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

V.A.T. BE 0471.340.123
REGISTER OF LEGAL PERSONS LEUVEN

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Dear shareholders,

We are pleased to report to you on the statutory financial statements for the fiscal year ended December 31, 2011.

1 Discussion and analysis of the statutory financial statements

The annual accounts cover the accounting period from January 1, 2011 to December 31, 2011.

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 2011

In May 2011, TiGenix closed the business combination with the stem cell therapy company Cellerix, creating the European leader in cell therapy. The company now combines top line revenues with an advanced pipeline of clinical stage regenerative and immuno-modulatory products. TiGenix's operations are supported by a strong commercial and manufacturing infrastructure for advanced cell therapies, an experienced international management team and a solid cash position.

As a result of the merger, the Company's development focus has shifted from early stage preclinical programs towards a number of highly promising clinical stage products for inflammatory and autoimmune disorders of high unmet medical need, each addressing markets in excess of EUR 1 billion.

TiGenix has created a new and strong basis in 2011 on which the Company can build going forward. The Company delivered on its promises. It has obtained national reimbursement for ChondroCelect in Belgium and made progress in other European markets. TiGenix advanced all clinical stem cell programs on plan, and raised substantial funds from specialized healthcare investors and through non-dilutive financing.

Recognizing the unique risk-reward profile and considerable potential of TiGenix, investors invested substantial funds to allow the Company to execute on its business plan and reach the next important value-enhancing inflection points.

Prior to the business combination, Cellerix SA raised EUR 18.2 million from its venture capital investors. Subsequent to the business combination, the newly formed TiGenix raised an additional EUR 15.2 million from specialized healthcare investors across Europe. Finally, the Company attracted more than EUR 8 million in non-dilutive grants and innovation credits, bringing the total of funds raised to over EUR 40 million.

TiGenix product pipeline is based on a proprietary stem cell platform that exploits expanded allogeneic (donor-derived) adult stem cells derived from human adipose (fat) tissue (‘eASCs’). The platform has been extensively characterized in line with requirements of the European Medicines Agency (EMA) and is supported by exhaustive preclinical and CMC packages.

Given its focus on cell therapy, TiGenix is in the process of divesting its ChondroMimetic franchise, which is based on a biomaterial platform. To be able to concentrate on its core business and move forward with a clean slate, TiGenix has valued at its fair value less cost to sell the IP related to the OrthoMimetics acquisition over 2011.

In 2011, through a combination of restructuring, synergies and cost control, the combined companies’ cost basis has been significantly reduced. At the end of 2011, total staff of the combined group was 73 employees, compared to 105 employees at the end of 2010 for the (pro forma) combined group.

Balance sheet - assets

- The cash at bank and in hand amounts to € 6.4 million on December 31, 2011;
- The non-current assets represent an amount of € 70.5 million:
    - out of which € 65.5 million of financial assets, representing mainly the business combination with Cellerix SA as of € 58.1 million minus the divestment of Ltd € 16,3 million;
    - the remainder of € 5.0 million consist of the formation expenses of € 1.7 million, being the costs - after depreciation - associated with the different capital increases, the tangible assets of € 1.0 million and the intangible assets of € 2.3 million;
- The current assets, excluding the cash at bank and in hand, amount to € 1.8 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 € 89.1 million and the share premium account increased to € 88.0 million;
- Accumulated losses reached € 107.6 million at December 31, 2011;
- The amounts payable of € 9.1 million consist mainly of other debts (€ 2.3 million), being the outstanding debt of the deferred payment of part of the purchase price of Orthomimetics Ltd., the trade creditors (€ 0.2 million), short and long term financial debt (€ 3.2 million) of which most of it comes from intra-group loans, liabilities in respect of remuneration and social security obligations (€ 1.0 million) and accrued charges and deferred income (€ 2.1 million).

Results of the fiscal year

The operating income amounts to € 4.4 million and concerns other operating income of € 2.7 million that are recharged to its subsidiaries, turnover of € 1.2 million and capitalization of development costs of € 0.6 million.

The operating charges of € 20.3 million consist of:

- The expenses for services and other goods for an amount of € 6.0 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 € 5.4 million;
- Depreciation costs and amounts written off of € 5.3 million; in 2011 the amounts receivable of the affiliated enterprise TiGenix Ltd was written off for an amount of € 2.8 million of which € 2.1 million are related to the existing loan and interest and € 0.7 million to the net of receivables and payables;
- Raw materials, consumables and goods for resale of € 1.3 million, and
- Other operating charges of € 2.3 million, mainly consisting of costs made in TiGenix NV that are recharged to its subsidiaries and can be off set against the other operating income.

