TiGenix
Limited liability company
(limited liability company that makes or has made a public call on funds from the public)
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3001 Leuven
VAT BE 0471.340.123
RLE Leuven
(the “**Company**”)

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

This special report was drawn up pursuant to article 596 of the Belgian 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 83 million new ordinary shares by the board of directors in the framework of the authorised capital, such shares to be offered in the form of American Depositary Shares ("**ADSs**"), each ADS representing 20 new shares, by way of an initial public offering to retail and institutional investors in the United States ("**USA**") and possibly to a broad group of unspecified institutional and professional investors in or from any other country or jurisdiction outside the USA where such offering is permitted in compliance with any applicable rules and regulations of any such country or jurisdiction (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.

This report of the board of directors should be read together with the report of the Company's auditor prepared in accordance with article 596 of the Belgian Companies Code.

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 September 8, 2014 has explicitly authorised the board of directors to increase the capital in one or more times for a (total) amount of EUR 16,047,662.00 in the framework of the authorised capital.

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 on October 8, 2014, *i.e.* until October 8, 2019. 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 Belgian 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 Belgian Companies Code for modification of the Articles of Association.

1.2 Available amount of the authorised capital

Since the authorisation by the extraordinary shareholders' meeting held on September 8, 2014, the board of directors has used the authorised capital:

(a) On February 26, 2015, for a conditional capital increase in an amount of up to EUR 3,319,612.20 (excluding issuance premium) in relation to the issuance by the Company of 250 convertible bonds with a nominal value of EUR 100,000.00 per convertible bond completed on March 6, 2015;

(b) On July 31, 2015, for a capital increase of EUR 771,275.70 (excluding issuance premium) in relation to the acquisition of Coretherapix S.L.;

(c) On November 24, 2015, for a capital increase of EUR 910,618 (excluding issuance premium) completed in two tranches on, respectively, November 27, 2015 and December 3, 2015 further to a private placement of 9,106,180 new shares;

(d) On December 7, 2015, for a conditional capital increase of maximum EUR 225,000 (excluding issuance premium) in relation to the issuance of 2,250,000 warrants to the benefit of the current and future employees of the Company and its subsidiaries, the current and future independent directors of the Company and the CEO of the Company; and

(e) On March 14, 2016, for a capital increase of EUR 2,500,000 (excluding issuance premium) further to a private placement of 25,000,000 new shares.

The available authorised capital therefore amounts to EUR 8,321,156.10.

2. **Description of the Transaction**

2.1 Structure of the Transaction

The board of directors intends to increase the share capital of the Company in a maximum amount of EUR 8.3 million (excluding issuance premium), using the authorised capital, through the conditional issuance of maximum 83 million new ordinary shares at a subscription price of no less than the accounting par value (*fractiewaarde*) (*i.e*. EUR 0.10) (the "**Capital Increase**"). The Capital Increase is subject to the subscription of (i) the new shares offered in the form of ADSs in the framework of the Transaction (the "**New Shares**") and (ii) additional shares that may be issued to cover the over-allotment option of the Underwriters ("**Over-Allotted Shares**") as further described below. The exact number of New Shares (and Over-

Allotted Shares, if any) to be issued will be determined by the board of directors or any of its proxy holders, in agreement with the Joint Book-Running Managers.

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 in accordance with article 603 *juncto* article 596 of the Belgian Companies Code to allow the Company to offer the New Shares and, if applicable, the Over-Allotted Shares in the form of ADSs in the framework of the Transaction. No percentage of the offering of ADSs will be reserved for retail investors.

The Company appointed Merrill Lynch, Pierce, Fenner & Smith, Incorp. and Cowen and Company, LLC as Joint Book-Running Managers, Canaccord Genuity Inc. as Lead Manager and BTIG, LLC as Co-Manager (collectively the "**Underwriters**") in relation to the Transaction. The New Shares (and Over-Allotted Shares, if any) are placed with the final investors, in the form of ADSs, following a bookbuilding process carried out by the Underwriters. Each ADS represents twenty (20) ordinary shares in the Company.

