

TiGenix
Naamloze vennootschap
Romeinse straat 12 box 12
3001 Leuven
VAT BE 0471.340.123
RLE Leuven
(the “**Company**”)

SPECIAL REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLE 596 OF THE COMPANIES CODE WITH RESPECT TO THE CANCELLATION OF THE PREFERENTIAL SUBSCRIPTION RIGHT

This special report was drawn up pursuant to article 596 of the Companies Code and relates to the proposed cancellation of the preferential subscription right of the existing shareholders with respect to the proposed issuance of up to 73,771,782 new shares (the “**Offered Shares**”) by the board of directors in the framework of the authorised capital, by way of a private placement to a broad group of unspecified institutional and professional investors (the “**Transaction**”).

In this report, you will find (i) a description of the authorised capital, (ii) a description of the proposed Transaction, (iii) the justification of the cancellation of the preferential subscription right, and (iv) the financial consequences of the Transaction for the shareholders.

1 Authorised capital

1.1 Description of the authorised capital

As set out in Article 6.1 of the Articles of Association of the Company, the extraordinary shareholders’ meeting of 26 April 2011 has explicitly authorised the board of directors to increase the capital in one or more times for a (total) amount of EUR 89,091,655.28.

Pursuant to Article 6.3 of the Articles of Association, which was added at the occasion of the 11 May 2012 decrease of the registered capital through absorption of losses carried forward, the board of directors’ authorization to increase the registered capital was, as of the date of such capital decrease, limited to capital increases in one or more transactions with a (cumulated) amount equal to the registered capital then set out in Article 5 of the articles of association, being EUR 9,165,920.10.

The board of directors can use this authorisation for a period of five years as of the publication of this authorisation in the Annexes to the Belgian State Gazette of 24 June 2011. The extraordinary shareholders’ meeting made the authorisation subject to the conditions mentioned below.

The capital increase which can be decided upon pursuant to the aforementioned authorisation, can take place in accordance with the modalities to be determined by the board of directors, through a contribution in cash or in kind, or through the conversion of reserves and issuance premiums, with or without the issuance of new shares with or without voting rights. The board of directors can also use this authorisation for the issuance of convertible bonds, subordinated or not subordinated, warrants or bonds to which warrants or other tangible values are connected, or other securities.

When using the authorisation, the board of directors can, in the interest of the Company, within the limits of and in accordance with the conditions set out in the Companies Code, limit or cancel the preferential subscription right of the existing shareholders. This limitation or cancellation can also occur for the benefit of the employees of the Company or its subsidiaries, and for the benefit of one or more specific persons even if these are not employees of the Company or its subsidiaries.

If, at the occasion of the capital increase decided upon within the framework of the authorised capital, an issuance premium is paid, this will automatically be booked on the account "Issuance Premium", which will, in the same manner as the registered capital, serve as a guarantee for third parties and of which, without prejudice to the possibility of the conversion of this reserve into capital, can only be disposed in accordance with the conditions set out in the Companies Code for modification of the Articles of Association.

1.2 Available amount of the authorised capital

Taking into account the capital increases within the framework of the authorized capital of 17 April 2012 for an amount of EUR 525,803.32 (i.e. 536,534 shares x the fractional value of the shares at that time, i.e. EUR 0.98) and of 27 December 2012 for an amount of EUR 862,938.50 (i.e. 8,629,385 shares x the fractional value of the shares at that time, i.e. EUR 0.10), and taking into account the conditional capital increases within the framework of the authorized capital of 6 July 2012 for an amount of EUR 400,000 in relation to the issue of 4 million warrants (excluding issuance premium) (i.e. 4,000,000 warrants x the fractional value of the shares at that time, i.e. EUR 0.10), the available authorized capital amounts to EUR 7,377,178.28 (i.e. EUR 9,165,920.10 - EUR 525,803.32 - EUR 862,938.50 - EUR 400,000) immediately prior to the capital increase in the framework of the Transaction.