The operating loss of € 15.9 million was partially offset by the net financial results of € 0.7 million.

The operating loss of the continuing operations amounts up to € 15.3 million comparable with the € 18.9 million losses of 2010.

The extraordinary items of € 16.3 million are due to the divesting in its ChondroMimetic franchise. The biomaterial platform is no longer a fit, as the Company is now exclusively focused on cell therapy. In order to allow itself to continue with a clean slate, TiGenix has written-off the participation value related to the OrthoMimetics acquisition over 2011.

The Company has closed its annual accounts with respect to the past financial year with a loss of € 31.6 million.

Statutory and non-distributable reserves

The Company has a share capital of € 89.1 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.

2 Capital increases and issuance of financial instruments

The following capital increases occurred in 2011:

- Capital increase of € 58,155,669.74 (including issue premiums) through contribution in kind (Cellerix SA shares) and issue of 44,814,402 new TiGenix shares, completed on May 3, 2011;
- Capital increase of € 15,187,111.00 (including issue premiums) through contribution in cash (rights issue) and issue of 15,187,111 new TiGenix shares, completed on June 6, 2011

At December 31, 2011, a total of 1.727.683 warrants are outstanding at an average weighted exercise price of € 4.31 and a total of maximum 536,534 new TiGenix shares at a price of € 4.28 will 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.

Prior to the Business Combination, Cellerix had created two Equity Based Incentive Plans ("**EBIPs**").

Under the exiting plans in June 2008, September 2008, November 2009, May 2010 and October 2010, respectively 415,700, 37,850, 61,479, 49,446 and 77,751 shares were created.

In the framework of the Contribution and in accordance with the terms of the EBIP Agreement, Cx EBIP Agreement, S.L. contributed its 642,226 Cellerix shares into TiGenix and received 1,905,144 New Shares in return. Therefore, as a result of the Contribution, Cx EBIP Agreement, S.L. no longer holds Cellerix shares, but holds 1,905,144 Shares instead. Pursuant to the agreements reached in relation to the Contribution, the underlying assets of the options are no longer the Cellerix shares, but the Contribution Shares received by Cx EBIP Agreement, S.L. Therefore, upon the exercise of its options under any of the EBIPs, a beneficiary will receive a number of Shares corresponding to approximately 2.96 Shares per option (rounded down to the nearest integer) under any of the EBIPs.

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:

- TiGenix has a history of operating losses and an accumulated deficit until today and may never become profitable.
- TiGenix may need substantial additional funding, which may not be available on acceptable terms when required, if at all.
- TiGenix may fail in successfully commercialising ChondroCelect and future products, resulting in lower than anticipated revenues.
- TiGenix has a limited product portfolio and faces, and will continue to face, significant competition and technological change which could limit or eliminate the market opportunity for its products and future products.
- There may be uncertainty over reimbursement from third parties for newly approved healthcare products or such reimbursement may be refused.
- TiGenix may experience delays in the preclinical and clinical development of its product pipeline.
- Regulatory approval of TiGenix' products as medicinal products or devices may be delayed, not obtained or not maintained.

- TiGenix' manufacturing facilities and third party manufacturers are subject to regulatory requirements, which may affect the Company's development of its product pipeline and the Company's successful commercialisation of ChondroCelect and future products.
- TiGenix' inability to manage its expansion, both internally and externally, could have a material adverse effect on its business.
- TiGenix is working in a changing regulatory environment. Future changes in any pharmaceutical or medical device legislation or guidelines could affect the Company's business.
- TiGenix relies or may rely on third parties for certain of its research, clinical trials, technology, manufacturing and sales and marketing. TiGenix' dependence on third parties may reduce its profit margins and delay or limit its ability to develop and commercialise its products on a timely and competitive basis.
- TiGenix may not be able to adequately protect its proprietary technology or enforce any related rights thereto.
- TiGenix could be prevented by third party patents to develop or exploit its products.
- TiGenix' success depends on its key people and it must continue to attract and retain key employees and consultants to be in a position to continue its activities.
- TiGenix could face product liability claims, resulting in damages that may, in whole or in part, not be insured.
- Exchange rate fluctuations may negatively affect TiGenix' financial position.
- The allocation of the proceeds could harm the ability to carry out the business plan.
- Sustainability of a liquid public market.
- Dilution in case of future capital increases could adversely affect the price of the Shares and could dilute the interests of Existing Shareholders.
- The market price of the Shares could be negatively affected by sales of substantial numbers of Shares in the public markets.
- The market prices for securities of biotechnology companies in general have been highly volatile and may continue to be highly volatile in the future.
- Volatility of results may not meet the expectations of stock market analysts.
- Significant Shareholders could decide to combine their voting rights.
- Takeover provisions in the national law may make it difficult for an investor to change management and may also make a takeover difficult.