The Underwriters have been assigned to conduct reasonable marketing efforts in order to contact a significant group of potential retail, institutional and professional investors and will propose an allocation of the New Shares (and Over-Allotment Shares, if any) on the basis of objective criteria, in accordance with market practice.

2.2 Subscription

On the Closing Date (as defined in the Underwriting Agreement), the New Shares and corresponding part of the Capital Increase will be subscribed for ("**First Closing of the Capital Increase**") by the Underwriters on behalf of the final investors in accordance with the Underwriting Agreement to be entered into between the Underwriters and the Company. On the Closing Date, the Company will directly or indirectly deliver the New Shares underlying the placed ADSs to Deutsche Bank AG, Amsterdam Branch, who will act as custodian for Deutsche Bank Trust Company Americas and who will hold the New Shares underlying the ADSs for the account of the investors. Deutsche Bank Trust Company Americas will, as depositary, register and deliver the ADSs representing the New Shares to investors.

In the framework of the Transaction, the Underwriters have been granted a 30-day option to subscribe for the Over-Allotted Shares, which shall not exceed 15% of the New Shares, to cover over-allotments or short positions of ADSs, if any. If the over-allotment option is exercised, the Over-Allotted Shares and corresponding part of the Capital Increase will be subscribed for by the Underwriters on behalf of the final investors and the Company will directly or indirectly deliver the Over-Allotted Shares underlying the over-allotted or shorted ADSs to Deutsche Bank AG, Amsterdam Branch.

In the event that the Capital Increase will not be fully subscribed for, the share capital will only be increased with the amount of the placed subscriptions subject to the approval of the board of directors or their proxy holders in accordance with article 584 of the Belgian Companies Code. Even in case the full amount of the Capital Increase is 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. If the total number of subscriptions exceeds the maximum amount of the Capital Increase, the board of directors or any of its proxy holders will reduce the number of subscriptions in concert with the Underwriters. 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 (in the form of ADSs) are subscribed for.

The moment of the opening and the duration of the subscription period will be determined by the board of directors or their proxy holders in consultation with the Underwriters and it will be possible for the subscription period to be closed early. The subscription period is expected to take place between December 6 and 14, 2016. If the subscription period has not been closed at the latest on January 31, 2017, no placement of the New Shares (in the form of ADSs) and, as the case may be, the Over-Allotted Shares (in the form of ADSs) will be effected and the Capital Increase will not be deemed to be realised. Various reasons, including a deterioration of the situation on the financial markets, can lead to the Transaction not taking place or the Transaction taking place with issuance of only a part of the New Shares and the Over-Allotted Shares (if any).

Each director, acting individually, will be authorized to establish the realisation of the Capital Increase, at one, two or more occasions, by means of a notarial deed on the basis of those documents required to settle the Transaction in accordance with article 589 of the Belgian Companies Code. The first notarial deed will be passed after closing of the offering, on the Closing Date as defined in the Underwriting Agreement. The second and potential further notarial deeds will be passed (if at all) depending on the exercise of the over-allotment option by the Underwriters as provided for in the Underwriting Agreement.

2.3 Issuance price

The price per ADS (expressed in USD) and the issuance price per New Share will be determined by the board of directors or their proxy holders in concert with the Underwriters, based on the results of the bookbuilding process. The final issuance price of the New Shares expressed in EUR, which will not be lower than the accounting par value of EUR 0.10, will be determined on the basis of the reference USD/EUR exchange rate as will be evidenced by the certificate to be issued by the bank pursuant to article 600 of the Companies Code in the framework of the First Capital Increase or as otherwise determined by the board of directors, in concert with the Underwriters, at a date prior to the completion of the relevant part of the Capital Increase.

The portion of the issuance price per New Share and Over-Allotted Share (if any) 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.

The final amount of the capital increase will thus be equal to the number of newly issued shares multiplied by the accounting par value of EUR 0.10.

2.4 The offered shares

The New Shares and the Over-Allotted Shares (if any) will be dematerialised shares with the same rights as the existing shares of the Company. The New Shares and the Over-Allotted Shares (if any) 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 New Shares and Over-Allotted shares (if any) will carry the same rights as all outstanding shares and will be entitled to dividends in the current financial year, if any, and in all subsequent financial years.

