ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE STATUTORY FINANCIAL STATEMENTS PER DECEMBER 31, 2014

Dear shareholders,

We are pleased to present to you the consolidated financial statements and the statutory financial statements for the fiscal year ended December 31, 2014.

1. Overview

We are an advanced biopharmaceutical company focused on developing and commercializing novel therapeutics from our proprietary platform of allogeneic, or donor derived, expanded adipose derived stem cells, known as eASCs, in inflammatory and autoimmune diseases.

During 2014, we transformed our operations to focus fully on realizing the value of our eASC platform and pipeline by discontinuing our operations in connection with ChondroCelect.

Based on our platform, we have developed a pipeline of product candidates with our most advanced being Cx601, a first in class injectable allogeneic stem cell therapy that has been granted orphan designation by the European Medicines Agency, or EMA. We are conducting a single pivotal Phase III trial for Cx601 for the treatment of complex perianal fistulas in patients suffering from Crohn's disease, a painful and debilitating condition affecting approximately 100,000 patients in the Europe and United States. Data from the single pivotal trial should be available in the third quarter of 2015, based on which we plan to submit a marketing authorization application to the EMA in the first half of 2016. We also intend to initiate a Phase III trial for Cx601 for the treatment of complex perianal fistulas in the United States by the second half of 2016. Based on discussions with the U.S. Food and Drug Administration, or FDA, we believe that this Phase III trial, if successful, could, together with the European Phase III data, serve as supportive evidence for filing for regulatory approval with the FDA.

Our platform has generated other product candidates, including Cx611, for which we have completed a Phase I/IIa trial in rheumatoid arthritis. We are currently conducting a Phase Ib trial for Cx611 in severe sepsis in the first quarter of 2015 and preparing a Phase IIb trial for Cx611 in early rheumatoid arthritis in the fourth quarter of 2015. Our third product candidate, Cx621, completed a Phase I clinical trial for intra lymphatic administration of allogeneic eASCs; its mode of administration has the potential to enable applications in other autoimmune diseases.

Effective June 1, 2014, we entered into an agreement with Swedish Orphan Biovitrium, or Sobi, for the exclusive marketing and distribution rights with respect to ChondroCelect within the European Union (excluding Finland), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. We also completed the sale of TiGenix B.V., our Dutch subsidiary, which held our manufacturing facility for ChondroCelect, to PharmaCell, a leading European contract manufacturing organization active in the area of cell therapy.

2. Pipeline development

Our eASC pipeline portfolio includes a product candidate poised to receive pivotal Phase III data in the third quarter of 2015 and two further product candidates in Phases II and I.

- **Cx601**. Cx601, our lead product candidate, is a first in class injectable allogeneic stem cell therapy that is currently in a pivotal Phase III trial for the treatment of complex perianal fistulas in patients suffering from Crohn's disease. We have observed compelling clinical results that suggest that Cx601 may have clinical utility in treating perianal fistulas in one injectable dose with a more favorable adverse events profile than currently available therapies.

  Moreover, Cx601 enjoys significant benefits due to its designation as an orphan drug by the EMA, including the following: (i) research grants and subsidies; (ii) assistance from the EMA in developing our clinical trials, including detailed feedback on proposed study designs; (iii) a

streamlined process for obtaining the relevant regulatory approvals in Europe; and (iv) up to ten years of exclusivity in the European market from the date of the product's launch. We have also had a meeting with the FDA to discuss the adequacy of our clinical and non clinical data to support an investigational new drug, or IND, application for a U.S. based Phase III trial. We received positive feedback regarding our current pivotal European Phase III trial design for supporting a BLA. Current therapies have limited efficacy, and there is currently no commercially available cell based therapy for this indication. We believe Cx601, if approved, would fulfill a significant unmet need in the market. If our pivotal Phase III trial is successful, we expect to file for marketing authorization in Europe by the first half of 2016 and initiate a Phase III trial in the United States by the second half of 2016.

- **Cx611**. Cx611, our second product candidate, is a first in class injectable allogeneic stem cell therapy intended for the treatment of early rheumatoid arthritis and severe sepsis. We believe that Cx611, if approved for early rheumatoid arthritis, would have advantages over current treatments such as biologics due to its safety profile and higher induction of remission. We have completed a successful Phase I/IIa trial of Cx611 in refractory rheumatoid arthritis patients that illustrated the safety of the therapy and provided indications of therapeutic activity. If it is approved for severe sepsis, we believe that Cx611 would be an add on therapy that has the potential to reduce mortality. We are planning to advance Cx611 in severe sepsis in a Phase Ib trial that is currently ongoing and in early rheumatoid arthritis in a Phase IIb trial in the fourth quarter of 2015.
- **Cx621**. Cx621, our third product candidate, has completed a Phase I trial that generated safety and feasibility information on intra lymphatic administration of allogeneic eASCs. This different route of administration has the potential to enable applications in other autoimmune diseases.

3. Discussion and analysis of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS and have been drawn up by the Board of Directors on March 16, 2015. The financial statements will be communicated to the shareholders at the annual general shareholders' meeting on April 20, 2015.

