 2009) Related Party Disclosures – Revised definition of related parties, applicable for annual periods beginning on or after January 1, 2011;
- IAS 32 (revised 2009) Financial instruments : Presentation – Amendments relating to classification of rights issues, applicable for annual periods beginning on or after February 1, 2010;
- IFRIC 14 Minimum Funding Requirements and their Interaction, applicable for annual periods beginning on or after January 1, 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, applicable for annual periods beginning on or after July 1, 2010.

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing January 1, 2011 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 and

especially the combination with Cellerix should provide the Company with sufficient cash for the foreseeable future (see section 3.2.7).

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 3.2.4 (5): Taxes, 3.2.4 (7): Valuation of intangible assets, 3.2.4 (20): Valuation of share-based payments.

3.2.2.2 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.

3.2.2.3 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).

3.2.2.4 Segment information

The Group's activities are in one segment, biopharmaceuticals. There are no other significant classes of business, either singularly or in aggregate. The management review the operating results and operating plans and make resource allocation decisions on a company-wide basis, therefore TiGenix operates as one segment.

3.2.2.5 Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. The acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their full fair values at the acquisition date. The results of the acquired operations are included in the consolidated statements of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

3.2.2.6 Revenue recognition

Revenue from sales of goods is recognized when:

- the significant risks and rewards of the ownership of goods are transferred to the buyer; The Group retains neither effective control nor involvement to the degree usually associated with ownership over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 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.

3.2.2.7 Cost of sales

Cost of sales includes primarily the direct production costs, the direct sales costs and the services rendered. Royalty expenses directly linked to goods sold are also included.

3.2.2.8 Research & development costs

Internally-generated intangible assets – research & development expenditure

Development costs are capitalised to the extent that all conditions for capitalisation have been satisfied as specified in IAS 38. The Company considers that the regulatory and clinical risks inherent to the development of its products preclude it in general from capitalising development costs until the moment of regulatory approval. Nevertheless after the positive CHMP opinion of ChondroCelect end of June 2009, the Company has decided to capitalise the development costs. In the consolidated IFRS financial statements of the Group, development costs of ChondroCelect and ChondroMimetic have been capitalised as from July 2009 and as from January 2010 as intangible assets if all conditions for capitalisation have been satisfied as specified in IAS 38.

Acquired intangible assets

In-process research & development projects acquired through business combinations are capitalised as intangible assets.

These intangible assets are amortised on a straight-line basis over their estimated useful life from the moment that they are available for use.

3.2.2.9 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.

3.2.2.10 Intangible assets

Patents, licenses, trademarks and other intangible assets

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.

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Intangible assets (except for goodwill) are amortised over their useful lives on a straight-line basis as from the moment they are available for use. Estimated useful life is based on the lower of the contract life or the economic useful life (between 5 to 20 years).

Computer software

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.

3.2.2.11 Leases

Leases are considered as finance leases whenever the terms of the lease transfer 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.

3.2.2.12 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-valuated amount, in which case the reversal of the impairment is treated as a revaluation increase.

3.2.2.13 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 costs of finished goods comprises all costs of purchase , costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

The Group does not account for work in progress,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.

3.2.2.14 Trade receivables

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

3.2.2.15 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.

3.2.2.16 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.

3.2.2.17 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.

3.2.2.18 Trade payables

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

3.2.2.19 Equity instruments

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

3.2.2.20 Derivative instruments

The Company has not used any derivative financial instruments.

3.2.2.21 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.

3.2.2.22 Share-based compensation plans for personnel

The Company has share-based compensation plans for 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.

3.2.3 Financial risk management

The principal financial instruments used by the Group, from which financial risk arises, are as follows :

- Cash at bank;
- Trade and other payables;
- Bank loans;
- Receivables;
- Available-for-sale investments.

Capital risk management

The Group policy with respect to managing capital is to safeguard the Group ability to continue as a going concern and to obtain over time an optimal capital structure.

Credit risk management

Credit risk arises from the possibility that the counterparty to a transaction may be unable or unwilling to meet its obligations causing a financial loss to the Group.

The Company has started in 2010 the commercialising of its lead products ChondroCelect and Chondromimetic. There are no significant concentrations within trade receivables and the Company does not expect this to occur in the future. Customer's compliance with agreed credit terms is monitored regularly and closely. The year-end balance of trade accounts receivable was € 765k.

Receivables related to research grants are recognized when there is a reasonable assurance that the Company will comply with the conditions attached to them and the grant will be received. The Company considers the overall recognition criteria being met when an award letter has been received, the related project costs have been incurred, and grant specific milestones have been achieved or are assumed to be reliably achieved in the future;

The credit risk on cash and cash equivalents of € 5,555k is limited given that the counterparties are banks with high credit scores attributed by international rating agencies.*Interest risk management*

Changes in interest rates may cause variations in interest income and expenses resulting from interest-bearing assets and liabilities.

The Group is not subject to material interest risk. The financial loans are limited to € 520k and all leases have fixed interest rates.

Currency risk management

The Group may be subject to limited currency risk. The Group has cash outflows in U.S. Dollars for the operations of its U.S. subsidiaries. The Company has no commercial revenues denominated in U.S. Dollars. The Group reports in Euro and has tried to match foreign currency inflows with foreign cash outflows. The Company has not engaged in hedging of the foreign currency risk via derivative instruments.

As of December 31, 2010, the Group's financial assets and financial liabilities were denominated in the following currencies:

Thousands of Euro (€)	EUR		USD		GBP		Other		Totals	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial assets										
Cash and cash equivalents	5,422	23,828	17	94	105	815	11	8	5,555	24,745
Trade and other receivables	1,296	633	209	102	307	580	0	0	1,812	1.315
Total Financial assets	**6,718**	**24,461**	**226**	**196**	**412**	**1,395**	**11**	**8**	**7,367**	**26,059**
Financial liabilities										
Trade and other payables	2,280	1,320	23	57	254	665	0	4	2,557	2,045
Loans and borrowings	792	1,031	0	0	0	0	0	0	792	1,031
Total financial liabilities	**3,072**	**2,351**	**23**	**57**	**254**	**665**	**0**	**4**	**3,349**	**3,076**

For compliance with the IFRS 7 rule, the Company discloses a sensitivity analysis of an increase / decrease of exchange rate of operations in USD and £ of 10%.

The exposure of operations to the currency risk is limited to the net amount of $1,292k, giving a potential loss or a potential gain of €96k in case of an increase respectively a decrease of the $/€ exchange rate by 10% and £724k, giving a potential loss or a potential gain of €85k in case of an increase respectively a decrease of the £/€ exchange rate by 10%.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group has limited borrowing arrangements at December 31, 2010 and has no derivative instruments.

More details in regard to the line items are included in the respective notes:

- Trade and other payables : note 3.2.4 (18)
- Loans and borrowings : note 3.2.4 (14) (15) (16)

3.2.4 Notes to the specific items of the consolidated financial statements

(1) Revenues

Sales

Thousands of Euro (€)	Years ended December 31	
	2010	2009
Sales billed	*982*	
Deferred sales	*(361)*	
Sales	621	46
Total Sales	**621**	**46**

For ChondroCelect, 2010 was the first full year of non-reimbursed commercial sales in a limited number of European reference centres. Only part of the ChondroCelect sales could be recognized as revenues as the Company had an agreement with a limited number of Dutch reference centres in place whereby only part of the price had to be paid upfront with the remainder to be paid at the moment ChondroCelect would be

admitted to the “Lijst Dure Geneesmiddelen”. The ChondroCelect sales are limited and will continue to be limited and irregular until ChondroCelect will be reimbursed. In 3.2.7, an update can be found with respect to reimbursement in the different European countries.
For ChondroMimetic, the commercial sales started only in October of last year after the launch at the 9th World Congress of the International Cartilage Repair Society (ICRS) in Barcelona, Spain.

Other revenues

The other revenues can be split into:

Thousands of Euro (€)		Years ended December 31 2010	2009
Grant revenues	3.2.6	1,765	934
License & deal revenues		38	38
Contribution to costs		0	15
Total Other revenues		**1,802**	**986**

The revenues from grants relate mainly to contributions that TiGenix has received for its research and development activities in meniscus, the IWT grant, and in osteoarthritis, the grant that was awarded by the European Union under the 7th framework programme.

More details of the grants are given in section 3.2.6.