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.
- 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, 2011 and has no derivative instruments.

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

No subsequent event have took place after December 2011.

5 Valuation rules

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

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 cash and cash equivalents of the group amounts to € 19.8 million (consolidated) on December 31, 2011
- the Group has today one approved product in Europe in the promising field of regenerative medicine with the potential to generate positive future cash flows
- the 2012 budget approved by the Board of directors is fully financed by the current cash and cash equivalents of the company. In case the budget is not met, very limited additional financial resources should be found in order to guarantee the going concern of the company for the coming 12 months.

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.

7 Declaration of conflicts of interest

During 3 Board meetings, decisions were taken that required the application of the conflict of interest’s procedure. More detail can be found in the Corporate Governance Report.

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.

9 Corporate governance

The Board of Directors is committed to the highest standards of corporate governance. Factual information about TiGenix’ corporate governance in 2011 is presented in the Corporate Governance Report in annex.

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, 2011.

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

Done on March 8, 2012

On behalf of the Board of Directors

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 was last updated on May 4, 2011.

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

1 CAPITAL AND SHARES

The issued capital of TiGenix amounts to € 89.1 million at December 31, 2011, represented by 91.122.667 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 up and subscribed. The authorised capital of the Company amounts to € 89.1 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, 2011, a total of 1.727.683 warrants are outstanding at an average weighted exercise price of € 4.31 and a total of maximum 536,534 new TiGenix shares at a price of € 4.28 willbe issued as a result of the second deferred payment of part of the purchase price of Orthomimetics Ltd.

2 SHAREHOLDERS AND SHAREHOLDERS STRUCTURE

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

Number of shares	Current	Latest declaration
Genetrix Life Sciences AB	5,835,379 *6,40%*	June 6, 11
Novartis Bioventures Ltd	5,534,905 *6,07%*	June 6, 11
Roche Finanz AG	5,534,905 *6,07%*	June 6, 11
Ventech SA	5,195,199 *5,70%*	June 6, 11
Ysios Capital Partners SGECR	4,760,342 *5,22%*	June 6, 11
LSP III Management BV	4,445,053 *4,88%*	June 6, 11
ING Belgum NV	4,471,682 *4,91%*	June 22, 11
LRM NV	3,200,000 *3,51%*	June 14, 11
Biopartners Capital SLU	2,977,440 *3,27%*	June 6, 11
Fortis Private Equity Belgium NV	2,534,098 *2,78%*	June 14, 11
CX EBIP Agreement SL*	1,905,144 *2,09%*	June 6, 11
Gemma-Frisius Fonds K.U.Leuven NV	1,852,958 *2,03%*	June 10, 11
O.G.B.B.A. Van Herk BV	1,699,962 *1,87%*	June 14, 11
Navarrra Iniciativas Empresariales SA	1,693,412 *1,86%*	June 6, 11
Bankinter Capital Riesgo I FCR	1,457,732 *1,60%*	June 06, 11
Suro Capital SA SCR	1,243,746 *1,36%*	June 06, 11
Nerel SL	818,410 *0,90%*	June 06, 11
JV Risk Technologies SL	728,861 *0,80%*	June 06, 11
Inversora Bico SL	443,869 *0,49%*	June 06, 11
A&G Global Sicav-Middleton Fund	147,949 *0,16%*	June 06, 11
Madrid SASC	128,661 *0,14%*	June 06, 11
Public	34,512,960 *37,87%*	June 06, 11
TOTAL	**91,122,667**	

* CX EBIP Agreement SL is the holder of the TiGenix shares to be delivered to the employees of TiGenix SA (a subsidiary of TiGenix NV) under the latter´s equity based incentive plans

3 BOARD OF DIRECTORS AND BOARD COMMITTEES

3.1 Board of Directors

The composition of the Board of Directors is as follows:

Name	Position	Term
Willy Duron	Chairman, Independent director	2015
Koenraad Debackere	Director (non-executive)	2015
Gil Beyen BVBA, represented by Gil Beyen	CBO and Managing Director (executive)	2015
Eduardo Bravo	CEO and Managing Director (executive)	2015
Mounia Chaoui-Roulleau	Director (non-executive)	2015
Eduard Enrico Holdener	Independent director	2015
Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet	Director (non-executive)	2015
R&S Consulting BVBA, represented by Dirk Reyn	Independent director	2015
Immocom NV, represented by Nico Vandervelpen	Director (non-executive)	2015

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.

Frank P. Luyten resigned from the Board of Directors on May 3, 2011.