Result of Operations

Comparison of the Years Ended December 31, 2014, 2013 and 2012

The following table summarizes the audited results of our operations for the periods ended December 31, 2014, 2013 and 2012:

Thousands of euros except per share data	Notes	Years ended December 31, 2014	2013	2012
CONTINUING OPERATIONS				
Revenues				
Royalties		337	—	—
Grants and other operating income	5	5,948	883	1,389
Total revenues		**6,286**	**883**	**1,389**
Research and development expenses	6	(11,443)	(9,843)	(12,140)
General and administrative expenses	6	(7,406)	(5,829)	(6,237)
Total operating charges		**(18,848)**	**(15,672)**	**(18,377)**
Operating Loss		**(12,563)**	**(14,789)**	**(16,989)**
Financial income	7	115	7	35
Financial expenses	7	(966)	(45)	(58)
Foreign exchange differences	7	1,101	(352)	(142)
Loss before taxes		**(12,313)**	**(15,179)**	**(17,153)**
Income taxes	8	927	59	(1)
Loss for the period from continuing operations		**(11,386)**	**(15,120)**	**(17,154)**
DISCONTINUED OPERATIONS				
Loss for the period from discontinued operations	9	(1,605)	(3,270)	(3,239)
Loss for the period		**(12,990)**	**(18,390)**	**(20,393)**
Attributable to equity holders of TiGenix		*(12,990)*	*(18,390)*	*(20,393)*
Basic and diluted loss per share (euro)	10	**(0.08)**	**(0.16)**	**(0.22)**
Basic and diluted loss per share from continuing operations (euro)	10	**(0.07)**	**(0.13)**	**(0.19)**
Basic and diluted loss per share from discontinued operations (euro)	10	**(0.01)**	**(0.03)**	**(0.04)**

Royalties

In 2014 we earned 0.3 million euros in royalties on net sales of ChondroCelect by Swedish Orphan Biovitrium, Sobi. Under the agreement with Sobi, we are entitled to receive 22% royalties on net sales during the first year and 20% thereafter.

Through the agreement, Sobi acquired exclusive rights to distribute ChondroCelect within the European Union (excluding Finland, where we have a pre-existing distribution agreement with Finnish Red Cross Blood Service), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. ChondroCelect was approved for reimbursement in Belgium in February 2011, in the Netherlands in June 2012 (retroactively applicable through to January 2011) and in Spain in March 2013; in addition ChondroCelect is available to patients in the U.K. and Finland.

Grants and Other Operating Income

Thousands of euros	2014	2013	2012
Grant revenues	5,522	774	1,227
Other income	426	109	162
Total Grants and other operating income	**5,948**	**883**	**1,389**

Grant income relates to:

- Grants earned through the 2014 activities related to the 7th Framework Program. At the end of 2011, the Company obtained a 7th Framework Program for the project: "Bringing Regenarative Medicine into de market: Allogeneic eASCs Phase IB/IIA clinical trial for treating Rheumatoid Arthritis". The project lasted for 3 years (from January 2012 to December 2014) and all activities and expenses had to be justified in two reporting periods in June 30, 2013 and December 31, 2014. At year end 2014, the Company has recognized in the income statement all the profit related to the activities performed in 2014 for an amount of 1.1 million euros.

- Grants related to soft loans:

    - From Madrid Network. At the end of 2011, TiGenix SAU obtained a soft loan from Madrid Network of 5.0 million euros in 3 tranches of 2.0 million euros (October 2011), 2.0 million euros (December 2011) and 1.0 million euros (April 2013) to finance its clinical trial Phase III for complex perianal fistulas in Crohn´s disease patients. The duration of the project was from January 2012 to December 2014 with yearly reporting periods ending in December 2014.

      In July 2013, TiGenix SAU obtained an additional soft loan from Madrid Network of 1.0 million euros to finance "New applications of the eASCs in autoimmune diseases". The duration of the project was from July 2013 to December 2014 with reporting period end of December 2013 and 2014.

      At the end of 2014, TiGenix SAU had successfully justified all the activities and expenses agreed in both loans and therefore fully recognized in the income statement the part of the benefit obtained through the loan at a below market rate of interest for an amount of 2.8 million euros for the first loan and 0.6 million euros for the second loan.

    - From the Ministry of Science. Since 2006 to date, TiGenix SAU obtained from the Ministry of Science eight soft loans of different amounts for different projects.

At year-end 2014 all activities related to the loans were done and justified and the period for inspection had elapsed (except fot two loans). As such, the Company considered that there was sufficient assurance of the grant for the loans for which the inspection period was elapsed and recognized the benefit, from the loans at a below market rate of interest, in the income statement for 1.1 million euros.The benefit obtained through a government loan at a below market rate of interest is treated as a government grant, (measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates). Under the Company´s view during 2014 all the conditions attached to the terms of each grant were met and therefore the grant was recognized.

Research and Development Expenses. Our research and development expenses increased by 16%, from 9.8 million euros for the year ended December 31, 2013 to 11.4 million euros for the year ended December 31, 2014. The increased expenses were in connection with the Phase III clinical trial for Cx601 in perianal fistula in Chron´s disease and the launch of new projects during the second half of 2014, in particular the Phase I clinical trial for Cx611 in sepsis.

Our research and development expenses decreased by 19%, from 12.1 million euros for the year ended December 31, 2012 to 9.8 million euros for the year ended December 31, 2013. The decrease was partly related to a decrease of 1.2 million euros in lab fees and other operating expenses due to

the completion in 2012 of our Phase I/IIa clinical trial for Cx611 in refractory rheumatoid arthritis and the Phase I clinical trial for Cx621 for intra-lymphatic administration to treat autoimmune disorders and a decrease of a further 1.2 million euros in labor costs mainly due to the internal reorganization of the research and development department in 2012.

General and Administrative Expenses. General and administrative costs increased by 27%, from 5.8 million euros for the year ended December 31, 2013 to 7.4 million euros for the year ended December 31, 2014. The increase was primarily related to expenses in connection with the Company's preparation to obtain additional funding during 2015.