(2) Operating result (EBIT)

Result from operations has been arrived at after charging:

Research and development expenditures

Thousands of Euro (€)		Years ended December 31 2010	2009
Personnel costs	3.2.4 (3)	3,144	4,264
Depreciations		1,979	644
Operating costs		4,064	2,035
General costs		686	737
Production costs		0	433
Total		**9,873**	**8,114**

The Group’s research and development costs increased with 22% between 2009 and 2010. The personnel costs were lower in 2010 due to the allocation of the personnel costs related to the direct production of ChondroCelect and ChondroMimetic to cost of sales and the downscaling of the R&D staff. The amortization of intangible assets related to the acquisition of Orthomimetics Ltd (today TiGenix Ltd) led to higher depreciations in 2010. The operating costs have doubled compared to 2009. Main drivers of the increase were the preparation of the post-market trial for ChondroCelect as requested by EMA, the costs related to the delivery device for ChondroMimetic and the full period impact of Orthomimetics Ltd (today TiGenix Ltd) and TiGenix BV. The direct production costs were part of the cost of sales in 2010. In 2010, € 1,621 of research and development expenditures were capitalized compared to € 781 in 2009. The production costs of 2010 are included in the cost of sales.

Selling, general and administrative expenses

Thousands of Euro (€)		Years ended December 31 2010	2009
Personnel costs	3.2.4 (3)	4,816	4,268
Depreciations		232	265
Operating costs		2,501	2,011
General costs		804	773
Total		**8,353**	**7,316**

The selling, general and administrative expenses increased with 14% between 2009 and 2010. The increase is a result of the expansion of the commercial sales team with 5 people, increased pricing and reimbursement costs and the additional G&A costs associated with the acquisition of Orthomimetics Ltd (today TiGenix Ltd).

(3) Personnel costs

Thousands of Euro (€)	Years ended December 31 2010	2009
The number of employees and mandate contractors at year end was:		
- Production staff	9	0
- R&D staff	33	59
- SG&A staff	32	35
Total	**74**	**94**
Their aggregate remuneration comprised:		
- Wages, salaries, fees and bonuses	6,681	6,305
- Social security cost	1,367	1,257
- Group & Hospitalisation insurance	333	281
- Share-based compensation	676	1,140
- Other costs	296	107
Total	**9,353**	**9,090**

The aggregate remuneration is € 9,353k. Out of this amount, € 1,009k was capitalized according to IAS 38 Intangible assets and € 384k was classified under cost of goods sold. For further details about the retirement benefit schemes and share-based compensation, please refer to 3.2.4 (19) and (20).

(4) Financial result

Thousands of Euro (€)	Years ended December 31 2010	2009
Interest on bank deposits	140	489
Interest paid	(72)	(20)
Other finance income/costs	511	(170)
Total financial results	**579**	**300**

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 and interest paid for the subordinated loan of IWT.

The interest rate for these loans is the 3 month Euribor plus a margin of 140 bp. Other finance income/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).
Those loans are further commented in notes 14 and 15.

(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 in the table below:

	Years ended December 31	
Thousands of Euro (€)	**2010**	**2009**
Tax losses carried forward under local GAAP (risk capital deduction included)	**(90,992)**	**(67,481)**
IFRS timing differences	(2,633)	(2,654)
IFRS carried forward losses	**(93,625)**	**(70,135)**
Deferred taxes @ 34%	31,833	23,846
Tax credit research and development	142	111
Total deferred tax asset	**31,975**	**23,957**
Deferred taxes of the year	8,018	5,111

The Group has not recorded the total deferred net tax assets of € 31,975k 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;
  - depreciation in consolidation of intangible assets capitalized in the process of business combination;
  - 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.

In 2008 and 2009, the Company has granted warrants to staff members (see note 3.2.4 (20)), which have a dilutive potential. Under IAS 33 Earnings per Share, 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.

Thousands of Euro (€)	Years ended December 31 2010	2009
Result for the purpose of basic loss per share, being net loss	(15,716)	(14,098)
Number of shares – weighted average	30,910,332	25,451,744
Weighted average number of shares for the purpose of basic loss per share		
Basic loss per share (in Euro *(€)*)	(0.51)	(0.55)

(7) Intangible assets

Thousands of Euro (€)	Years ended December 31 2010	2009
Gross value		
At January 1	21,504	1,004
Additions – externally acquired	66	19
Additions – internally developed	1,621	781
Additions through business combinations	0	19,700
Subsidy	0	0
Impairment	0	0
Gross value at December 31	**23,191**	**21,504**
Accumulated amortisation		
At January 1	942	563
Additions – externally acquired	155	263
Additions – internally developed	98	7
Additions through business combinations	1,313	109
Disposals	0	0
Related to subsidy	0	0
Impairment	0	0
Accumm. amortisation at December 31	**2,508**	**942**
Net value at December 31	**20,683**	**20,562**

The majority of the Group's intangible assets result from the acquisitions made by the Group, i.e. the acquisition of Orthomimetics Ltd (today TiGenix Ltd) at the end of November 2009. These assets are recorded at fair value in the purchase method of accounting and are subsequently amortised over their useful life.

Besides this, the Company has capitalized the development costs for ChondroCelect as from July 2009 and for ChondroMimetic as from January 2010 according to IAS 38 Intangible Assets. They will be also amortised over their useful life (10 years).

(8) Tangible assets

Thousands of Euro (€)	IT & mach equipment	Furniture	Laboratory equipment	Leasehold improvements	Leasing	TOTAL
Gross value						
At January 1, 2009	1,390	252	198	1,696	83	3,618
Additions	217	13	5	384	0	618
Additions through business combinations	269	20	0	0	0	289
Disposals	0	0	0	0	0	0
Translation Reserves	(2)	0	0	(9)	0	(11)
At December 31, 2009	**1,874**	**285**	**202**	**2,070**	**83**	**4,514**
Accumulated amortisation						
At January 1, 2009	730	71	172	145	15	1,135
Additions	263	49	15	175	27	530
Disposals	0	0	0	0	0	0
Translation Reserves	(4)	0	0	(3)	0	(7)
At December 31, 2009	**989**	**120**	**187**	**318**	**43**	**1,658**
Net value at Dec. 31, '09	**885**	**164**	**15**	**1,752**	**40**	**2,856**
Gross value						
At January 1, 2010	1,874	285	202	2,070	83	4,514
Additions	184	17	0	2,768	0	2,969
Additions through business combinations	0	0	0	0	0	0
Disposals	(245)	0	0	(612)	0	(858)
Translation Reserves	53	5	0	48	0	106
At December 31, 2010	**1,865**	**307**	**202**	**4,275**	**83**	**6,731**
Accumulated amortisation						
At January 1, 2010	989	120	187	318	43	1,658
Additions	368	64	6	179	27	645
Disposals	(168)	0	0	(179)	0	(347)
Translation Reserves	23	3	0	10	0	37
At December 31, 2010	**1,213**	**188**	**193**	**328**	**70**	**1,993**
Net value at Dec. 31, '10	**652**	**118**	**9**	**3,946**	**12**	**4,738**

The investments are mainly related to the leasehold improvements in the Netherlands.The disposals are the result of TiGenix Inc withdrawing from TC CEF LLC.

(9) Inventories

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

Thousands of Euro (€)	Years ended December 31 2010	2009
Raw materials and consumables	147	148
Finished goods and goods for resale	97	8
Total inventories	**244**	**156**

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

(10) Receivables

Thousands of Euro (€)	Years ended December 31 2010	2009
Receivables	765	193
Recoverable taxes	789	596
Other	258	525
Total other accounts receivable	**1,812**	**1,315**

Receivables mainly consist of amounts due from the medical centres. The deferred sales of € 361 were dedecuted from the receivables (see 3.2.4 (1)). Recoverable taxes mainly consist of VAT and withholding taxes. As a result of the exercise of options in Orthomimetics Ltd that were not fully paid at year end, the Company has advances to option holders of € 214k. This amount is included in the other receivables. The Company considers that the carrying amount of trade and other receivables approximates their fair value.

The aging analysis of the Group receivables at year-end is as follows:

Thousands of Euro (€)	Years ended December 31 2010	2009
Not past due	1,281	1,201
Up to 3 months	453	61
3 to 6 months	65	29
6 to 12 months	0	1
more than 1 year	13	22
Total receivables	**1,812**	**1,315**

(11) Cash and cash equivalents

Thousands of Euro (€)	Years ended December 31 2010	2009
Cash at bank and in hand	5,555	24,745
Total cash and cash equivalents	**5,555**	**24,745**

(12) Deferred charges & accrued income

Thousands of Euro (€)	Years ended December 31 2010	2009
Deferred charges & accrued income	907	282
Deferred charges & accrued income	**907**	**282**

The increase in deferred charges & accrued income in 2010 compared to 2009 mainly consist of the accrued grant income for Treat OA and IWT.

(13) Share capital

The share capital of TiGenix amounts to € 25.2 million at December 31, 2010, represented by 31,121,154 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 2010 is as follows:

Per January 01, 2010	**30,866,168**
Exercise of warrants 04/03/2010	2,500
Capital increase in kind 09/11/2010	252,486
December 31, 2010	**31,121,154**

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

(14) Subordinated loan

Non current portion of long-term debt *Thousands of Euro (€)*	Years ended December 31 2010	2009
Subordinated loan	130	260

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 nutriceuticals". 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.