Galenos SPRL, represented by Sven Andreasson, resigned from the Board of Directors on May 3, 2011.

Eduardo Bravo was appointed as member of the Board of Directors on May 3, 2011.

Mounia Chaoui-Roulleau was appointed as member of the Board of Directors on May 3, 2011. On Monday 4, 2011, she was replaced by Ventech SA, represented by Mounia Chaoui-Roulleau. On January 18, 2012,Ventech SA was replaced by Mounia Chaoui-Roulleau.

Eduardo Henrico Holdener was appointed as member of the Board of Directors on May 3, 2011.

Joël Jean-Mairet was appointed as member of the Board of Directors on May 3, 2011. He was replaced by Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet, on May 4, 2011.

R&S Consulting BVBA, represented by Dirk Reyn, was appointed as member of the Board of Directors on May 3, 2011.

Immocom NV, represented by Nico Vandervelpen, was appointed as member of the Board of Directors on May 3, 2011.

Functioning

In 2011, the Board of Directors met 14 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.

During 3 Board meetings, decisions were taken that required the application of the conflict of interests procedure. The relevant parts of the minutes of theses meetings are copied below:

Board of Directors held on 9 June 2011:

Preliminary statement
Prior to discussing the items on the agenda, the board of directors acknowledged that, in accordance with Article 523 of the Companies Code, Mr. Eduardo Bravo and Gil Beyen BVBA, represented by Mr. Gil Beyen, declared to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular with respect to their management remuneration for the year 2011.

In accordance with Article 523 of the Companies Code, the auditor of the Company, BDO Bedrijfsrevisoren BV CVBA, represented by Gert Claes, will be informed of the existence of the conflicts of interests.

Furthermore, the minutes of the resolutions regarding the management remuneration of Mr. Eduardo Bravo and Gil Beyen BVBA, represented by Mr. Gil Beyen, will be entirely included in the annual report of the board of directors in relation to the financial year ending 31 December 2011.

In particular, it is proposed by the nomination and remuneration committee of the board of directors of the Company that Mr. Eduardo Bravo will receive a total compensation package as executive manager of the Company and its subsidiaries for the year 2011 of EUR 541,569, including:

- a fixed remuneration of EUR 350,000;
- a company car which value corresponds to a yearly amount of EUR 16,569 (excluding petrol);
- a potential bonus of EUR 175,000.

The total social security contributions due by the Company and/or its subsidiaries on such remuneration package would amount to EUR 10,310.

The nomination and remuneration committee of the board of directors further also proposed that Gil Beyen BVBA, represented by Mr. Gil Beyen, will receive the same compensation package (including a fixed remuneration and a potential bonus) as executive manager of the Company for the year 2011 as was the case for the financial year 2010. No social security contributions are due by the Company on such remuneration package.

Following this statement, Mr. Eduardo Bravo and Gil Beyen BVBA, represented by Mr. Gil Beyen, left the board meeting in accordance with Article 523, §1, last paragraph of the Companies Code and the remaining directors continue the meeting.

Deliberation

Mr. Eduard Enrico Holdener, chairman of the nomination and remuneration committee, presented to the board of directors the proposal of the nomination and remuneration committee on the remuneration package for the year 2011 for the 4 executive managers of the TiGenix Group, namely Mr. Eduardo Bravo, Gil Beyen BVBA, represented by Mr. Gil Beyen, Ms. Claudia D'augusta and Mr. Wilfried Dalemans.

The nomination and remuneration committee proposed:

(i) to adopt the proposed structure of compensation packages for the 4 executive managers for 2011;

(ii) to prepare an option / restricted share plan starting in the year 2012 for approval by the board of directors on 23 November 2011;

(iii) to discuss a rebalance of the above compensation package(s) for 2012. In this respect, Mr. Eduardo Bravo has agreed to renegotiate for 2012 a potential cut in his cash remuneration in exchange for options/restricted shares to optimize the LTI portion of his remuneration package. Such rebalance could also be considered for the other executive managers;

(iv) to approve the goals set for 2011 by Mr. Eduardo Bravo on the board of directors' meeting of 5 July 2011. The board members are requested to provide feedback on these goals to the chairman of the nomination and remuneration committee.

Mr. Eduard Enrico Holdener furthermore discussed the new remuneration package proposed by the nomination and remuneration committee and the justification behind it for each of the executive managers separately.

The board members discussed the remuneration increases proposed by the nomination and remuneration committee. The board of directors is of the opinion that, at this moment, a less high remuneration increase should be proposed to Mr. Eduardo Bravo and to Ms. Claudia D'Augusta compared to the remuneration increases proposed by the nomination and remuneration committee, but with the possibility for Mr. Eduardo Bravo and Ms. Claudia D'Augusta to benefit from the option / restricted share plan that may be set up starting in the year 2012.