General and administrative costs decreased by 7%, from 6.2 million euros for the year ended December 31, 2012 to 5.8 million euros for the year ended December 31, 2013. The decrease of 0.4 million euros was mainly driven by the vesting in 2012 of the 2008 equity based incentive plan and the 2010 share based compensation plan, and was partially offset by an increase in service expenses and depreciation and amortization expenses.

Financial Income. Financial income increased from 7.2 thousand euros for the year ended December 31, 2013 to 114.7 thousand euros for the year ended December 31, 2014. Financial income consists of interest income and varies based on the cash balances in our bank deposits.

Financial income decreased from 35.0 thousand euros for the year ended December 31, 2012 to 7.2 thousand euros for the year ended December 31, 2013. Financial income consists of interest income and varies based on the cash balances in our bank deposits.

Financial Expenses. Financial expenses increased from 44.8 thousand euros for the year ended December 31, 2013 to 1.0 million euros for the year ended December 31, 2014. The significant increase in the financial expenses was due to interest under the Kreos loan in an amount of 1.0 million euros.

Financial expenses decreased from 58.2 thousand euros for the year ended December 31, 2012 to 44.8 thousand euros for the year ended December 31, 2013. These expenses represent the interest paid on our credit facilities with ING and BNP Paribas Fortis.

Foreign Exchange Differences. Foreign exchange differences changed from a loss of 0.4 million euros for the year ended December 31, 2013 to an income of 1.1 million euros for the year ended December 31, 2014. The difference is related to loans incurred by our subsidiaries, particularly TiGenix Inc., and the increased income is due to the weakness of the euro against the U.S. dollar in 2014. These amounts arise as a result of our translation of the financial statements from the functional currency, which may be currencies other than the euro, into our presentational currency, which is the euro, using the exchange rate at the balance sheet date, which may differ from the rate in effect at the last measurement date of the item in question and are included in the foreign currency translation reserve.

Foreign exchange differences changed, from a loss of 0.1 million euros for the year ended December 31, 2012 to a loss of 0.4 million euros for the year ended December 31, 2013. These losses are related to loans incurred by our subsidiaries, particularly TiGenix Inc., in currencies other than the euro, and the increased loss is due to the strength of the euro against the U.S. dollar in 2013.

Income Taxes. For the year ended December 31, 2013, our income taxes were a credit of 58.7 thousand euros. For the year ended December 31, 2014, our income taxes were a credit of 0.9 million euros. The increase is related to an adjustment of current income tax for prior periods, due to a new law for entrepreneurs in Spain that will allow TiGenix SAU to receive in cash fiscal deductions obtained from R&D activities performed in 2013.

For the year ended December 31, 2012, our income taxes were an expense of 1 thousand euros. For the year ended December 31, 2013, our income taxes were a credit of 58.7 thousand euros.

The tax losses attributable to our subsidiary TiGenix SAU have an average maturity of fourteen years, and our other tax losses may be held indefinitely. As of December 31, 2013, we had a tax loss carried forward of 125.6 million euros compared to 143.4 million euros as of December 31, 2014, including a

potential deferred tax asset of 47.3 million euros. Because it remains uncertain whether we will be able to realize taxable profits in the near future, we did not recognize any deferred tax assets in our balance sheet. In addition to these tax losses, we have unused tax credits amounting to 13.9 million euros as of December 31, 2013 compared to 15.0 million euros as of December 31, 2014 and deductible temporary differences of 7.6 million euros as of December 31, 2013 compared to 5.1 million euros as of December 31, 2014 for which we have not recognized any deferred tax assets in our balance sheet.

*Loss for the Period from Discontinued Operations.*Our loss for the period from discontinued operations decreased by 51% from 3.3 million euros for the year ended December 31, 2013 to 1.6 million euros for the year ended December 31, 2014.

Our loss for the period from discontinued operations increased by 1% from 3.2 million euros for the year ended December 31, 2012 to 3.3million euros for the year ended December 31, 2013.

During the first six months of 2014, we completed the discontinuation of our operations in connection with ChondroCelect, our commercialized product, through the combination of the sale of TiGenix B.V., our Dutch subsidiary, that held our production facility for ChondroCelect, to PharmaCell for a total consideration of 4.3 million euros and the entry into an agreement with Sobi for the exclusive marketing and distribution rights for ChondroCelect. Under the terms of the share purchase agreement with PharmaCell, we received an upfront payment of 3.5 million euros when the sale became effective on May 30, 2014 and will receive a final payment of 0.8 million euros on May 30, 2017, which we have recognized at the net present value of 0.6 million euros. At the end of 2013, we conducted an impairment test with respect to the disposal of our Dutch subsidiary and recognized a loss of 0.7 million euros. After the completion of the disposal of the Dutch subsidiary and as a result of entering into the distribution agreement with Sobi, we recognized an additional loss on disposal of 1.1 million euros at June 30, 2014.

On June 1, 2014, we entered into an agreement with Sobi for the exclusive marketing and distribution rights with respect to ChondroCelect. Sobi will continue to market and distribute the product within the European Union (excluding Finland), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. We will receive royalties on the net sales of ChondroCelect, and Sobi will reimburse nearly all of our costs in connection with the product. The agreements with our former subsidiary, now owned by PharmaCell, and Sobi both include commitments for minimum quantities of ChondroCelect that are required to be purchased by us and from us under the respective contracts. If Sobi's actual purchases were to be lower than the required minimum, we would nevertheless be entitled to receive payment from Sobi up to a maximum amount of 5.7 million euros and would be required to pass on such payment to PharmaCell.