Term and debt repayment schedule *Thousands of Euro (€)*	Years ended December 31 2012	2013
IWT loan-base amount	130	0
IWT loan-interests	38	0
IWT loan-total	**169**	**0**

(15) Financial loan

Thousands of Euro (€)	Years ended December 31 2010	2009
Amounts payable under financial loan:		
Within one year	80	80
In the second to fifth year	320	320
After five years	120	200
Total	**520**	**600**
Less future finance charges	0	0
Present value of financial loan	**520**	**600**

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.

(16) Finance lease obligations and other lease obligations

Thousands of Euro (€)	Years ended December 31 2010	2009
Amounts payable under finance lease:		
Within one year	12	28
In the second to fifth year	0	12
After five years	0	0
Total	**12**	**40**
Less future finance charges	0	0
Present value of lease obligations	**12**	**40**

Outstanding commitments for future minimum rent payments, which fall due as follows:		
Within one year	625	785
In the second to fifth year	2,195	2,565
After five years	1,998	2,889
Contingent commitments:		
Within one year	68	0
In the second to fifth year	288	0
After five years	260	0

The fair value of the Group's finance lease obligations approximated their carrying value. Outstanding operating lease commitments for future minimum rent payments include rental fees related to leased facilities, vehicles and equipment. These operating lease contracts can be terminated early with certain indemnity fees. All figures shown assume that the lease contracts will not be terminated early. Rentals payable under operating leases are charged to the income statement as operating charges on a straight-line basis over the term of the lease.
Although TiGenix Inc. has withdrawn itself from TC CEF LLC and has terminated its membership interests in TC CEF LLC, TiGenix Inc is still liable for the operating lease commitments of the TC CEF LLC. These amounts are presented as a contingent commitment.

(17) Deferred tax liabilities

Thousands of Euro (€)	Years ended December 31 2010	2009
Intangible assets	3,519	3,886
Total deferred tax liabilities	**3,519**	**3,886**

This deferred tax liability, as a result of the purchase method of accounting of Orthomimetics Ltd, is diminuished with € 368k, the tax impact on the amortization of the intangible assets out of this business combination.
More information about the business combination can be found in note (21) below.

(18) Current liabilities

Trade accounts payable

Thousands of Euro (€)	Years ended December 31 2010	2009
Trade accounts payable	1,783	1,399
Accruals for invoices to be received	774	646
Total trade accounts payable	**2,557**	**2,045**

Maturity analyis of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised costs, is as follows:

Thousands of Euro (€)	Years ended December 31 2010	2009
Not past due	2,030	1,932
Up to 3 months	516	100
3 to 6 months	11	9
6 to 12 months	0	1
More than 1 year	0	3
Total trade accounts payable	**2,557**	**2,045**

Other current liabilities

Thousands of Euro (€)	Years ended December 31 2010	2009
Other debts relating to remuneration and social security contributions	755	1,195
Other accruals	902	689
Total other current liabilities	**1,657**	**1,884**

Other debts relating to remuneration and social security contributions consist of the holiday pay and bonus provision.
Other accruals consist of deferred grant income, rent payments and other accruals.

(19) 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 € 311k in 2010 (€ 267k in 2009) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans.

(20) "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, 2010 of all outstanding warrant pools remaining, together with the activities under the different pools of warrants during 2010.

	Weighted average exercise price	TOTAL	Warrants issued in						
Creation date			Mar 12, 2010	June 19, 2009	Mar 20, 2008	Febr 26, 2007	Nov 03, 2005	April 20, 2005	May 14, 2004
Total number created			**500,000**	**500,000**	**400,000**	**800,000**	**454,570**	**45,268**	**135,802**
Outstanding 31 Dec 2009	***4.72***	***1,490,896***	***0***	***168,200***	***355,500***	***521,500***	***295,663***	***45,268***	***104,765***
Granted and accepted	2.58	372,000	372,000						
Lapsed	4.31	87,812	7,000	13,000	55,125	10,687	2,000		
Exercised	3.45	2,500			2,500				
Expired									
Outstanding 31 Dec 2010	***4.29***	***1,772,584***	***365,000***	***155,200***	***297,875***	***510,813***	***293,663***	***45,268***	***104,765***
Exercisable 31 Dec 2010	***3.56***	***631,433***		***38,800***	***148,938***	***-***	***293,663***	***45,268***	***104,765***

On March 12, 2010, 500,000 new warrants were created. 372,000 warrants were granted and accepted to selected beneficiaries by decision of the Board of Directors. The warrants that were not granted before August 31, 2010 became automatically null and void.

Under the existing plans in May 2004, April 2005, November 2005, February 2007, March 2008 and June 2009 respectively 135,802, 45,268, 454,570, 800,000, 400,000 and 500,000 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 the warrants granted before the IPO can only be exercised as from January 1 of the fourth year following the year in which they are granted. 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 is about 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:

Thousands of Euro (€)	Years ended December 31 2010	2009
Research and development expenses	373	578
Selling, general and administrative expenses	304	562
Total for the year	**676**	**1,140**
Total per year end	**4,185**	**3,509**

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 on average is about 7.5 years for the warrants with a maximum duration of 10 years.

(21) Business combinations

Past business combination Orthomomimetics Ltd

On November 30, 2009, TiGenix has acquired 100% of the total outstanding shares of Orthomimetics Ltd on a fully diluted basis at a price of € 16.3 million.

The shareholders of Orthomimetics Ltd have contributed 2,605,752 Orthomimetics shares, valued at € 12.9 million to TiGenix in exchange for 3,010,589 new TiGenix shares and sold 680,686 Orthomimetics shares, valued at € 3.4 million. The payment of the purchase price for these 680,686 shares was deferred, as a result of which the shareholders involved have a receivable on TiGenix of € 3.4 million. This receivable has been contributed in kind to TiGenix on November 13, 2010 for approximately 32% and approximately 68% will be contributed in kind on March 30, 2012 in exchange for new shares in TiGenix at an issuance price of € 4.28 per new share. At December 31, 2010, 252,486 shares were issued for a total amount of € 1.1 million with the remainder being presented as “shares to be issued” in equity.

Intended business combination Cellerix SA

Description of Cellerix and intended contribution in kind :

Cellerix is a Spanish cell therapy company that was founded in 2004 as a spin-off from the Genetrix Group. The company has a clinical stage pipeline of cell-based products for indications of inflammatory and autoimmune origin. The products are based on Cellerix’ proprietary fat derived adult stem cell platform and represent a new generation of off-the-shelf cell therapy medicines. Cellerix’ stem cell platform and manufacturing capabilities have been fully validated according to EMA requirements. The company recently completed a successful Phase IIa study in complex perianal fistula in Crohn’s patients and has received authorization to start a Phase I/II study in rheumatoid arthritis. Further to the Genetrix Group, Cellerix has a solid and outstanding investor base including specialized European healthcare funds (Ysios, LSP and Ventech), pharma corporate investment funds (Roche Venture Fund and Novartis Venture Fund), and Spanish private and institutional investors.

Cellerix’ stem cell platform and product portfolio represent an excellent fit for TiGenix to realize its ambition of leadership in regenerative medicine and cell therapy. The combined group will have two commercial products on the market, including ChondroCelect, the first and only centrally approved cell-based product in Europe, and a unique commercial and manufacturing infrastructure for advanced therapies. The initial focus of the combined group will remain on damaged and arthritic joints while ensuring long term upside potential through expansion to other inflammatory and autoimmune disorders of high unmet medical need. With headquarters in

Leuven and focused operations in Spain, the Netherlands and the United Kingdom, the combined group will be well positioned to become the leading cell therapy company in Europe.
The board of directors is of the opinion that the acquisition of Cellerix, through the Contribution, allows the Company to strengthen further its leadership profile through the creation of the first stem cells group with a commercial offering and a strong product development pipeline, and the exploitation of synergies between the two companies.

The closing of the contribution in kind is anticipated in May of 2011. The consideration will be fully paid in TiGenix shares, valued at a price of € 1.30 per share.

Valuation of the intented contribution in kind :

Within the framework of the agreement, Cellerix was valued at € 40.0 million prior to the Cellerix shareholders investment of € 18.2 million.

Taking into account the amount of the Cellerix shareholders investment, the agreement provided for an aggregate valuation of 100% of the Cellerix shares of € 58,2 million.

The € 40 million valuation of Cellerix prior to the Cellerix shareholders investment is based on an assessment of the technology value of Cellerix using three different methods:

- the pre-money valuation of Cellerix in its last financing rounds;
- an analysis of comparable companies and transactions; and
- a “sum of the parts” Net Present Value analysis of Cellerix’ lead programmes.