Mr. Eduard Enrico Holdener, president of the nomination and remuneration committee, and Mr. Willy Duron, president of the board of directors, will propose a new remuneration package to Mr. Eduardo Bravo.

Resolutions

The board of directors: RESOLVED not to approve the new remuneration packages of the executive managers for the year 2011 at this board meeting, but to postpone such resolution to the next board meeting. A new remuneration package for the executive managers will be proposed by the

As mentioned above, Mr. Eduardo Bravo and Gil Beyen BVBA, represented by Mr. Gil Beyen, did not participate in the deliberation and resolution on the above matters.

Board of Directors held on 5 July 2011

Intervention

Prior to discussing agenda items 5 and 6, the board of directors acknowledged that, in accordance with Article 523 of the Belgian Companies Code, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, declared to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular with respect to their management remuneration and bonus scheme.

In accordance with Article 523 of the Belgian Companies Code, the auditor of the Company, BDO Bedrijfsrevisoren CVBA, represented by Gert Claes, will be informed of the existence of the conflicts of interests.

In particular, it is proposed by the nomination and remuneration committee of the board of directors of the Company that Eduardo Bravo will receive a total yearly fixed remuneration package as executive manager of the Company and its subsidiaries of EUR 338,569, including:

– a fixed salary of EUR 322,000; and

– a company car which value corresponds to a yearly amount of EUR 16,569 (excluding petrol).

This fixed remuneration package would be supplemented by a bonus scheme (with, in principle, a potential bonus amount of 50% of the fixed remuneration package) of which the final policy still is to be determined.

The nomination and remuneration committee of the board of directors further also proposed that Gil Beyen BVBA, represented by Gil Beyen, will receive the same yearly fixed remuneration as executive manager of the Company for the year 2011 as was the case for the financial year 2010. This fixed remuneration package would be supplemented by a bonus scheme (with, in principle, a potential bonus amount of 50% of the fixed remuneration package) of which the final policy still is to be determined.

Following this statement, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, left the board meeting in accordance with Article 523, §1, last paragraph of the Belgian Companies Code and the remaining directors continued the meeting.

Eduard Enrico Holdener, chairman of the nomination and remuneration committee, presented to the board of directors the proposal of the nomination and remuneration committee on the fixed and variable remuneration package for the four executive managers of the TiGenix Group, namely Eduardo Bravo, Gil Beyen BVBA, represented by Gil Beyen, Claudia D'Augusta and Wilfried Dalemans.

Eduard Enrico Holdener further referred to the benchmark figures and the justification behind the remuneration packages for each of the executive managers that were presented during the last board meeting.

5 Approval of remuneration of Management Team

After having discussed this agenda item, the board of directors DECIDED to approve the proposed fixed remuneration package for the four executive managers.

6 Company objectives approval and bonus scheme

In addition to the fixed remuneration package, the nomination and remuneration committee proposed that the executive managers are awarded a bonus of a potential amount of 50% of the fixed remuneration package for the CEO and the CBO and of a potential amount of 30% of the fixed remuneration package for the other executive managers.

Since the currently proposed bonus scheme only covers the coming year, the board of directors decided to request the nomination and remuneration committee to propose, for the CEO and the CBO, a new allocation of their compensation package in line with Articles 520bis and 520ter of the Belgian Companies Code. The nomination and remuneration committee will present this at a later board meeting this year.

As mentioned above, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, did not participate in the deliberation and resolution on the agenda items 5 and 6. They joined the meeting again at the start of the agenda item 7.

Board of Directors held on 23 November 2011

Preliminary statement

Prior to discussing the sole item on the agenda, the board of directors acknowledged that, in accordance with Article 523 of the Companies Code, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, declared to have an interest of a patrimonial nature which is conflicting with the decisions that fall within the scope of the powers of the board of directors, in particular with respect to their management remuneration for the year 2011.

In accordance with Article 523 of the Companies Code, the auditor of the Company, BDO Bedrijfsrevisoren BV CVBA, represented by Gert Claes, will be informed of the existence of the conflicts of interests.

Furthermore, the minutes of the resolutions regarding the management remuneration of Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, will be entirely included in the annual report of the board of directors in relation to the financial year ending 31 December 2011.

Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, have an interest of a patrimonial nature which is conflicting with the contemplated resolution of the board of directors to resolve on the allocation of the remuneration package of the CEO and the CBO.

Following this statement, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, left the board meeting in accordance with Article 523, §1, last paragraph of the Companies Code and the remaining directors continued the meeting.