The sale of our Dutch subsidiary also included a cost relief of up to 1.5 million euros on future purchases of ChondroCelect under the conditions of the long-term manufacturing agreement with our former subsidiary, which is now owned by PharmaCell. We will pass on this cost relief on a like-for-like basis to Sobi, which will purchase ChondroCelect from us at cost.

In 2012, we closed TiGenix Ltd., our biomaterials unit, and stopped all operating activities resulting in operating expenses of 1.9 million euros. During 2013, we decided to sell TiGenix B.V., our subsidiary that held our Dutch production facility. As a result of this decision, we recognized an impairment loss of 0.7 million euros, which reduced the carrying value of the subsidiary to the expected sales price of the asset less the cost of selling at that time. In addition, we incurred 0.8 million euros in operating expenses in TiGenix B.V. in 2012, compared to 1.3 million euros in 2013. In addition, for the year ended December 31, 2014, all ChondroCelect operations, including revenues, production costs, sales and marketing expenses, have been presented as discontinued operations in the consolidated financial statements. For comparability purposes, we have used the same presentation for previous periods.

Critical Accounting Policies

Our financial statements are prepared in accordance with IFRS as issued by the IASB. The preparation of our financial statements in accordance with IFRS as issued by the IASB requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, cost of sales, operating expenses and related disclosures. We consider an accounting policy

to be critical if it is important to our financial condition or results of operations, and if it requires significant judgment and estimates on the part of management in its application. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions. If actual results or events differ materially from the judgments and estimates that we have made in reporting our financial position and results of operations, our financial position and results of operations could be materially affected.

The summary of significant accounting policies and critical accounting judgements and key sources of estimation uncertainty can be found in note 2 and 3 respectively in the Consolidated Financial Statements.

Cash Flows

The following table summarizes the results of our cash flows for the periods ended December 31, 2014, 2013 and 2012:

	Years ended December 31,		
	2014	**2013**	**2012**
Net cash generated from (used in):			
Operating activities	(13,367)	(14,425)	(17,627)
Investing activities	3,307	(1,320)	(721)
Financing activities	7,969	20,237	9,647
Net increase (decrease)	**(2,091)**	**4,490**	**(8,701)**
Cash and cash equivalents	13,471	15,565	11,072

The net cash used in operating activities decreased to -13.4 million euros in 2014 from -14.4 million euros in 2013.

Net cash outflow from continuing operating activities was 14.4 million euros for the year ended December 31, 2013 compared to 14.8 million euros for the year ended December 31, 2012, a decrease of 3%. This decrease was mainly related to the completion in 2012 of our Phase I/IIa clinical trial for Cx611 in refractory rheumatoid arthritis and our Phase I clinical trial for Cx621 for intra-lymphatic administration to treat autoimmune disorders as well as a reduction in operating costs due to the synergies resulting from our business combination with Cellerix in 2011.

Net cash inflow from discontinued operating activities was 0.2 million euros for the year ended December 31, 2013 compared to net cash outflow of 2.8 million euros for the year ended December 31, 2012. This change was mainly related to the discontinuation of our biomaterials unit, TiGenix Ltd., in 2012.

The net cash proceeds frominvesting activities amounted to 3.3 million euros in 2014, compared to EUR -1.3 million in 2013. In 2014 the Company sold its Dutch manufacturing facility for an amount of 3.5 million euros while the main investment in 2013 was related to a guarantee for the second soft loan of Madrid Network.

Net cash outflow from continuing investing activities was 1.3 million euros for the year ended December 31, 2013 compared to 0.2 million euros for the year ended December 31, 2012. In 2013, the primary investment related to a guarantee in connection with a so-called “soft” loan from Madrid Network, an umbrella organization for companies, research centers, universities, technology centers and science and technology parks in the Madrid region of Spain.

Net cash outflow from discontinued investing activities was 0.1 million euros for the year ended December 31, 2013 compared to 0.6 million euros for the year ended December 31, 2012. In 2012, our investing activities primarily included expenses in connection with the construction of our Dutch manufacturing facility, which has now been discontinued.

The net cash provided by financing activities in 2014, amounted 8.0 million euros and was mainly related to the Kreos loan while the net cash provided by financing activities in 2013 amounting 20.2 million euros was mainly related to the private placements that took place in July and November 2013.

Net cash inflow from continuing financing activities was 20.2 million euros for the year ended December 31, 2013 compared to 9.6 million euros for the year ended December 31, 2012, an increase of 110%. In 2013, we increased our capital twice, through a private placement in July 2013 in which we raised 6.5 million euros, and a strategic investment by Grifols, a global healthcare company, of 12.0 million euros on November 22, 2013. In 2012, we increased our capital through a private placement in December in which we raised 6.7 million euros. We also received financing in the form of proceeds of loans in both 2013 and 2012.