For the Cellerix shareholders investment a pre-money valuation of Cellerix of € 39.5 million is used. This value could be considered as a minimum value as it does not yet take into account certain value enhancing milestones that have been realized recently:

- positive data of the phase IIa clinical study for Cx601 in complex perianal fistulas;
- authorization to start a phase I/II clinical study for Cx611 in Rheumatoid Arthritis (RA).

This analysis is supported by the other valuation methods used (analysis of the valuation of comparable companies and deals and a “sum of the parts” Net Present Value analysis of Cellerix’ lead programmes), leading to a Technology Value of Cellerix ranging between € 50 million and € 75 million.
The EUR 18.2 million cash that will be invested in Cellerix prior to the Contribution pursuant to the Cellerix Shareholders Investment is valued on a € for € basis.

On the basis of the preceding, the board of directors proposes to value the contribution of the entirety of the Cellerix shares at the time of the contribution, i.e. after completion of the Cellerix shareholders investment, at EUR 58.2 million.

As regards the above valuation, the board of directors of TiGenix also explicitly refers to the report of the statutory auditor of the Company, BDO Bedrijfsrevisoren CVBA, with registered office at The Corporate Village, Da Vincilaan 6, box E.6, Elsinore Building, 1935 Zaventem, represented by Gert Claes.

The allocation of the technology value of € 40 million will be done after closing of the transaction. Potential synergy effects are not yet available but will be decided after the new board of directors is installed.

3.2.5 Related party transactions

Transactions between TiGenix NV/SA, TiGenix Inc., TC CEF LLC, TiGenix BV and TiGenix Ltd, which are related parties, have been eliminated in consolidation and are not disclosed in this note. In 2010, 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 (€)	Years ended December 31 2010 (1)	2009
Number of management members	4	6
Short-term benefits	851	1,294
Pensions	32	38
Share-based compensation	224	312
Other employment costs	41	42
Total benefits	**1,148**	**1,685**
Number of warrants offered	30,000	65,000
Cumulative outstanding warrants	522,749	492,749
Exercised warrants	0	0
Exercisable warrants	223,999	64,188
Outstanding receivables from persons	0	244
Outstanding payables to persons	0	3,067
Shares owned	498,999	431,124

(1) In 2010, the management team has changed. As a result the 2009 and 2010 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 and related committees. In 2010 an amount of € 55k (€ 47k in 2009) 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 2010 was € 55k excluding VAT (€ 47k in 2009). 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.

3.2.6 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 NV has been awarded several grants to support its research and development activities in the field of regenerative medicine.

TiGenix BV has been awarded two grants one from the city Sittard-Geleen and one from the province Limburg to cover a part of the construction costs of the new European cell expansion facility in the Netherlands.

Orthomimetics Ltd received several grants from the Department of Trade and Industry and the Technology Strategy Board, mainly to develop its biomaterials platform.
A summary of the main outstanding grants can be found in the table below:

(1) Name (2) Source (3) Description (4) Applicability	Start date	End date	Amount approved	Amount received	Main conditions
(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/lag costs, collaborator costs.	1/01/08	31/12/12	€ 1,156,500	€ 626,009	Respect plans and budget
(1) **Business contribution - the Netherlands** (2) Sittard-Geleen (3) Business contribution - the Netherlands (4) Covers part of construction costs Cell expansion facility	26/11/09	26/11/09	€ 125,000	€ 125,000	General conditions Sittard-Geleen

(1) Name (2) Source (3) Description (4) Applicability	Start date	End date	Amount approved	Amount received	Main conditions
(1) **Construction European human cell expansion facility** (2) Province Limburg (3) Construction European human cell expansion facility (4) Covers part of construction costs Cell expansion facility	15/07/09	31/03/11	€ 150,000	€ 75,000	General conditions Province Limburg
(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	€ 1,814,658	€ 1,452,000	General conditions IWT 2008.1
(1) **Ligamimetic** (2) Technology Strategy Board, UK (3) Development of Ligamimetic repair collagen implants (4) Covers labour, overheads, materials, travel, IP, CE marking, trials	1/04/08	30/03/11	£ 118,067	£ 98,154	Adhere to plans and budget
(1) **Cell Therapy** (2) Technology Strategy Board, UK (3) Development of cell therapy systems for cartilage repair (4) Covers labour, overheads, materials, travel, IP, CE marking, trials	01/09/08	31/08/11	£ 210,000	£ 124,367	Adhere to plans and budget
(1) **Clinical Trial preparation** (2) Technology Strategy Board, UK (3) Preparation of materials and centres for large scale EU wide trial (4) Labour & overheads, Materials, Subcontracts, Travel & Subsistence	30/11/09	29/05/10	£ 100,000	£ 100,000	100% of project costs within categories funded
(1) **Freeze Drying scale up** (2) Technology Strategy Board, UK (3) Development of scale up freeze drying manufacturing process (4) Labour & overheads, Materials, Travel & Subsistence	30/11/09	06/06/10	£ 35,000	£ 35,000	100% of project costs within categories funded
(1) **Meniscus Development (i4i)** (2) National Institute for Health Research, UK (3) Development of a smart implant for meniscus repair using Platelet Rich Plasma (PRP) mediated biological repair (4) Labour & overheads, Capital equipment, Materials, Patent & legal, Travel & Subsistence, Subcontracts	1/08/10	31/07/13	£ 382,021	£ 0	39% of project costs within categories funded
(1) **IWT 090727 Development of Tools for Quality Control of Combination Product Design and Manufacturing for Use in Skeletal Tissue Engineering Applications** (2) Flemish Government (IWT) (3) Baekeland (4) Covers labour, operating costs, equipment, collaborator costs	1/02/10	31/01/14	€ 209,043	€ 46,000	General conditions IWT 2008.1

3.2.7 Subsequent events

Acquisition of Cellerix and expected proforma cash position

On February 25, 2011 TiGenix NV and Cellerix SA, a privately held company based in Spain, announced that the two cell therapy-focused biotechnology companies and Cellerix' shareholders have entered into a contribution agreement to combine the operations of both companies by means of a share for share exchange.

The Cellerix' investors have committed to a capital increase of € 18.2 million in Cellerix which is to be completed before the closing of the proposed transaction.

The Company also announced its intention to raise approximately € 15.3 million through a public rights offering, of which € 10.0 million has already been secured via precommitments from certain existing shareholders and new investors.

The capital increase at Cellerix is subject to approval by the shareholders' meeting of Cellerix. Besides this, the transaction is also subject to the approval of the contribution by TiGenix shareholders at an extraordinary shareholders' meeting ("ESM") to be convened by the Board of TiGenix and certain other conditions, including the approval by the Belgian Banking, Finance and Insurance Commission of the prospectus relating to the subsequent public rights offering and the admission to trading of the new TiGenix shares.

As a result, the combined group is expected to have a proforma cash position of at least € 33.5 million at closing.

Reimbursement

In Belgium TiGenix NV has received on February 24, 2011 the notification by the Minister of Social Affairs of the approval of a convention agreement between the RIZIV/INAMI and TiGenix for the reimbursement of ChondroCelect for well-indicated patients in specialised treatment centers. This convention covers a period of three years and defines the specific treatment criteria and follow-up measures the company has to conduct.

In France a positive advice has now been issued by the "Haut Collège" of the "Haut Autorité de Santé" recommending the conditional reimbursement of the combination of cultured autologous chondrocytes, membrane and surgical procedure under a special reimbursement scheme ("Remboursement dérogatoire" Art. 165-1-1). Since ChondroCelect is the only approved medicinal product for autologous chondrocyte transplantation in France, this decision opens the perspective to obtain controlled access to the French market.

In the Netherlands, the procedure for reimbursemet of ChondroCelect under a special reimbursement scheme for innovative new medicines ("Beleidsregel Dure Geneesmiddelen") is still ongoing. A decision is now expected in the second quarter of 2011.

In Germany, thirty-six German hospitals filed for NUB approval at the end of 2010. These hospitals were recently informed by InEK that the product obtained this year NUB Status 4 meaning that ChondroCelect is eligible for reimbursement on a case by case basis.

In Spain, a decision on the national level is expected in the second quarter of 2011. Discussions at the regional level will follow and are currently being prepared.