Deliberation

Eduard Enrico Holdener, chairman of the nomination and remuneration committee, presented to the board of directors the proposal of the nomination and remuneration committee on the allocation and the structure of the remuneration package for the year 2011 for Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen.

In particular, it is proposed by the nomination and remuneration committee of the board of directors of the Company that both the fixed salary of Eduardo Bravo as executive manager of the Company and its subsidiaries for the year 2011 (as approved by the 5 July 2011 board meeting) as well as his potential bonus will be partially allocated to and paid by the Company (for activities/objectives relating to the Company and the overall group, but excluding Cellerix SA) and partially allocated to and paid by Cellerix SA (for activities/objectives relating to Cellerix SA), based on the number of working days effectively spent at the various offices of the Company and its subsidiaries and the objectives related to the various group companies.

The maximum potential bonus payable by the Company amounts to 23% of the total yearly compensation package paid by the Company. The maximum potential bonus payable by Cellerix SA amounts to 35% of the total yearly compensation package paid by Cellerix SA.

The total social security contributions due by the Company and/or its subsidiaries on such remuneration package would amount to EUR 10,310.

The nomination and remuneration committee of the board of directors further also proposed that the potential bonus that will be payable to Gil Beyen BVBA, represented by Gil Beyen, in addition to the its fixed fee as executive manager of the Company for the year 2011 (as approved by the 5 July 2011 board meeting) will be partially allocated to and paid by Cellerix SA (for activities/objectives relating to Cellerix SA), based on the objectives related to Cellerix SA.

The maximum potential bonus payable by the Company amounts to 24% of the total yearly compensation package paid by the Company.

No social security contributions are due by the Company on such remuneration package.

The board members discussed the allocation and structure of the compensation packages for Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, proposed by the nomination and remuneration committee for the year 2011. The nomination and remuneration committee proposed to adopt the proposed allocation and structure.

Resolutions

The board of directors RESOLVED to approve the allocation and the structure of the remuneration packages of Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, for the year 2011 as proposed by the nomination and remuneration committee.

As mentioned above, Eduardo Bravo and Gil Beyen BVBA, represented by Gil Beyen, did not participate in the deliberation and resolution on the above matters.

Individual presence of the members of the Board of Directors in 2011

Name	Nº
Willy Duron	12
Galenos SPRL, represented by Sven Andreasson	5
Frank Luyten	4
Koenraad Debackere	7
Gil Beyen BVBA, represented by Gil Beyen	12
Eduardo Bravo	7
Mounia Chaoui-Roulleau	1
Ventech SA, represented by Mounia Chaoui-Roulleau	6
Eduard Enrico Holdener	7
Joël Jean-Mairet	1
Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet	5
R&S Consulting BVBA, represented by Dirk Reyn	5
Immocom NV, represented by Nico Vandervelpen	7

Remuneration of the Board of Directors

Only the independent directors receive a fixed remuneration in consideration of their membership or chairmanship of the Board of Directors and board committees. The other directors do not receive any fixed remuneration in consideration of their membership of the board.
The independent directors do not receive any performance related remuneration, nor do any option or warrants. However, upon advice of the nomination and remuneration committee, the Board of Directors may propose to the shareholders' meeting to deviate from the latter principle in case in the board's reasonable opinion the granting of any performance related remuneration would be necessary to attract or retain independent directors with the most relevant experience and expertise.
The nomination and remuneration committee recommends the level of remuneration for independent directors, including the chairman of the board, subject to approval by the board and, subsequently, by the shareholders' meeting.
The nomination and remuneration committee benchmarks independent directors' compensation against peer companies to ensure that it is competitive. Remuneration is linked to the time committed to the Board of Directors and its various committees. Currently, a fixed annual fee of €25,000 is granted to each independent director. The chairman's fee amounts to €30,000. An additional fixed annual fee of €5,000 is granted to each independent director who is also a member of a committee. Such additional fixed annual fee amounts to €7,500 for each independent director who is also the chairman of a committee. The aforementioned fixed annual fees are based on six board meetings and two committee meetings a year. The fixed fee is supplemented with an amount of €2,000.00 for each additional meeting. Changes to these fees will be submitted to the shareholders' meeting for approval.
Apart from the above remuneration for independent directors, all directors will be entitled to a reimbursement of out-of-pocket expenses actually incurred to participate to board meetings.
The board sets and revises, from time to time, the rules and level of compensation for directors carrying out a special mandate or sitting on one of the board committees and the rules for reimbursement of directors' business-related out-of-pocket expenses.

An amount of € 63k in total was accrued as fees and expense reimbursement for independent directors in 2011.