Statement of financial position

The balance sheet at December 31, 2014 remained solid as evidenced by the following key ratios:

	Years ended December 31,		
Thousands of euros	2014	2013	2012
Cash flows from operating activities			
Cash and cash equivalents as a % of total assets	25%	25%	17%
Working capital as a % of assets	16%	19%	10%
Solvency ratio (equity / total assets)	64%	76%	76%
Gearing ratio (financial debt / equity)	37%	18%	14%

The major assets of the balance sheet at December 31, 2014 are:

- Cash and cash equivalents of 13.5 million euros, for about 25% of the total assets, including the cash incorporated from the Kreos loan and the sale of the Dutch manufacturing facility,
- Intangible assets of 34.2 million euros, mainly the fair value of the intangible assets out of the acquisition of TiGenix SAU, for about 63% of the total assets,
- Tangible assets of 0.6 million euros, mainly the leasehold improvements of the offices in Belgium and the incorporated assets from the acquisition of TiGenix SAU, for about 1% of the total assets,
- Available for sale investments related to the Arcarios participation representing 0.3% of the total assets,
- Other non-current assets related to the guarantees of both TiGenix NV and TiGenix SAU for rental of buildings, the deposit for the guarantee of the second soft loan of Madrid Network and the last tranche of the Dutch manufacturing facility to be received in 2017 representing in total 3% of the total assets,
- Inventories related to the stock of TiGenix SAU, for about 0.2% of the total assets,
- Receivables that have significantly increased from 2013 due to the recognition of the tax income resulting from the certification of the 2013 R&D, for about 2% of the total assets,
- Other current financial assets related to grant guarantees, representing 2% of the total assets, and
- Total equity of 34.2 million euros accounts, for 63% of the total balance sheet at December 31, 2014.

The other major liabilities are:

- Non-current liabilities of 10.7 million euros, mainly related to the financial loans including Kreos, Madrid Network and the rest of soft loans, for about 20% of the total balance sheet,
- Current portion of financial loans of 2.3 million euros mainly related to the short term part of the financial loans mentioned above, for about 4% of the total balance sheet,
- Other financial liabilities of 0.7 million euros, related to the warrants issued in respect of the Kreos loan, for about 1% of the total balance sheet,
- Trade payables of 2.4 million euros, for about 4% of the total balance sheet, and
- Other current liabilities related to operating accruals of 3.2 million euros, representing about 6% of the total balance sheet. The increase in the 2014 expenses relates mainly to the increase in accrued charges in TiGenix SAU and TiGenix NV.

Other commitments

The Group has off-balance sheet commitments related to rent for leased facilities, vehicles and equipment. At December 31, 2014, these commitments amounted to 1.1 million euros (2013: 4.0 million euros; 2012: 5,6 million euros).

TiGenix Inc. guarantees the operating lease payments of Cognate for the building leased in the United States. Total remaining operating lease commitments at December 31, 2014 for which TiGenix Inc. was a guarantor were 0.4 million euros. Cognate was the party with whom TiGenix had a joint venture, TC CEF LLC, in the past.

Both the contract manufacturing agreement with our former subsidiary now owned by PharmaCell and the distribution agreement with Sobi include commitments for minimum binding quantities of ChondroCelect that are required to be purchased by us and from us under the respective agreements. If Sobi's actual purchases were to be lower than the required minimum, we would nevertheless be entitled to receive payment from Sobi up to a maximum amount of 5.7 million euros and would be required to pass on such payment to PharmaCell.

Going concern

For the reasons set out in section 9 of this report below, the Board of Directors decided to maintain the valuation rules in the assumption of the continuity of the Company.

4. Discussion and analysis of the statutory financial statements

The annual accounts cover the accounting period from January 1, 2014 to December 31, 2014.

The annual accounts give a true and fair view of the course of affairs of the Company during the past fiscal year.

Balance sheet - assets

- The cash at bank and in hand amounts to 8.8 million euros on December 31, 2014;
- The non-current assets represent an amount of 79.0 million euros, including 75.7 million euros of financial assets, representing mainly the business combination with TiGenix SAU; the remainder consists of the formation expenses of 1.6 million euros, being the costs (after depreciation) associated with the various capital increases, the tangible assets of 0.2 million euros and the intangible assets of 1.5 million euros related to the capitalized development costs ofChondroCelect;
- The current assets, excluding the cash at bank and in hand, amount to 10.3 million euros. They mainly consist of receivables within one year and deferred charges and accrued income.

Balance sheet - liabilities

- The issued capital of the Company amounts 16.0 million euros and the share premium account amounts to 108.9 million euros;
- Accumulated losses reached 52.0 million euros at December 31, 2014;
- The amounts payable of 16.4 million euros consist mainly of short and long term financial debtss from Kreos and intra-group loans (12.3 million euros); trade payables (0.2 million euros); liabilities in respect of remuneration and social security obligations (0.4 million euros); other amounts payable (1.4 million euros); and accrued charges and deferred income (2.0 million euros).

Results of the fiscal year

The operating income amounts to 4.8 million euros and relates to the sales of ChondroCelect of 3.4 million euros, other income of services reinvoiced to Sobi of 0.4 million euros, royalties from Sobi from the licencing of the ChondroCelect of 0.3 million euros and other operating income related to the 7th Framework Program of 0.6 million euros.

The operating charges of 10.2 million euros consist of:

- The expenses for services and other goods for an amount of 5.6 million euros, mainly related to clinical, medical and regulatory activities, sales and marketing outsourced costs, expenses for protection of intellectual property rights and the costs of mandate contractors;
- The total personnel costs of 1.9 million euros, reduced as a consequence of the licensing of the sales and marketing activities of ChondroCelect;
- Depreciation costs and amounts written off of 1.4 million euros, reduced in 2014 as during 2013 all the R&D activities were closed and fully depreciated;
- Raw materials, consumables and goods for resale of 0.8 million euros, decreased in comparison with last year after the licence of ChondroCelect;
- Other operating charges of 0.6 million euros, decreased due to a decrease in the Belgian taxes as a consequence of the licence of ChondroCelect.

The financial losses of -0.5 million euros are mainly related to the Kreos loan and the intra-company loan with TiGenix SAU.