3.2.8 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 the equity reconciliation and profit & loss reconciliation between local (Belgian) GAAP and IFRS can be found:

	Years ended December 31			
	2010		2009	
Thousands of Euro (€)	Equity	Loss of the year	Equity	Loss of the year
Under local GAAP (non consolidated)	**27,760**	**(18,825)**	**45,458**	**(11,778)**
Impact consolidation	(1,248)	3,754	(5,002)	(1,888)
Translation reserves	(355)	0	21	0
- Issuance cost	*(5,241)*	*0*	*(5,232)*	*0*
- Depreciation of incorporation cost	*3,758*	*946*	*2,812*	*825*
- Purchase of intangible assets	*(214)*	*(29)*	*(185)*	*(14)*
- Depreciation of intangible assets	*(1,264)*	*(1,288)*	*24*	*(78)*
- Share-based compensation	*0*	*(676)*	*0*	*(1,140)*
- Interests subordinated loan	*(38)*	*35*	*(73)*	*(24)*
- Shares to be issued	*2,296*	*0*	*3,377*	*0*
- Income taxes	*368*	*368*		
Total IFRS restatements	(336)	(644)	723	(431)
Under IFRS	**25,820**	**(15,716)**	**41,199**	**(14,098)**

3.2.9 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), TC CEF LLC (United States legal entity), TiGenix BV (The Netherlands legal entity) and TiGenix Limited (United Kingdom legal entity).

Subsidiaries

	2010 Ownership %	2009 Ownership %
Fully consolidated		
Belgium		
TiGenix NV Romeinse straat 12 – Box 2, 3001 Haasrode	100%	100%
USA		
TiGenix Inc 1209 Orange Street Wilmington, Delaware	100%	100%
The Netherlands		
TiGenix BV Urmonderbaan 22, 6167 RD Geleen	100%	100%
United Kingdom		
TiGenix Limited (former Orthomimetics Limited), Cambridge Business Park Milton Road, Cambridge CB4 0WZ	100%	100%
Proportionate consolidated		
USA		
TC CEF LLC 2711 Centerville Road, Suite 400, Wilmington, Delaware	50% (until 23/11)	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, 2010.

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 31, 2011. The Financial statements will be submitted to the shareholders for their final approval at the annual general shareholders' meeting on April 20, 2011.

Main events in 2010

Topline development

For ChondroCelect :

- In March 2010, the FDA requested an additional study for ChondroCelect before the filing of a Biological License Application (BLA) could be done and invited TiGenix to seek Special Protocol Assessment. After carefull assessment,TiGenix decided to find a partner to co-develop ChondroCelect outside of Europe and to withdraw from TC CEF LLC, being its production facility in the US;
- In June 2010, the presentation of the 5-year follow-up data of the ChondroCelect trial at the 14th congress of the European Society of Sports Traumatology, Knee Surgery and Arthroscopy (ESSKA) in Oslo, Norway by professor Dr. Daniël Saris. The new follow-up data confirmed that the therapeutic effect and the clinical benefit of ChondroCelect were maintained up to at least five years after the cartilage repair intervention. The data also confirmed the benefit of early intervention in cartilage lesions. Early treatment with ChondroCelect resulted in a superior clinical benefit over microfracture and a lower failure rate;
- During the year, reimbursement discussions were ongoing. In Belgium and the Netherlands no decisions were taken, but an outcome of the reimbursement procedures is anticipated in Q1 2011 for Belgium and in Q2 2011 for the Netherlands. In France, the commission of the "Haute Autorité de Santé" (HAS) has declared that they were not able to evalutate the therapeutic benefit of the product and has not recommended ChondroCelect to be put on the list of reimbursable products. In Germany, ChondroCelect obtained positive NUB status in thirty hospitals. Out of these thirty, eight obtained a favourable reimbursement decision from their insurance funds. In October 2010, thirty-six German hospitals filed for NUB approval in 2011. In the UK, two primary care trusts (PCT) have agreed to fund ChondroCelect treatment for well indicated patients. In the private sector, five of the largest health insurance companies have given their approval for patients to be treated with ChondroCelect. In Spain, TiGenix finally could submit the reimbursement dossier on the 24th of November. For an update on the reimbursement procedures, please see section 3.3.5 Subsequent events.

For ChondroMimetic :

- In August 2010, a new patent was granted by the US Patent & Trademark Office for ChondroMimetic. This new patent described and claimed the composition of and methods to produce a composite material comprising a triple coprecipitate of collagen, one or more glucosaminoglycans (GAGs) and calcium phosphate. This patent forms the core protection of the ChondroMimetic product family;
- In October 2010, the European launch of ChondroMimetic took place at the 9th World Congress of the International Cartilage Repair Society (ICRS) in Barcelona, Spain.

Sales :

- Despite this difficult reimbursement environment for ChondroCelect and limited time frame in which ChondroMimetic could be sold, TiGenix was able to bill a turnover of € 982k of which € 621k could be recognised as sales.

Pipeline development

- The continuous research and development efforts have been fruitful. As a result, the Company received grant revenues of € 1,765k for the work done in stem cells and biomaterials mainly in the indications of meniscus and osteoarthritis.
- The stem cell platform has been further consolidated and is being prepared for clinical evaluation. The biological activity of the selected stem cell population has been evaluated in cartilage and meniscal repair models with promising results. Final activities in the preclinical evaluation are ongoing;
- Significant progress has also been made for the biomaterials platform. The tendon repair patch has been tested in a preclinical model, and first results are promising. Design of the meniscal repair device is progressing well, and preclinical evaluation is to start in first half of 2011;
- The former investment in drug discovery for bone and joint diseases has been successfully leveraged through the spin-out of these activities in the new start-up company Arcarios.

Consolidation scope

The consolidated financial statements consist of TiGenix NV, TiGenix Inc., TC CEF LLC, TiGenix BV (for 3 months) and Orthomimetics Ltd (for 1 month) for the figures ending December 31, 2009 and of TiGenix NV, TiGenix Inc., TC CEF LLC (for 11 months), TiGenix BV and TiGenix Ltd ending December 31, 2010.

Revenues

	Years ended December 31	
Thousands of Euro (€)	**2010**	**2009**
Sales billed	*982*	
Deferred sales	*(361)*	
Sales	621	46
Other revenues	1,802	986
Revenues	**2,423**	**1,032**

For ChondroCelect, 2010 was the first full year of non-reimbursed commercial sales in a limited number of European reference centres. Only part of the ChondroCelect sales could be recognized as revenues as the Company had an agreement with a limited number of Dutch reference centres in place whereby only part of the price had to be paid upfront with the remaider to be paid at the moment ChondroCelect would be admitted to the “Lijst Dure Geneesmiddelen”. The ChondroCelect sales are limited and will continue to be limited and irregular until ChondroCelect will be reimbursed. In 3.3.5, an update can be found with respect to reimbursement in the different European countries.

For ChondroMimetic, the commercial sales started only in October of last year after the launch at the 9th World Congress of the International Cartilage Repair Society (ICRS) in Barcelona, Spain.

The revenues from grants relate mainly to contributions that TiGenix has received for its research and development activities in meniscus, the IWT grant, and in osteoarthritis, the grant that was awarded by the European Union under the 7th framework programme, complemented with a number of smaller grants.

Operating charges

Thousands of Euro (€)	Years ended December 31 2010	2009
Research and development expenses (R&D)	9,873	8,114
Selling, general and administrative expenses (SG&A)	8,353	7,316
Other operating income	0	0
Other operating expenses	0	0
Total operating charges	**18,226**	**15,430**

The research and development expenses increased with 22% to € 9.9 million as compared to € 8.1 million in 2009. The costs of TiGenix BV and TiGenix Ltd and the amortization of intangible assets related to the acquisition of Orthomimetics Ltd (today TiGenix Ltd) are in 2010 accounted for a full year. Besides that, there were in 2010 the costs related to the preparation of the post-market trial for ChondroCelect as requested by EMA and the delivery device for ChondroMimetic. In 2010, a total of € 1.6 million costs were capitalized compared to € 0.8 in 2009.

Selling, general and administration expenses increased with 14% to € 8.4 million, as compared to € 7.3 million for 2009. The increase is a result of the expansion of the commercial sales team, the increased pricing & reimbursement costs and the additional G&A costs associated with the acquisition of Orthomimetics Ltd for a full year.

Operating result (EBIT) and Net result

Thousands of Euro (€)	Years ended December 31 2010	2009
Revenues	2,423	1,032
Cost of sales	(860)	0
Total operating charges	(18,226)	(15,430)
Operating Result (EBIT)	**(16,663)**	**(14,398)**
Financial result	579	300
Profit/(Loss) before taxes	**(16,084)**	**(14,098)**
Income taxes	368	0
Net Profit/(Loss)	**(15,716)**	**(14,098)**

The operating result (EBIT) increased to € (16.7) million in 2010 from € (14.4) million in 2009. The revenues increased, as 2010 was the first full year of non-reimbursed sales of ChondroCelect, but the cost of sales and the operating charges increased even more as explained above.

The net loss increased to € (15.7) million in 2010 from € (14.1) million in 2009. Part of the operating loss was offset by the positive financial result of € 0.6 million and income taxes in 2010.