2 Description of the Transaction

2.1 Structure of the Transaction

The board of directors intends to increase the registered capital of the Company, using the authorised capital, through the issuance of maximum 73,771,782 Offered Shares, subject to and to the extent of subscription of these Offered Shares in the framework of a private placement described below.

In the framework of the proposed capital increase, the board of directors intends to cancel the preferential subscription rights of the existing shareholders of the Company with a view to offering the Offered Shares in an "accelerated book building procedure" to a broad group of unspecified institutional and professional investors. Such procedure allows to measure the interest to subscribe to the Offered Shares and determine an objective issue price.

The board of directors will authorise the Global Co-ordinator and Lead Agent to select the institutional and professional investors. The preferential subscription right will be cancelled in favour of a broad group of unspecified domestic and foreign qualified institutional and professional investors in Belgium and elsewhere. The Global Co-ordinator and Lead Agent are free to determine which institutional and professional investors they will contact (albeit that to the extent that the Offered Shares are offered in the United States of America, they will only be offered to a limited number of "qualified institutional buyers" (within the meaning of Rule 144A under the U.S. Securities Act of 1933) or "accredited investors" (within the meaning of Rule 501(a)(1), Rule 501(a)(2), Rule 501(a)(3), Rule 501(a)(5), Rule 501(a)(6) or Rule 501(a)(7) under the U.S. Securities Act of 1933) in reliance on an

exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933).

The exact number of Offered Shares to be issued and the issue price of the Offered Shares will be determined by the board of directors or any of its proxy holders, in agreement with the Global Co-ordinator and Lead Agent, in accordance with and following the closing of the accelerated book building procedure.

The Global Co-ordinator will, after the selection of the investors and the determination of the effective number of Offered Shares to be issued and of the issue price on the basis of the accelerated book building procedure, underwrite the capital increase, in accordance with an agreement to be entered into between the Company and the Global Co-ordinator, except for the portion of the capital increase for which the Company has entered into individual subscription agreements with investors selected on the basis of the results of the accelerated book building procedure. On the date set for settlement of the transaction, the Global Co-ordinator or the Company will deliver the Offered Shares to the selected group of institutional and professional investors.

Should the capital increase not be fully subscribed, the capital will only be increased up to the amount of the placed subscriptions, subject to the approval of the board of directors or any of its proxy holders. Even in case all Offered Shares are placed, the board of directors or any of its proxy holders can resolve to have the capital increase take place for a smaller number of subscriptions. The board of directors or any of its proxy holders can, for the sake of clarity, also resolve not to have the capital increase take place even in case all or a portion of the Offered Shares are subscribed to.

The moment of opening and the duration of the subscription period will be determined by the board of directors or any of its proxy holders in concert with the Global Co-ordinator and Lead Agent and will provide for the possibility of an early closing. The subscription period is expected to close on the day after its opening. If the subscription period has not been closed within thirty (30) days at the latest as of the resolution of the board of directors of the Company to increase the capital, no placement of the Offered Shares will take place and hence no capital increase will be realised.

Various reasons, including a deterioration of the situation on the financial markets, can lead to the Transaction not taking place, or to the Transaction taking place with issue of only a portion of the Offered Shares.

The Offered Shares have to be fully paid in cash at the latest at the time of the establishment of the capital increase.

Each director individually will be authorised to establish the completion of the capital increase by notarial deed on the basis of the submission of the documents which evidence the Transaction in accordance with Article 589 of the Companies Code. After the closing of the subscription to the capital increase, the listing of the Offered Shares will be requested.

2.2 Issue price

The issue price per Offered Share will be established by the board of directors or its proxy holders in concert with the Global Co-ordinators and Lead Agent on the basis of the results of the accelerated book building procedure with institutional and professional investors. The issue price will be at least equal to the current accounting par value of the existing shares (i.e. EUR 0.10).