Unless determined otherwise by the board of directors or any of its proxy holders, each ADS will represent twenty (20) ordinary shares of the Company.

2.5 Listing

Once the Registration Statement on Form F-1 is declared effective by the US Securities and Exchange Commission (the "**SEC**"), the ADSs will be admitted to listing and trading on the NASDAQ. The ADSs will be traded on the NASDAQ Global Market under the symbol “TIG”.

The admission to listing and trading on Euronext Brussels will be requested for the New Shares and the Over-Allotted Shares (if any) upon approval of a listing prospectus by the Belgian Financial Services and Markets Authority ("**FSMA**"), which is expected to occur prior to the effective issuance of the New Shares.

3. **Justification of the cancellation of the preferential subscription right**

3.1 The Company intends to use the net proceeds resulting from the issuance of the New Shares and the Over-Allotted Shares (if any) for the following purposes:

(a) With respect to Cx601, in the United States, to complete the process of technology transfer to Lonza, a U.S.-based contract manufacturing organization, to file an investigational new drug application to conduct a pivotal Phase III trial to register Cx601 in the United States supporting a biologics license application with the FDA and to commence recruitment of patients for the Phase III trial (approximately USD 21.2 million). The pivotal Phase III trial to register Cx601 in the United States is expected to start in the first half of 2017.

(b) To advance the Phase II clinical development of Cx611 in severe sepsis until well into the stage of recruitment (approximately USD 6.3 million). The initiation of a Phase I/II clinical trial in severe sepsis in Europe is expected in the fourth quarter of 2016.

(c) To advance the development of AlloCSC-01 in acute myocardial infarction until the end of Phase I/II clinical development (approximately USD 4 million). Final results of the ongoing Phase I/II trial are expected to be available during the first half of 2017.

(d) The remainder for general corporate purposes, including research and development and working capital requirements.

The foregoing represents the Company's current intentions with respect to the use and allocation of the net proceeds resulting from the issuance of the New Shares and the Over-Allotted Shares (if any) based upon its present plans and business conditions. The occurrence of unforeseen events or changed business conditions could result in the application of the net proceeds in a manner other than as described above. Pending use of the net proceeds as described above, the Company intends to invest the net proceed in short-term bank deposits or interest-bearing, investment-grade securities.

3.2 The Transaction and the listing of the ADSs on the NASDAQ Global Market will further diversify the Company's investor base and will offer certain institutional investors based in the USA the opportunity to invest indirectly in shares issued by the Company, which might otherwise not be permitted according to applicable rules. Moreover, the listing of the ADSs on the NASDAQ Global Market will offer the Company the benefit of a new venue for raising equity capital and will increase the Company's research coverage. All this is expected to enhance the liquidity of the Company's shares and the visibility and market profile of the Company among investors. The Company believes that these advantages would not be available to the same extent if the New Shares would be publicly offered in Belgium instead of in the USA.

3.3 The board of directors intends to cancel the preferential subscription rights of the existing shareholders in favour of an unspecified group of potential retail (in the USA), institutional and professional investors to be contacted by the Underwriters. The board of directors is of the opinion that the cancellation of the preferential subscription right offers the Company prospects (i) to take advantage of the opportunity to execute the Transaction and (ii) to obtain additional financial means within a short timeframe that will allow the Company to pursue the objectives described in paragraph 3.1 above. An issuance with preferential subscription rights would require more time to complete and the result would be more uncertain. Indeed, based on the feedback received from its financial advisors, it cannot be guaranteed that the same window of opportunity to proceed with the Transaction will continue to exist in the near future.

3.4 The cancellation of the preferential subscription rights in the framework of the Transaction in favour of an unspecified group of potential retail (in the USA), institutional and professional investors is therefore 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 20,230,458.70 represented by 202,304,587 shares, without nominal value, each representing 1/202,304,587th of the share capital.

In addition, as per June 30, 2016:

(a) there are 9,898,500 granted and outstanding warrants (i.e. warrants that have been granted and that have not yet become null and void for any reason as per June 30, 2016) (the "**Outstanding Warrants**"). In accordance with the conditions of the warrant 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 9,898,500 new shares in the Company in case all 9,898,500 Outstanding Warrants are exercised;

(b) there are 250 outstanding convertible bonds due 2018 ("**Convertible bonds**") which, at their current conversion price of EUR 0.9263, can be converted into 26,989,096 new shares in the Company in case all 250 Convertible Bonds are converted[1].