Taxation

The losses of the Group in the past imply that no income taxes were payable. On December 31, 2010 the Group had under IFRS a net tax loss carried forward amounting to € 93.6 million, implying a potential deferred

net tax asset of € 32.0 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

Thousands of Euro (€)	Years ended December 31 2010	2009
Operating Result (EBIT)	(16,663)	(14,398)
Depreciation, amortisation and impairment results	2,211	909
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**(14,452)**	**(13,489)**
Other adjustments	(2,512)	237
Net cash provided by/(used in) operating activities	**(16,964)**	**(13,252)**
Net cash provided by/(used in) investing activities	**(2,863)**	**(12,387)**
Net cash provided by/(used in) financing activities	**604**	**25,114**
Net increase/(decrease) in cash and cash equivalents	**(19,223)**	**(524)**
Cash and cash equivalents at beginning of year	24,745	25,162
Effect on exchange rate changes	(34)	107
Cash and cash equivalents at end of period	**5,555**	**24,745**

The net cash used in operating activities increased to € (17.0) million in 2010 from € (13.3) million in 2009. Main drivers of the increase were the increase in the operating loss, the increase in capitalized development costs and the change in working capital that was only partially offset by the non-cash items and share-based compensation.

The net cash used in investing activities amounted to € (2.9) million in 2010, compared to € (12.4) million in 2009. The main investments in 2010 were related to the leashold improvements of the new cel expansion facility in the Netherlands and the first deferred payment of the acquisition of Orhtomimetics Ltd in 2009.

The net cash provided by financing activities amounted to € 0.6 million, mainly as a result of the capital increases that took place in the course of 2010. More details can be found in section 3.3.2.

Taking into account the translation reserves resulting from the closing rate method, the cash position of the Group totalled € 5.6 million at December 31, 2010.

Balance sheet

The balance sheet at December 31, 2010 remained solid as evidenced by the following key ratios:

As a %	Years ended December 31 2010	2009
Cash & cash equivalents as a % of total assets	16%	49%
Working capital as a % of total assets	12%	45%
Solvency ratio (equity/total assets)	75%	82%
Gearing ratio (financial debt/equity)	2%	2%

The major assets of the balance sheet at December 31, 2010 are:

- Cash and cash equivalents of € 5.6 million for about 16% of total assets,
- Intangible assets of € 20.7 million, mainly the fair value of the intangible assets out of the acquisition of Orthomimetics Ltd, for about 60% of total assets,
- Tangible assets of € 4.7 million, mainly the assets for the improvements of the new R&D labs and offices in Leuven and the leasehold improvements of the new cel expansion facility in the Netherlands, for about 14% of total assets, and
- Receivables for about 5% of total assets.

Total equity of € 25.8 million accounts for 75% of the total balance sheet at December 31, 2010. The other major liabilities are:

- Non-current liabilities of € 4.1 million, mainly the deferred tax liability as a result of the acquisition of Orthomimetics Ltd, for about 12% of the total balance sheet,
- Trade payables of € 2.6 million for about 7% of the total balance sheet, and
- Other current liabilities of € 1.7 million representing about 5%.

Off-balance sheet commitments

The Group has off-balance sheet commitments related to rent for leased facilities, vehicles and equipment. At December 31, 2010, these commitments amounted to € 5.5 million. There are no other off-balance sheet commitments.

3.3.2 Capital increases and issuance of financial instruments

The following capital increases occurred in 2010:

- Exercise of 2,500 existing warrants, which led to an increase in capital, including issue premiums, of €8,625 completed on March 4, 2010;
- Capital increase in kind of 252,486 new TiGenix shares, which led to an increase in capital, including issue premiums, of €1,080,640 completed on November 9, 2010;

At December 31, 2010, a total of 1,772,584 warrants are outstanding at an average weighted exercise price of € 4.29 and a total of maximum 536,534 new TiGenix shares at a price of € 4.28 could be issued as a result of the second deferred payment of part of the purchase price of Orthomimetics Ltd.

Under the existing plans in May 2004, April 2005, November 2005, February 2007, March 2008, June 2009 and March 2010, respectively 135,802, 45,268, 454,570, 800,000, 400,000, 500,000 and 500,000 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 the warrants granted before the IPO can only be exercised as from January 1 of the fourth year following the year in which they are granted. 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 is about 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 initial term of the warrants issued on May 2004, on April 2005 and on November 2005 was extended to May 13, 2014, within the limits and under the conditions set out in article 47, §5 of the Law of March 26, 1999 regarding the Belgian action plan for the employment 1998 as introduced by article 21 of the Economic Recovery Law of March 27, 2009. The other terms and conditions of the respective warrants remained unchanged.

3.3.3 Discussion of the main risks and uncertainties

In application of the Belgian company law, TiGenix informs the shareholders of the main risks and uncertainties involved in the Company's business:

- It is not certain that the future revenues of ChondroCelect and Chondromimetic will offset the accumulated deficit or even the future operating charges in the years to come as the Company wants to advance its product pipeline and wants to broaden its IP portfolio in the promising field of regenerative medicine. As a result TiGenix may require acess to additional funding in the future;
- TiGenix may fail in successfully commercialising ChondroCelect and Chondromimetic in Europe. Despite positive pre-clinical and clinical results and European approval received for ChondroCelect and Chondromimetic, there may be uncertainty over reimbursement from third parties for these innovative healthcare products. Despite the actual GMP certification of TiGenix' cel expansion facility in Leuven, there can be no assurance that this certification will not be suspended because of a failure to maintain compliance or for any other reason. There can also be no guarantee that TiGenix' new facility in Europe will achieve compliance with these standard in time;
- The regulatory approval of TiGenix' lead products in Europe are no guarantuee for approval outside of Europe. The FDA has imposed additional requirements which will cause delay in the submission of the filing for licensure and in obtaining marketing authorisation;
- As part of the market authorisation of ChondroCelect in Europe, a risk management plan was required with a series of measures, including further studies to ensure that the efficacy and the safety are followed up in a robust manner once in the market. TiGenix can not guarantuee that it could continue to meet the required request for ChondroCelect and hence that it would maintain its European Marketing Authorisation;
- Based on data available, ChondroCelect and/or Chondromimetic demonstrate 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 and/or Chondromimetic;
- 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:

- *Capital risk*: the Group policy with respect to managing capital is to safeguard the Group ability to continue as a going concern and to obtain over time an optimal capital structure;

- *Credit risk*: Creditors will be mainly medical centers that will have limited credit risk. There are also no significant concentrations within trade receivables and the Company does not expect this to occur in the future;

- *Interest risk*: the Group is not subject to material interest risk. The financial loans are limited to € 520k and all leases have fixed interest rates;

- *Currency risk*: the Group may be subject to limited currency risk. The Group has cash outflows in U.S. Dollars and Pound sterling for the operations of its U.S. subsidiaries and UK subsidiary. The Company has no commercial revenues denominated in U.S. Dollars. The Group reports in Euro and has tried to match foreign currency inflows with foreign cash outflows. The Company has not engaged in hedging of the foreign currency risk via derivative instruments;

- *Liquidity risk*: The Group aims to maintain adequate reserves and continuously monitors forecast and actual cash flows. The Company has limited borrowing arrangements at December 31, 2010 and has no derivative instruments.

3.3.4 Services performed by the auditor

The Group booked € 83.915 in fees to the auditors in 2010. The aggregate fee is composed of:

- € 63.088 audit fees;
- € 3.450 Other attestation missions;
- € 4,781 tax services;
- € 12,596 other services;

3.3.5 Subsequent events

Acquisition of Cellerix and expected proforma cash position

On February 25, 2011 TiGenix NV and Cellerix SA, a privately held company based in Spain, announced that the two cell therapy-focused biotechnology companies and Cellerix' shareholders have entered into a contribution agreement to combine the operations of both companies by means of a share for share exchange.

The Cellerix' investors have committed to a capital increase of € 18.2 million in Cellerix which is to be completed before the closing of the proposed transaction.

The Company also announced its intention to raise approximately € 15.3 million through a public rights offering, of which € 10.0 million has already been secured via precommitments from certain existing shareholders and new investors.

The capital increase at Cellerix is subject to approval by the shareholders' meeting of Cellerix. Besides this, the transaction is also subject to the approval of the contribution by TiGenix shareholders at an extraordinary shareholders' meeting ("ESM") to be convened by the Board of TiGenix and certain other conditions, including the approval by the Belgian Banking, Finance and Insurance Commission of the prospectus relating to the subsequent public rights offering and the admission to trading of the new TiGenix shares.

As a result, the combined group is expected to have a proforma cash position of at least € 33.5 million at closing.

The Board of Directors of TiGenix is confident that at least € 28.5 million will enter into the combined group as all involved parties just have to execute their contractual obligations.

Reimbursement

In Belgium TiGenix NV has received on February 24, 2011 the notification by the Minister of Social Affairs of the approval of a convention agreement between the RIZIV/INAMI and TiGenix for the reimbursement of ChondroCelect for well-indicated patients in specialised treatment centers. This convention covers a period of three years and defines the specific treatment criteria and follow-up measures the company has to conduct.