The portion of the issue price per share up to the accounting par value of EUR 0.10 will be recorded on the "Capital" account. The balance will be recorded on the "Issuance Premium" account, which in the same manner as the Company's share capital serves as guarantee for third parties and which, save for the possibility of conversion into capital, can only be decided on in accordance with the conditions required for an amendment of the articles of association.

Hence, the maximum amount of the capital increase as a result of the Transaction will be EUR 7,377,178.20 (i.e. 73,771,782 shares x EUR 0.10 per share) and the effective amount of the capital increase will consist of the number of effectively issued Offered Shares multiplied by the accounting par value of EUR 0.10.

2.3 The Offered Shares

The Offered Shares will be dematerialised shares with the same rights as the existing shares of the Company. The Offered Shares will not have a nominal value and will each represent the same fraction of the capital as the other outstanding shares of the Company.

The Offered Shares will carry the same rights as all outstanding shares as to dividends in the current financial year, if any, and in all subsequent financial years.

2.4 Listing

It is the intention that the issued Offered Shares will be listed on NYSE Euronext Brussels. The listing on NYSE Euronext Brussels of the Offered Shares will be requested.

3 Justification of the cancellation of the preferential subscription right

The purpose of the proposed capital increase and issue of Offered Shares is to strengthen the cash resources and the equity capital of the Company. The Transaction will generate means that the Company will mainly use for pursuing market access and reimbursement, and advancing the commercial launch and roll out of ChondroCelect in selected European markets and for advancing the Company's Phase III clinical trial in complex perianal fistulas in patients with Crohn's disease (Cx601).

The board of directors intends to cancel the preferential subscription rights of the existing shareholders.

The board is of the opinion that the cancellation of the subscription rights allows the Company to (i) rapidly respond to potential opportunities in the financial markets; and hence to (ii) rapidly have access to additional financing. In addition, the cancellation of the individual subscription right contributes to the creation of a correct subscription price.

The speed at which one must act in such cases does not allow one to wait for the expiry of the terms that should be taking into account in a capital increase with preferential subscription rights.

Therefore, both the issue of the Offered Shares and the method of a private placement with cancellation of the preferential subscription rights of the existing shareholders are in the interest of the Company.

4 Financial consequences of the Transaction for the shareholders

4.1 Evolution of the registered capital and the share in the profits

The registered capital of the Company currently amounts to EUR 10,028,858.60 represented by 100,288,586 shares, without nominal value, each representing 1/100,288,586th of the registered capital.

In addition, as per 30 April 2013 there are 5,337,283 outstanding warrants (i.e. warrants that have been granted and accepted and that have not yet become null and void for any reason as per 30 April 2013¹) (the “**Outstanding Warrants**”). In accordance with the conditions of the warrants plans under which they were issued, upon exercise, the Outstanding Warrants entitle the warrant holders to one new share in the Company per exercised warrant, being a total of 5,337,283 new shares in the Company in case all 5,337,283 Outstanding Warrants are exercised.

Leaving the 5,337,283 Outstanding Warrants aside and only taking into account the number of shares that are outstanding at the date of this report, the issue of 73,771,782 new Offered Shares will result in a dilution of the share of the existing shares in the Company in the profits of the Company of (rounded-off) 42.38%. In case, in addition to the number of shares that are outstanding on the date of this report, also the maximum number of shares that can be issued upon exercise of all Outstanding Warrants is taken into account, the issue of 73,771,782 new Offered Shares will result in a dilution of up to (rounded-off) 41.12%.

4.2 Effect on the par value of the shares and the accounting net assets of the Company

As the issue price of the Offered Shares cannot be lower than the current par value of the shares in the Company, the issue of the Offered Shares will not negatively impact the par value of the share and will result in an increase of the net assets of the Company.

The amount of the increase of the net assets will depend on the applicable issue price and the number of Offered Shares effectively issued. Since the issue price at present is not yet determined, it is impossible at this time for the board of directors to make an accurate assessment of the possible financial consequences of the Transaction for the existing shareholders.