On July 4, 2016, TiGenix SAU entered into a licensing agreement with Takeda Pharmaceuticals International AG ("**Takeda**") pursuant to which Takeda agreed to invest EUR 10 million in new ordinary shares of TiGenix within one year of the effective date of the licensing agreement. The subscription price per share shall be equal to the average of the closing share prices of the Company on Euronext Brussels during the period of 30 calendar days immediately preceding the date on which the issuance of such new ordinary shares commenced (the "**Takeda Shares**").

Leaving the 9,898,500 Outstanding Warrants, the 250 Convertible Bonds and the Takeda Shares aside and only taking into account the number of shares that were outstanding immediately prior to the Transaction, the issuance of 55 million New Shares and 8,250,000 Over-Allotted Shares, at the occasion of the Transaction will result in a dilution of the share of the existing shares in the Company in the profits of the Company of (rounded-off) 23.82%.

In case, in addition to the number of shares that were outstanding immediately prior to the Transaction, also the maximum number of shares that can be issued upon exercise of all Outstanding Warrants, the conversion of all 250 Convertible Bonds and the issuance of the Takeda Shares[2] is taken into account, the issuance of 55 million New Shares and 8,250,000 Over-Allotted Shares, at the occasion of the Transaction will result in a dilution of up to (rounded-off) 20.15%.

It is currently envisaged to offer 55 million New Shares and possibly 8,250,000 Over-Allotted Shares at the occasion of the Transaction. This number may increase or decrease, as further determined by the board of directors or any of its proxy holders, without such number exceeding 83 million in total. In case the maximum amount of 83 million shares, as will be conditionally approved under the Capital Increase, would be effectively offered and issued,

[1] Pursuant to Condition 6.2(f) of the Terms and Conditions of the Convertible Bonds, the conversion price will be adjusted if the issuance price of the New Shares would be less than 95% of the average of the daily volume weighted average price of the TiGenix shares on each of the five consecutive dealing days ending on the dealing day immediately preceding the first public announcement of the terms of the offering.

[2] Assuming a price per Takeda Share of EUR 0.8705, being the average of the closing share prices of the Company on Euronext Brussels during the period of 30 calendar days immediately preceding the date of this special report.

this would result in a dilution (rounded-off) of, respectively, 29.09% (leaving the 9,898,500 Outstanding Warrants, the 250 Convertible Bonds and the Takeda Shares aside) or 24.87% (taking into account full exercise of all Outstanding Warrants, conversion of all 250 Convertible Bonds and issuance of the Takeda Shares[2]).

The dilution relating to the share in the Company's profits also applies, *mutatis mutandis*, to the voting and other rights attached to the shares of the Company, as well as to the share in the liquidation proceeds, if any, and the preferential subscription rights.

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

As the issuance price of the offered shares cannot be lower than the current par value of the shares in the Company, the issuance 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 issuance price and the number of offered shares effectively issued. Since the issuance price and the number of New Shares and Over-Allotted Shares (if any) that will effectively be issued are not yet determined at present, 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. The number of issued New Shares and the issuance price shall be determined at pricing, following the bookbuilding process. The number of Over-Allotted Shares, which will not exceed 15% of the number of issued New Shares, depends on the exercise of the over-allotment option by the Underwriters.

For the purpose of describing the financial consequences resulting from the Capital Increase, the board of directors has prepared a simulation on the basis of an assumed offering size of 55 million New Shares and 8,250,000 Over-Allotted Shares (assuming that the Underwriters exercise their over-allotment option) and an assumed issuance price equal to the Company's closing price on Euronext Brussels on December 2, 2016 (i.e., the business day prior to the date of this report). The results of these simulations are attached to this report as Annex 1 and demonstrate that the issuance of the New Shares and the Over-Allotted Shares will lead to an increase of the amount represented by each share in the net assets of the Company per June 30, 2016 on a consolidated basis under IFRS.