In France a positive advice has now been issued by the "Haut Collège" of the "Haut Autorité de Santé" recommending the conditional reimbursement of the combination of cultured autologous chondrocytes, membrane and surgical procedure under a special reimbursement scheme ("Remboursement dérogatoire" Art. 165-1-1). Since ChondroCelect is the only approved medicinal product for autologous chondrocyte transplantation in France, this decision opens the perspective to obtain controlled access to the French market.

In the Netherlands, the procedure for reimbursemet of ChondroCelect under a special reimbursement scheme for innovative new medicines ("Beleidsregel Dure Geneesmiddelen") is still ongoing. A decision is now expected in the second quarter of 2011.

In Germany, thirty-six German hospitals filed for NUB approval at the end of 2010. These hospitals were recently informed by InEK that the product obtained this year NUB Status 4 meaning that ChondroCelect is eligible for reimbursement on a case by case basis.

In Spain, a decision on the national level is expected in the second quarter of 2011. Discussions at the regional level will follow and are currently being prepared.

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, TiGenix has today two approved products in Europe, ChondroCelect an autologous cell based medicinal product for the regeneration of cartilage defects and Chondromimetic a device for smaller osteochondral defects.

TiGenix will continue to increase its efforts in the development of medicinal products in the stem cell and regenerative medicine area to further strengthen its leadership position in this promising field.

Done on March 30, 2011

On behalf of the Board of Directors

3.4 STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF TIGENIX NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

In accordance with the legal requirements, we report to you on the performance of the engagement 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, with an explanatory paragraph on the consolidated financial statements

We have audited the consolidated financial statements of TiGenix NV for the year ended 31 December 2010, prepared in accordance with *International Financial Reporting Standards* as agreed by the European Union, which show a balance sheet total of 34.346 kEUR and a consolidated loss of 15.716 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 Institut des Réviseurs d'Entreprises / Instituut van de Bedrijfsrevisoren. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement, whether due to fraud or error.
In accordance with the above-mentioned auditing standards, we have carried out procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of these procedures is a matter for our judgment, as is the assessment of the risk that the consolidated financial statements contain material misstatements, whether due to fraud or error. In making those risk assessments, we have considered the company's internal control relating to the preparation and fair presentation of the consolidated financial statements, in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. We have also assessed the appropriateness of the accounting principles and consolidation principles, the reasonableness of accounting estimates made by management, as well as the overall presentation of the consolidated financial statement. Finally, we have obtained from management and the company's officials the explanations and information necessary for our audit. We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the group's assets and liabilities, its financial position, the results of its operations and cashflow, in accordance with *International Financial Reporting Standards* as agreed by the European Union.

Notwithstanding the negative effect on the financial position due to the significant losses the company has suffered, the annual accounts have been drawn up in the assumption of going concern. This assumption is only justified if the capital increases, announced by the Board of Directors and described in the annual report, will be realized within the foreseen time frame. Without modifying our opinion as expressed above, we want to draw your attention to the annual report, in which the Board of Directors justifies the application of the valuation rules in going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the company be unable to continue as a going concern.

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 engagement.

Zaventem, March 30, 2011

BDO Réviseurs d'Entreprises Soc. Civ. SCRL
Statutory auditor
Represented by Gert Claes

4. TIGENIX NV/SA

4.1 STATUTORY FINANCIAL STATEMENTS

The statutory accounts are based upon Belgian GAAP.

An unqualified audit opinion with explanatory paragraph has been issued by the statutory auditor on March 30, 2011.

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, 2011 and that will be filed with the Belgian National Bank and do not include all information as required by articles 98 and 100 of the Belgian Company Code.

4.1.1 Statutory income statement

STATUTORY INCOME STATEMENT	Year ended December 31	
Thousands of Euro (€)	2010	2009
I. Operating income	**6,361**	**2,242**
A. Turnover	658	98
C. Fixed assets-own construction	1,573	781
D. Other operating income	4,130	1,364
II. Operating charges	**(26,099)**	**(14,528)**
A. Raw materials, consumables, goods for resale	1,600	914
B. Services and other goods	7,469	6,213
C. Remuneration, social security contributions and pensions	6,208	5,785
D. Depreciation & amounts written off on formation expenses, intangible and tangible fixed assets	8,009	1,519
G. Other operating charges	2,812	96
III. Operating profit/(loss)	(19,737)	(12,286)
IV. Financial income	**1,109**	**1,075**
A. Income from financial fixed assets	417	216
B. Income from current assets	139	489
C. Other financial income	553	369
V. Financial charges	**(197)**	**(567)**
A. Debt charges	72	20
C. Other financial charges	126	547
VI. Current profit/(loss) before taxes	(18,825)	(11,778)
VII. Extraordinary income	**0**	**0**
VIII. Extraordinary charges	**0**	**0**
IX. Profit/(loss) before taxes	(18,825)	(11,778)
X. Income taxes	**0**	**0**
XI. Profit/(loss) for the year after taxes	(18,825)	(11,778)

APPROPRIATION ACCOUNT	Year ended December 31	
Thousands of Euro (€)	2010	2009
A. Loss to be appropriated		
A1. Loss for the period available for appropriation	(18,825)	(11,778)
A2. Loss to be carried forward	(57,199)	(45,421)
B. Transfer from capital and reserves		
B1. From capital and share premium		
D. Result to be carried forward		
D2. Loss to be carried forward	76,024	57,199

4.1.2 Statutory balance sheet

STATUTORY BALANCE SHEET AFTER APPROPRIATIONS	Year ended December 31	
Thousands of Euro (€)	2010	2009
FIXED ASSETS	**27,377**	**26,912**
I. Formation expenses	**1,479**	**2,415**
II. Intangible fixed assets	**2,414**	**1,023**
III. Tangible fixed assets	**1,377**	**1,613**
B. Plant, machinery and equipment	380	434
C. Furniture and vehicles	114	159
D. Leasing and other similar rights	12	40
E. Other tangible assets	872	981
IV. Financial fixed assets	**22,107**	**21,861**
A. Affiliated enterprises	21,699	21,744
A1. Investments	16,280	16,280
A2. Amounts receivable	5,419	5,464
B. Shares in associated companies	153	
B1. Investments	153	
C. Other financial non-current assets	254	116
C2. Amounts received and cash guarantee	254	116
CURRENT ASSETS	**8,547**	**25,838**
V. Amounts receivable after one year	**0**	**0**
VI. Stocks and contracts in progress	**244**	**156**
VII. Amounts receivable within one year	**1,724**	**1,111**
A. Trade debtors	1,005	507
B. Other amounts receivable	719	604
VIII. Investments	**0**	**0**
IX. Cash at bank and in hand	**5,353**	**24,047**
X. Deferred charges and accrued income	**1,225**	**524**
TOTAL ASSETS	**35,923**	**52,750**

STATUTORY BALANCE SHEET AFTER APPROPRIATIONS	Year ended December 31	
Thousands of Euro (€)	2010	2009
CAPITAL AND RESERVES	27,760	45,458
I. Capital	**30,428**	**30,178**
A. Issued capital	30,428	30,178
II. Share premium	**73,357**	**72,480**
III. Revaluation surpluses		
IV. Reserves		
V. Accumulated profit/(loss)	**(76,024)**	**(57,199)**
VI. Investment grants		
VII. Provisions and postponed taxes	**0**	**0**
A. Provisions for liabilities and charges	0	0
A4. Other liabilities & charges	0	0
AMOUNTS PAYABLE	8,164	7,292
VIII. Debts payable after 1 year	**2,867**	**3,093**
A. Financial debts	570	793
A1. Subordinated loans	130	260
A3. Leasing and other similar rights	0	12
A4. Credit institutions	440	520
F. Other debts	2,296	2,300
IX. Debts payable within 1 year	**4,583**	**3,667**
A. Current portion of debts after one year	222	238
B. Financial debts	0	0
B1. Credit institutions	0	0
C. Trade debts	3,424	1,210
C1. Suppliers	3,424	1,210
E. Taxes, remuneration & social security	741	1,142
E1. Taxes	0	4
E2. Remuneration & social security	741	1,138
F. Other amounts payables	195	1,077
X. Accrued charges and deferred income	**714**	**532**
TOTAL LIABILITIES	35,923	52,750

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 costs are expensed directly in the income statement. Development costs are recognized as intangible assets if it is probable that the asset developed will generate future economic benefits and if the development costs can be measured reliably. Development costs are depreciated on a straight-line basis over their estimated useful life from the moment that they are available for use.

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 value of shares and participations are reduced in value in case of depreciation or constant reduction in value as a result of the situation, the profitability or the prospects of the company related to those shares or participation.

The value of receivables is reduced in value in case the payment, or part of that payment, becomes uncertain at its due date.