Therefore, the board of directors has prepared a number of simulations on the basis of purely hypothetical issue prices on the assumption that all the Offered Shares will be subscribed. The results of these simulations are attached to this report as Annex 1 and demonstrate that the issue of the Offered Shares will lead to an increase or decrease of

¹ The Extraordinary Shareholders' Meeting of 26 February 2013 granted 54,600 warrants to each of the independent directors, subject to the approval of the issue of the warrants, which was done by the Extraordinary Shareholders' Meeting of 20 March 2013 that (conditionally) issued 777,000 warrants of which 54,600 warrants have been issued, granted and accepted, 218,400 warrants have been issued and granted but not yet accepted, and 504,000 warrants have been issued but not yet granted as per 30 April 2013.

The independent directors Innosté SA (permanently represented by Jean Stéphane), Willy Duron, R&S Consulting BVBA (permanently represented by Dirk Reyn), Greig Biotechnology Global Consulting, Inc. (permanently represented by Russell Greig) and Eduard Enrico Holdener have accepted their 54,600 warrants on 21 April 2013, 15 May 2013, 4 June 2013, 14 June 2013 and 28 June 2013, respectively.

In addition, the Board of Directors granted 160,000 warrants (of the aforementioned 777,000 warrants) to Gil Beyen BVBA (permanently represented by Gil Beyen) at its meeting of 7 May 2013. Gil Beyen BVBA has accepted these warrants on 6 July 2013.

The 218,000 and 504,000 warrants which have not yet been granted or accepted as per April 30, 2013 are not yet included in the abovementioned number of Outstanding Warrants.

the amount represented by each share in the net assets of the Company on a consolidated basis under IFRS.

As already indicated above, upon issue of the Offered Shares, the portion of the issue price of the Offered Shares up to the par value of the existing shares (being EUR 0.10) will be recorded as "Capital", and the surplus as "Issuance Premium".

5 Report of the auditor

The auditor shall prepare a report on the aforementioned issuance of Offered Shares with cancellation of the preferential subscription right of the existing shareholders, in accordance with Article 596 of the Companies Code.

For the board of directors, on the basis of a power of attorney

Date: 10 July 2013

Willy Duron
Director

Innosté SA, permanently represented by Jean Stéphenne
Director

Annex 1: Simulations

A. Situation before the issuance of the Offered Shares - fully diluted for the Outstanding Warrants⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.114	0.563
TOTAL	12,024,898.82	59,508,017.50
B. Situation after the issuance of all Offered Shares at an issue price of €0.60 - fully diluted for the Outstanding Warrants⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.108	0.578
TOTAL	19,402,077.02	103,771,086.70
C. Situation after the issuance of all Offered Shares at an issue price of €0.55 - fully diluted for the Outstanding Warrants⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.108	0.558
TOTAL	19,402,077.02	100,082,497.60
D. Situation after the issuance of all Offered Shares at an issue price of €0.50 - fully diluted for the Outstanding Warrants⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.108	0.537
TOTAL	19,402,077.02	96,393,908.50
E. Situation after the issuance of all Offered Shares at an issue price of €0.45 fully diluted for the Outstanding Warrants⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.108	0.517
TOTAL	19,402,077.02	92,705,319.40

Remarks

- (1) Assuming that all 5,337,283 Outstanding Warrants are exercised. For the warrants issued on 14 May 2004 and 20 April 2005, €1 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 3 November 2005 and 26 February 2007, €0.997 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 20 March 2008, €0.977 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 19 June 2009 and 12 March 2010, €0.978 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 6 July 2012 and 20 March 2013, €0.10 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium.
- (2) As starting point for the calculation of the registered capital on a fully diluted basis, the registered capital of TiGenix NV as per 31 December 2012 was taken, being € 10,028,858.60 represented by 100,288,586 shares.
- (3) As starting point for the calculation of the net assets on a fully diluted basis, the net assets of TiGenix NV on a consolidated basis under IFRS per 31 December 2012 was taken.

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