As already indicated above, upon issuance of the New Shares and the Over-Allotted Shares (if any), the portion of the issuance price of the New Shares and the Over-Allotted Shares (if any) 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 New Shares and Over-Allotted Shares (if any) with cancellation of the preferential subscription right of the existing shareholders, in accordance with article 596 of the Belgian Companies Code.

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

Date: 5 December 2016

Willy Duron Director	Innosté SA Director Permanently represented by: Jean Stéphenne

Annex 1

		Not diluted for Outstanding Warrants, Convertible Bonds and Takeda Shares (1)		Fully diluted for Outstanding Warrants, Convertible Bonds and Takeda Shares (2)	
		Prior to the Transaction	Upon completion of the Transaction(3)	Prior to the Transaction	Upon completion of the Transaction(3)
Number of securities with voting rights attached					
A	**Existing shares prior to the Transaction**	202,304,587	202,304,587	250,679,833	250,679,833
B	**New Shares and Over-Allotted Shares**	0	63,250,000	0	63,250,000
C	**Total (A + B)**	202,304,587	265,554,587	250,679,833	313,929,833
D	**Dilution as a result of the Transaction (B : C)**		23.82%		20.15%
Share capital (statutory basis) (EUR) (4)					
E	**Share capital prior to the Transaction**	20,230,458.70	20,230,458.70	26,038,014.46	26,038,014.46
F	**Capital increase as a result of the issue of New Shares and Over-Allotted Shares(5)**	0	6,325,000.00	0	6,325,000.00
G	**Total (E + F)**	20,230,458.70	26,555,458.70	26,038,014.46	32,363,014.46
H	**Per share (G : C)**	0.100	0.100	0.104	0.103

		Not diluted for Outstanding Warrants, Convertible Bonds and Takeda Shares (1)		Fully diluted for Outstanding Warrants, Convertible Bonds and Takeda Shares (2)	
		Prior to the Transaction	Upon completion of the Transaction(3)	Prior to the Transaction	Upon completion of the Transaction(3)
Net equity (consolidated basis) (EUR) (6), (7)					
I	**Net equity prior to the Transaction**	26,496,892.83	26,496,892.83	74,386,937.67	74,386,937.67
J	**Increase of net equity as a result of the Transaction**	0	56,925,000.00	0	56,925,000.00
K	**Total (I + J)**	26,496,892.83	83,421,892.83	74,386,937.67	131,311,937.67
L	**Per share (K : C)**	0.131	0.314	0.297	0.418

Remarks:

(1) *Assuming that none of the 9,898,500 Outstanding Warrants are exercised, that none of the 250 outstanding Convertible Bonds are converted and that the Takeda Shares are not issued.*

(2) *Assuming that all 9,898,500 Outstanding Warrants are exercised, all 250 outstanding Convertible Bonds are converted at the current conversion price of EUR 0.9263 and the Takeda Shares are issued at EUR 0.8705 per share, being the average of the closing share prices of the Company on Euronext Brussels during the period of 30 calendar days immediately preceding the date of this special report. For the warrants issued on February 26, 2007, EUR 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 March 20, 2008, EUR 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 June 19, 2009 and March 12, 2010, EUR 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 July 6, 2012, March 20, 2013, December 16, 2013, April 22, 2014, and December 7, 2015, EUR 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.*

(3) *Including the issuance of 8,250,000 Over-Allotted Shares, in the assumption that the Underwriters shall exercise the over-allotment option.*

(4) *As starting point for the calculation of the share capital (on a statutory basis), the registered capital of TiGenix NV as per June 30, 2016 was taken.*

(5) *Excluding issuance premium.*

(6) *As starting point for the calculation of the net assets (on a consolidated basis), the unaudited net assets of TiGenix NV on a consolidated basis under IFRS per June 30, 2016 were taken. The results of the TiGenix group after June 30, 2016 have not been taken into account.*

(7) *The computation of the increase of the net equity as a result of the Transaction is based on an issuance price of the New Shares and Over-Allotted Shares amounting to EUR 0,90 (i.e., the Company's closing price on Euronext Brussels on December 2, 2016, being the business day prior to the date of this report).*