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 ANNUAL REPORT OF THE BOARD OF DIRECTORS

The following report is a summary of the statutory annual 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, 2010.

4.3.1 Discussion and analysis of the statutory financial statements

The annual accounts cover the accounting period from January 1, 2010 to December 31, 2010.

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 events in 2010

Please refer to section 3.3.1.

Balance sheet - assets

- The cash at bank and in hand amounts to € 5.4 million on December 31, 2010;
- The non-current assets represent an amount of € 27.4 million:
  - out of which € 22.1 million of financial assets, representing mainly the acquisition of Orthomimetics Ltd. of € 16.3 million and the intra-group loans of € 5.4 million;
  - the remainder of € 5.3 million consist of the formation expenses of € 1.5 million, being the costs - after depreciation - associated with the different capital increases, the tangible assets of € 1.4 million and the intangible assets of € 2.4 million;
- The current assets, excluding the cash at bank and in hand, amount to € 3.2 million. They mainly consist of receivables within one year and deferred charges and accrued income.

Balance sheet - liabilities

- The issued capital of the Company amounts € 30.4 million and the share premium account increased to € 73.4 million;
- Accumulated losses reached € 76.0 million at December 31, 2010;
- The amounts payable of € 8.2 million consist mainly of other debts (€ 2.5 million), being the outstanding debt of the deferred payment of part of the purchase price of Orthomimetics Ltd., the trade creditors (€ 3.4 million), short and long term financial debt (€ 0.8 million), liabilities in respect of remuneration and social security obligations (€ 0.7 million) and accrued charges and deferred income (€ 0.7 million).

Results of the fiscal year

The operating income amounts to € 6.4 million and concerns other operating income of € 4.1 million, capitalization of development costs of € 1.6 million and initial turnover of € 0.7 million. The other operating income mainly consists of the payment of research grants (€ 1.4 million) and costs made in TiGenix NV that have to be recharged to its subsidiaries (€ 2.7 million).

The operating charges of € 26.1 million consist of:

- The expenses for services and other goods for an amount of € 7.5 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 € 6.2 million;
- Depreciation costs and amounts written off of € 8.0 million; in 2010 the amounts receivable of the affiliated enterprise TiGenix Inc was written off for an amount of € 6.4 million;
- Raw materials, consumables and goods for resale of € 1.6 million, and
- Other operating charges of € 2.8 million, mainly consisting of costs made in TiGenix NV that have to be recharged to its subsidiaries and that can be off set against the other operating income.

The operating loss of € 19.7 million was partially offset by the net financial results of € 0.9 million.

As there were no extraordinary items, the Company has closed its annual accounts with respect to the past financial year with a loss of € 18.8 million.

Statutory and non-distributable reserves

The Company has a share capital of € 30.4 million. The Company has no statutory reserves. As the Company has closed its annual accounts with respect to the past financial year with a loss, the Company is not legally obliged to reserve additional amounts.

Allocation of the results

The Board of Directors proposes 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 section 3.3.2.

4.3.3 Discussion of the main risks and uncertainties

Please refer to section 3.3.3.

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

Please refer to section 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

In accordance with Article 96, 6° of the Belgian company Code, taking into account two consecutive financial years of losses, the Board of Directors has decided, after consideration, to apply the valuation rules assuming "going concern", for the following reasons:

- the transaction with Cellerix whereby at least € 33.5 million cash should be injected in the combined group. For more details see section 3.3.5.;
- the cash and cash equivalents amounts to € 5.6 million (consolidated) on December 31, 2010;
- the Group has today two approved products in Europe in the promising field of regenerative medicine with the potential to generate positive future cash flows.

Since the Company is currently able to satisfy all financial liabilities and is able to fulfill all payments, the Board of Directors is of the opinion that the continuity of the Company is not threatened.

4.3.7 Declaration of conflicts of interest

During the meetings of the Board of Directors held in the course of the financial year 2010, none of the 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.

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.

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 2010 is presented in section 5 Corporate Governance Report.

4.3.10 Research and Development

Please refer to section 3.3.6.

The shareholders' meeting shall be requested to approve the accounts as submitted and to release the directors and auditor from liability for the performance of their duties in the course of the financial year ending December 31, 2010.

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 30, 2011

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 and is last updated on March 12, 2010 taking into account the update of the corporate governance code on March 12, 2009.

Factual information about TiGenix' corporate governance can be found in the pages hereafter.

5.1 CAPITAL AND SHARES

The issued capital of TiGenix amounts to € 30.4 million at December 31, 2010, represented by 31,121,154 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 € 13.7 million.

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 December 31, 2010, a total of 1,772,584 warrants are outstanding at an average weighted exercise price of € 4.29 and a total of maximum 536,534 new TiGenix shares at a price of € 4.28 could be still issued as a result of the second deferred payment of part of the purchase price of Orthomimetics Ltd.

5.2 SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

Based on the latest transparency declarations, TiGenix shareholders structure could be summarised as follow:

Number of shares	Current	Fully diluted	Latest declaration
ING Group NV	4,253,731 *13.67%*	4,253,731 *12.72%*	February 12, 10
Fagus NV	2,105,527 *6.77%*	2,105,527 *6.30%*	October 28, 08
O.G.B.B. Van Herk BV*	1,685,862 *5.42%*	1,685,862 *5.04%*	October 28, 08
Gemma-Frisius Fonds K.U.Leuven NV	1,224,870 *3.94%*	1,224,870 *3.66%*	September 21, 09
Particon BV	340,000 *1.09%*	340,000 *1.02%*	September 07, 09
NV Industriebank LIOF	340,000 *1.09%*	340,000 *1.02%*	September 07, 09
LRM NV	200,000 *0.64%*	200,000 *0.60%*	September 07, 09
Limburg Ventures BV	200,000 *0.64%*	200,000 *0.60%*	September 07, 09
Public	20,771,164 *66.74%*	23,080,282 *69.04%*	
TOTAL	**31,121,154**	**33,430,272**	

* to the best of the Company's knowledge, based on the latest declaration and based on info available of the private placements

5.3 BOARD OF DIRECTORS AND BOARD COMMITTEES

5.3.1 Board of Directors

The 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
ING Belgium NV, represented by Luc Van de Steen	Director (non-executive)	until 16/2/2011
Galenos SPRL, represented by 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

ING Belgium NV, represented by Luc Van de Steen, resigned from the Board of Directors on February 16, 2011.

Functioning

In 2010, the Board of Directors met 11 times. The main areas of discussion and decision were TiGenix' strategy to become a leader in the field of regenerative medicine, the strengthening of the cash position, the reports of the Audit Committee and of the Nomination and Remuneration Committee, the financial reporting including the monitoring of the cash position, 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 in 2010

Gil Beyen BVBA, represented by Gil Beyen	11
ING België NV, represented by Luc Van de Steen	11
Frank Luyten	10
Willy Duron	11
Galenos SPRL, represented by Sven Andréasson	11
Koenraad Debackere	8

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. An amount of € 55k in total was paid as fees and expense reimbursement in 2010.

Name	Position	Fee
Willy Duron	Chairman, Independent director	€ 36,000
Galenos SPRL, represented by Sven Andréasson	Independent director	€ 19,000

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
Galenos SPRL, represented by Sven Andréasson	Independent director	2011

The Audit Committee met 2 times until the end of March, 2011. The CEO, Gil Beyen BVBA, is invited to each of the meetings. The meetings were also attended by the CFO, Frank Hazevoets who is also the secretary of the Audit committee (article 7.23 CGC). Part of the meetings was 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 2010.

Although the Corporate Governance Code 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, which has been explained in the Corporate Governance Charter of the Company

Nomination and Remuneration Committee

Name	Position	Term
Galenos SPRL, represented by 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 the end of March, 2011. 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 composition of the management team on December 31, 2010 is presented in the table below.
Only the CEO is a member of the Board of Directors.

Name	Position
Gil Beyen BVBA, represented by Gil Beyen	Chief Executive Officer (CEO)
Wilfried Dalemans	Chief Technical Officer (CTO) & VP Regulatory Affairs
Patrick Haelterman	Vice-President Marketing & Sales Europe
Frank Hazevoets	Chief Financial Officer (CFO) & Company secretary

The total gross remuneration of the management team in 2010 was € 1.1 million. A split of the amount can be found in section 3.2.5 under remuneration of key management personnel. In 2010, 30,000 warrants with an exercise price of € 1.65 were offered to the management team, based on a decision of the Board of Directors of July 7, 2010.

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. The Board of Directors believes that the remuneration of the CEO and the granting of warrants is set at reasonable market standards. As for article 12, first paragraph (remuneration report) the Company does not have to comply with this article for the current year but will comply for the financial year starting on January first 2011.

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 Bedrijfsrevisoren - BDO 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 Gert Claes 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 2013.

The total fee of the external auditor (and related firm) in 2010 amounted to € 68k.