The operating losses before taxes in 2014 amount to 5.9 million euros.

The extraordinary charges of 2.0 million euros are related to the written-off financial assets related to the Dutch manufacturing facility.

The Company has closed its annual accounts with respect to the financial year 2014 with a loss of 7.8 million euros.

Statutory and non-distributable reserves

The Company has a share capital of EUR 16.0 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 forward the loss for the financial year to the next financial year.

5. Capital increases, decreases and issuance of financial instruments

No capital increases or decreases occurred in 2014.

At December 31, 2014, a total of 8,588,978 warrants were outstanding at an average weighted exercise price of EUR 1.35.

Under the existing warrant plans, 800,000, 400,000, 500,000, 500,000, 4,000,000, 777,000, 1,806,000 and 1,994,302 warrants were created in February 2007, March 2008, June 2009, March 2010, July 2012, March 2013, December 2013 and April 2014 respectively.

Under the 2007, 2008, 2009 and 2010 plans, in principle 25% of the warrants granted vests on each anniversary of the date of the grant. Under the July 2012 and the March 2013 plans, in principle 1/3rd of the warrants granted vests on the first anniversary of the date of the grant and 1/24th of the remaining 2/3rd of the warrants granted vests on the last day of each of the 24 months following the month of the first anniversary of the date of the grant[1]. Under the December 2013 plan, in principle 10% of the warrants granted vests on the date of acceptance of the warrants, 25% of the warrants granted vests on the first anniversary of the granting of the warrants and 1/24th of the remaining 65% of the warrants granted vests, if the Company effectively enters into certain business transactions, on the last day of each of the 24 months following the month of the first anniversary of the granting of the warrants. Under all said plans, warrants granted will only vest provided that the beneficiary still has a relationship with the Company via an employment contract, a director's mandate or another collaboration agreement. Under the April 2014 plan, all warrants have vested upon acceptance of the warrants. The warrants can only be exercised once vested. All warrants were granted for free. The duration of the warrants is 5 years (March 2013 and April 2014 plans) or 10 years (all other plans) as of the respective issue date of the warrants. Warrants that have not been exercised within such periods become null and void.

Prior to the business combination of the Company with TiGenix SAU, TiGenix SAU had created two Equity Based Incentive Plans ("**EBIPs**").

Under the existing EPIB plans 415,700, 37,850, 61,479, 49,446 and 77,751 TiGenix SAU (then still Cellerix) shares were created in June 2008, September 2008, November 2009, May 2010 and October 2010 respectively. These shares were held by CX EBIP Agreement, SLU.

In the framework of the contribution of all TiGenix SAU (previously Cellerix SA) shares to TiGenix NV on May 3, 2011 (the "**Contribution**"), CX EBIP Agreement, SLU contributed its 642,226 TiGenix SAU shares into TiGenix NV and received 1,905,144 TiGenix NV shares in return. Therefore, as a result of the Contribution, CX EBIP Agreement, SLU no longer held TiGenix SAU shares, but received 1,905,144 TiGenix NV shares instead. Pursuant to the agreements reached in relation to the Contribution, the underlying assets of the options are no longer the TiGenix SAU shares, but the TiGenix NV shares received by CX EBIP Agreement, SLU. Therefore, upon the exercise of its options under any of the EBIPs, a beneficiary will receive a number of TiGenix NV shares corresponding to approximately 2.96 shares per option (rounded down to the nearest integer) under any of the EBIPs.

As per December 31, 2014, a total of 611,215 EBIP options, corresponding to 1,813,152 TiGenix shares, was outstanding.

[1] However, the 160,000 warrants granted to Gil Beyen BVBA, represented by Gil Beyen, under the March 20, 2013 warrant plan, vest as follows: (i) 80,000 warrants vested upon the acceptance of the warrants on July 6, 2013, and (ii) 80,000 warrants will vest on 1 June 2014, subject to Gil Beyen BVBA complying until such time with its commitments under the consultancy agreement between Gil Beyen BVBA and the Company, as amended following the resignation of Gil Beyen BVBA (represented by Gil Beyen) from its positions as managing director, Chief Business Officer and member of the executive committee of the Company.

6. Discussion of the main risks and uncertainties

The main risks and uncertainties involved in the Company's business include the following:

Risks and uncertainties related to the clinical development and regulatory approval of the Company's product candidates

- The Company may experience delays or failure in the preclinical and clinical development of its product candidates.
- Regulatory approval of the Company's product candidates may be delayed, not obtained or not maintained.
- Any delay or denial of regulatory approval of the Company's product candidates or any failure to comply with post approval regulatory policies is likely to have a significant impact on its operations and prospects, in particular on its expected revenues.
- The Company works in a strict regulatory environment, and future changes in any pharmaceutical legislation or guidelines, or unexpected events or new scientific insights occurring within the field of cell therapy, could affect its business.

Risks and uncertainties related to the Company's financial condition and capital requirements

- If TiGenix fails to obtain additional financing, it may be unable to complete the development and commercialization of its product candidates.
- The Company has a history of operating losses and an accumulated deficit and may never become profitable.
- The Company's net losses and significant cash used in operating activities have raised substantial doubt regarding its ability to continue as a going concern.
- The Company's revenues and operating results may fluctuate and may not be sufficient to cover its fixed costs.
- The allocation of available resources could affect the Company's ability to carry out its business plan.
- The Company's international operations pose currency risks, which may adversely affect its operating results and net income.