Name	Position	Fee
Willy Duron	Chairman, Independent director	30.000
Koenraad Debackere	Director (non-executive)	-
Gil Beyen BVBA, represented by Gil Beyen	CBO and Managing Director (executive)	-
Eduardo Bravo	CEO and Managing Director (executive)	-
Mounia Chaoui-Roulleau	Director (non-executive)	-
Eduard Enrico Holdener	Independent director	16.667
Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet	Director (non-executive)	-
R&S Consulting BVBA, represented by Dirk Reyn	Independent director	16.667
Immocom NV, represented by Nico Vandervelpen	Director (non-executive)	-

This amount represents the remuneration of the Board of Directors (this excludes the remunerations of Eduardo Bravo as CEO, Gil Beyen BVBA, represented by Gil Beyen as CBO and fees for memberships of board committees).

3.2 Board Committees

Audit Committee

Name	Position	Term
Willy Duron	Committee chairman, Independent director	2015
Eduard Enrico Holdener	Independent director	2015
Immocom NV, represented by Nico Vandervelpen	Director (non-executive)	2015

The Audit Committee met 5 times until the end of March, 2012. The CEO, Eduardo Bravo and the CBO, Gil Beyen BVBA, were invited to each of the meetings. The meetings were also attended by the CFO, Claudia D´Augusta. Part of the meetings was held in the presence of the external auditor BDO.

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 2011.

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

As proof of the independence and expertise of the Audit Committee in the area of audit and accountancy and as required in the article 96 § 1 9º for statutory report and art 119 6º for consolidated report, we hereby include the CVs of two of the members of the Audit Committee members:

Nico Vandervelpen, permanent representative of Immocom NV: Director (non-executive)
Mr. Nico Vandervelpen started his career with Ernst & Young Brussels in 1998 were he worked as a senior executive. Throughout his career, he gained extensive experience in finance, business consulting, project management and mergers and acquisitions serving a wide variety of multinational clients with, amongst others, a focus on the healthcare and pharmaceutical industries. He joined Limburgse Reconversie Maatschappij NV (“**LRM**”) in 2007 were he founded the Life Sciences venture fund and forms part of the executive management team. As permanent representative of Immocom, Mr. Vandervelpen serves as a board member (or observer) on several boards within the LRM portfolio companies such as Apitope International, Complix, Amakem, SEPS, Vesalius Biocapital, Life Science Development Campus, 3DDD Pharma and CommArt. Since 2007, the LRM Life Sciences fund invested in Apitope International, SEPS Pharma, TiGenix, Promethera, Amakem, Complix, Life Science Development Campus and Arcarios. He works together with his team of seasoned Life Sciences and biotech experts to further extend the Life Sciences footprint in the region. Mr. Vandervelpen holds a Master degree in commercial and business engineering from Hasselt University as well as a Master in Accountancy. In addition to that, he followed several national and international management courses throughout his career.

Dr. Eduard Enrico Holdener Independent Director earned his medical degree from the University of Zurich and held the post of Chief Medical Officer & Global Development Head in the Pharma Division of F. Hoffmann-La Roche Pharmaceutical Ltd until February 2008. He began his career in pharmaceuticals in 1986 after 14 years of working at various hospitals and academic institutions in Switzerland and the United States. During his tenure at Roche, he was credited with winning approval for an important number of new medicines in the different therapeutic areas where he collaborated. Dr. Holdener currently acts as Chairman of NovImmune S.A, Director of Parexel International Co and HBM Bioventures AG and non-executive Director of Syntaxin Ltd. Dr. Holdener has also been a board member of Cellerix since 2008. Dr. Holdener was part of the F.Hoffmann-La Roche AG Corporate Executive Committee and management team as Global Head of Development & Chief Medical Officer until February 2008.

Remuneration of the Audit Committee

Name	Position	Fee
Willy Duron	Chairman, Independent director	7.500
Eduard Enrico Holdener	Independent director	3.333
Immocom NV, represented by Nico Vandervelpen	Director (non-executive)	-

Nomination and Remuneration Committee

Name	Position	Term
Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet	Director (non-executive)	2015
R&S Consulting BVBA, represented by Dirk Reyn	Independent director	2015
Eduard Enrico Holdener	Committee chairman, Independent director	2015

The Remuneration and Nomination Committee met 4 times until the end of March, 2012. The CEO, Eduardo Bravo is invited to each of the meetings.

The Committee made recommendations with respect to the annual remuneration of the executive management team members and the bonuses to be paid to them based on the realised objectives.