Risks and uncertainties related to the Company's business

- The manufacturing facilities where the Company's product candidates are made are subject to regulatory requirements that may affect the development of its product candidates and the successful commercialization of its product candidates.
- There may be uncertainty over reimbursement from third parties for newly approved healthcare products or such reimbursement may be refused, which could affect the Company's ability to commercialize its product candidates.
- The Company's cell therapy product candidates may not be accepted by patients or medical practitioners.
- The Company faces competition and technological change, which could limit or eliminate the market opportunity for its product candidates.
- The Company's employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.
- The Company could face product liability claims, resulting in damages against which it is uninsured or underinsured.

Risks and uncertainties related to the Company's intellectual property

- The Company may not be able to protect adequately its proprietary technology or enforce any rights related thereto.

- Third party claims of intellectual property infringement may prevent or delay the Company's product discovery and development efforts.
- The Company's future development may depend on its ability to obtain and maintain licenses to certain technologies.
- The Company may be involved in lawsuits to protect or enforce its patents, which could be expensive, time consuming and unsuccessful.
- The Company is currently engaged in proceedings challenging a patent owned by the University of Pittsburgh, and may choose to delay the launch of its eASC-based products in the United States until the expiration of the patent on March 10, 2020 due to the risk of patent infringement or further litigation.

Risks and uncertainties related to the Company's dependence on third parties

- The Company relies on third parties to manufacture its product ChondroCelect, and, in the future, it may rely on third parties to manufacture its product candidates; a failure of service by such parties could adversely affect its business and reputation.
- The Company may need to rely on distributors and other third parties to commercialize its product candidates, and such distributors may not succeed in commercializing its product candidates effectively or at all.
- The Company relies on third parties to conduct its clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Company may not be able to obtain regulatory approval for, or commercialize, its product candidates.
- The Company may form or seek strategic alliances in the future, and it might not realize the benefits of such alliances.

Please also refer to the “Risk Factors” of the Company’s registration document.

7. Use of financial instruments

Besides investments in term deposits and reverse repurchase agreements, the Company did not use any financial instruments during 2014.

Receivables from reverse repurchase agreements are short term non derivative instruments with a carrying amount approximate to the fair value. Because they can be disposed at any time with no penalty on the principal, they are considered liquid assets.

8. Corporate governance statement

8.1 Corporate governance code

The Company’s corporate governance charter has been adopted in accordance with the recommendations set out in the Belgian Code on Corporate Governance (the “**Code**”) that has been issued on March 12, 2009 by the Belgian Corporate Governance Committee.

8.2 Compliance with corporate governance code

The Board of Directors complies with the Belgian Code for Corporate Governance, but believes that certain deviations from its provisions are justified in view of the Company’s particular situation. These deviations include the following:

- Provision 6.1. of the Code: as there is only one executive director (the Chief Executive Officer or “CEO”) and there is no executive committee (*directiecomité / comité de direction*), the Company has not drafted specific terms of reference of the executive management, except for the terms of reference of the CEO.
- Provision 7.7. of the Code: only the independent directors shall receive a fixed remuneration in consideration of their membership of the Board of Directors and their attendance at the

meetings of committees of which they are members. In principle, they will not receive any performance related remuneration in their capacity as director. 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 performance related remuneration would be necessary to attract independent directors with the most relevant experience and expertise. The Board of Directors effectively proposed to the shareholders' meeting to deviate from this principle and to grant warrants to the independent directors. On February 26, 2013, the shareholders' meeting approved such deviation and the grant of warrants (which were effectively issued by the shareholders' meeting on March 20, 2013) to the independent directors.

8.3 Internal control and risk management systems

Internal control and financial reporting

The executive management 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 IFRS.

Internal control policies aim to:

- Pertaining the maintenance of records that reflect the transactions of the Company,
- Ensuring the fair recording of the dispositions and assets of the Company,
- Providing assurance that the expenditures of the Company are duly approved,
- Ensuring the segregation of powers that prevent unauthorized transactions or fraud, and
- Assessing the risk over deficiencies or material weaknesses in the procedures.

Risk analysis

Financial risk management involved primarily the following:

- Capital risk: the Group's policy with respect to managing capital is to safeguard the Group's ability to continue as a going concern and to obtain over time an optimal capital structure;
- Credit risk: the Company's exposure to credit risk is limited, as its main debtor is its distributor of ChondroCelect, Swedish Orphan Biovitrum AB (publ), which is a solid company listed on NASDAQ OMX Stockholm;
- Interest risk: the Group is exposed to very limited interest rate risk, because the vast majority of the Group's borrowings is at fixed interest rates and only a very limited part is at floating interest rates. Therefore, the Group's exposure to interest risk is not material;
- Currency risk: the Group may be subject to limited currency risk. The Group's reporting currency is Euro, in addition to which the Group is exposed to the U.S. dollar and pound sterling. The Company tries 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 manages its liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

8.4 Shareholder structure

To the best of the Company's knowledge, based on the transparency declarations most recently received by the Company, the shareholders' structure is as follows on the date of publication of this registration document:

Shareholder	Number of shares declared in transparency declaration	% of shares at time of transparency declaration[1]	% of shares (simulation) as per December 31, 2014[2]
Gri-Cel SA[3]	34,188,034	21.30%	21.30%
Novartis Bioventures Ltd.	5,534,905	4.55%	3.45%
Subtotal[5]	**39,722,939**		**24.75%**
Other shareholders	120,753,681		75.25%
TOTAL	**160,476,620**		**100.00%**

(1) Percentages based on number of shares and denominator at time of transparency declaration.

(2) Percentages based on number of shares at time of transparency declaration, but denominator as per December 31, 2014.