Remuneration of the Nomination and Remuneration Committee

Name	Position	Fee
Ysios Capital Partners SGECR SA, represented by Joël Jean-Mairet	Director (non-executive)	-
R&S Consulting BVBA, represented by Dirk Reyn	Independent director	3.333
Eduard Enrico Holdener	Committee chairman, Independent director	5.000

3.3 Executive management

The composition of the Executive management team on December 31, 2011 is presented in the table below. Only the CEO is a member of the Board of Directors.

Name	Position
Eduardo Bravo	Chief Executive Officer (CEO)
Gil Beyen BVBA, represented by Gil Beyen	Chief Business Officer (CBO)
Claudia D´Augusta	Chief Financial Officer (CFO)
Wilfried Dalemans	Chief Technical Officer (CTO)

The total gross remuneration of the management team in 2011 was € 1.6 million. A split of the amount can be found in section 5.5.3 under remuneration of key management personnel.

Additionally, and as result of the Business Combination, some changes were made in the Executive Management team. In this respect, a severance package of 423K € was agreed in 2011 for Frank Hazevoets. This package has been booked in 2011 and will be paid in April 2012.

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 Claudia D´Augusta, CFO, as Compliance Officer whose duties and responsibilities are defined in the Dealing Code.

5 REMUNERATION REPORT

5.1 Procedure for establishing remuneration policy and setting remuneration for Members of the Board of Directors

The remuneration policy is established and the remuneration for members of the Board is set by the Board of Directors on the basis of proposals from the Nomination and Remuneration Committee.

Stock option plans are determined by the Board of Directors on proposal from the Nomination and Remuneration Committee.

5.2 Remuneration policy

As set out in paragraph 5.3.1, Remuneration of the Board of Directors only the independent directors receive a fixed remuneration in consideration of their membership or chairmanship of the Board of Directors and board committees. The other directors do not receive any fixed remuneration in consideration of their membership of the board.

The remuneration policy relating to the Executive Management (including the Executive Directors) does not include any long-term variable remuneration in cash, but consists solely of fixed remuneration and short-term variable remuneration. This short-term variable remuneration is related to the Company objectives of the year, and to the individual objectives for the year and can not be claimed back once it is granted.

The Executive Management also benefit from a long-term incentive plan in the form of stock option plans.

5.3 Remuneration of the Executive Management

Remuneration of the CEO (*)	2011
Fixed remuneration (gross)	214.667 €
Variable remuneration short term 2011	59.033 €
Other benefits	11.046 €

(*) This amount represents the remuneration for Eduardo Bravo as CEO of TiGenix as from the Business Combination effective as of May 3, 2011

Other members of the Executive Management are:

- Gil Beyen BVBA, represented by Gil Beyen, CEO until the Business Combination effective as of May 3, 2011
- Gil Beyen BVBA, represented by Gil Beyen, CBO of the company from May 3, 2011
- Frank Hazevoets, CFO of the company until May 3, 2011
- Claudia D´Augusta, CFO of the company from May 3, 2011
- Wilfried Daelmans, CTO of the company for the full year 2011

Remuneration other members of the Executive Management	2011
Fixed remuneration (gross)	716.414 €
Variable remuneration short term 2011	148.917 €
Other benefits	58.864 €

6 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

6.1 Internal control and financial reporting

The Executive management team is responsible for creating and maintaining adequate processes designed to control and asses the reliability of the financial reporting and the compliance with laws and regulations.

The company has established internal controls over the financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with the IFRS.

Internal control policies aim to:

- Pertaining the maintenance of records that reflect the transactions of the company
- Ensuring the fairly record of the dispositions and assets of the company
- Providing assurance that the expenditures of the company are duly approved by the directors and managers of the company
- Ensuring the segregation of powers that prevent unauthorised transactions or fraud
- Assessing the risk over deficiencies or material weaknesses in the procedures

6.2 Risk analysis

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.

- *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, 2011 and has no derivative instruments.

Main risks and uncertainties involved in the Company's business: are detailed in the chapter 3 of the annual report.

7 CORPORATE SOCIAL RESPONSABILITY

TiGenix attaches great importance to corporate social responsibility (CSR).

- Our employees are encouraged to engage in charitable work, and are entitled to one additional paid holiday if that day is spent working for a charitable organization.
- We hold a yearly toy and clothing collection to support a charity organization that distributes food, materials and medical aid for children in need.
- We sponsor charity organizations that provide medical aid.
- We use many Fair Trade products

We constantly strive to reduce our ecological foot print:

- We strive to reduce the use of toxic products in the lab, thereby also ensuring a safer working environment for our employees.
- We do not allow company cars with high CO2 emission in our car fleet.
- We have a bicycle allowance to encourage employees to come to work by bike.
- We use FSC-certified paper for all stationary

8 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 BDO (and related firm) in 2011 amounted to € 214k.