(3) Gri-Cel SA is controlled by Instituto Grifols, S.A., which is controlled by Grifols, S.A.

(4) Novartis Bioventures Ltd is controlled by Novartis AG.

(5) The above shareholders are acting independently.

8.5 Board of Directors and Board committees

Composition of the Board of Directors

On the date of publication of this registriation document, the Board of Directors consists of the following eight (8) members.

Name	Age (as per December 31, 2014)	Position	Term[1]	Professional Address
Innosté SA, represented by Jean Stéphenne[2]	65	Chairman / Independent director	2016	Avenue Alexandre 8, 1330 Rixensart, Belgium
Eduardo Bravo Fernández de Araoz[3]	49	Managing Director (executive) / CEO	2015	Romeinse straat 12, 3001 Leuven, Belgium
Dirk Büscher[4]	50	Director (non-executive)	2017	Calle Pujolar 44 08198 Sant Cugat del Vallés La Floresta, Spain
Willy Duron[5]	69	Independent director	2015	Oude Pastoriestraat 2, 3050 Oud-Heverlee, Belgium
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig[2]	62	Independent director	2016	1241 Karen Lane, Wayne, PA 19087, USA

Name	Age (as per December 31, 2014)	Position	Term[1]	Professional Address
Eduard Enrico Holdener[3]	69	Independent director	2015	Buchenrain 6, 4106 Therwil, Switzerland
R&S Consulting BVBA[3], represented by Dirk Reyn	53	Independent director	2015	Populierstraat 4, 1000 Brussels, Belgium
José Terencio[4]	47	Director (non-executive)	2017	Pasea Bonanova 92, 6-2 08017 Barcelona Spain

Notes

(1) 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.

(2) First appointed on a provisional basis by the meeting of the Board of Directors on September 19, 2012, in order to replace Ms. Mounia Chaoui-Roulleau (who had been appointed director herself on January 18, 2012 in replacement of Ventech S.A.) and Mr. Koenraad Debackere, both having resigned effective as of September 19, 2012. The shareholders' meeting of February 26, 2013 has confirmed their appointment.

(3) First appointed on April 26, 2011 with effect as of May 3, 2011.

(4) First appointed on a provisional basis by the meeting of the Board of Directors on December 4, 2013, in order to replace Ysios Capital Partners SGECR SA (represented by Joël Jean-Mairet) and LRM Beheer NV (represented by Nico Vandervelpen), both having resigned effective as of December 4, 2013. The shareholders' meeting of April 2, 2014 has confirmed their appointment.

(5) First appointed by the shareholders' meeting on February 26, 2007. Appointment renewed on April 20, 2011 and on April 26, 2011 with effect as of May 3, 2011. Willy Duron resigned as Chairman of the Board of Directors on September 19, 2012 and was replaced as Chairman by Innosté SA, represented by Jean Stéphenne.

Functioning of the Board of Directors in 2014

In 2014, the Board of Directors met 12 times.

Individual presence of the members of the Board of Directors in 2014

Name	Number of meetings attended
Gil Beyen BVBA, represented by Gil Beyen	1
Eduardo Bravo	12
Dirk Büscher	12
Willy Duron	11
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	12
Eduard Enrico Holdener	8
R&S Consulting BVBA, represented by Dirk Reyn	10
Innosté SA, represented by Jean Stéphenne	11
José Terencio	12

Audit Committee

The following directors are member of the audit committee:

Name	Position
Willy Duron	Chairman of the audit committee; Independent Director
Innosté SA, represented by Jean Stéphenne	Member of the audit committee; Chairman of the Board of Directors; Independent Director
Dirk Büscher	Member of the audit committee; Director (non-executive)

The audit committee met twice in 2014. All members of the audit committee were present at both meetings.

As proof of the independence and expertise of the audit committee in the area of audit and accountancy, and as required by Article 96, §1, 9° of the Companies Code, we refer to the biographies of the members of the audit committee as set out below:

Willy Duron: Independent Director

Mr. Willy Duron has been an independent board member of TiGenix since February 2007. He was the Company's Chairman from September 2007 to September 2012. He started his career at ABB Verzekeringen in 1970, becoming a member of the executive committee in 1984. Mr. Duron holds a MSc degree in mathematics from the University of Gent and a MSc degree in actuarial sciences from the Katholieke Universiteit Leuven. He currently is a member of the board of directors of Ravago NV, Vanbreda Risk & Benefits NV, Universitaire Ziekenhuizen Leuven, Z.org KU Leuven, Agfa-Gevaert NV and Van Lanschot Bankiers NV. In addition, he serves as chairman of the board of Windvision BV. Previously, Mr. Duron was CEO of KBC Groep NV and KBC Bankverzekeringsholding NV, Chairman of the board of Argosz, Secura, ADD and W&K, as well as member of the board of directors of KBC Asset Management NV, Synes NV, CSOB, Warta, FBD, Amonis and Universitair Centrum St Jozef Kortenberg.

Jean Stéphenne, permanent representative of Innosté SA: Chairman and Independent Director

Jean Stéphenne was, until April 2012, member of the Corporate Executive Team of GlaxoSmithKline (GSK) and Chairman and President of GSK Biologicals in Wavre, Belgium, which he built into a world leader in vaccines. He currently serves as Chairman of BESIX, Vesalius Biocapital, Nanocyl, Bepharbel and BioWin, and as board member of BNP Paribas Fortis, Groupe Bruxelles Lambert (GBL), OncoDNA, Theravectys and Ronveaux. Previously, Mr. Stéphenne served as board member of Auguria Residential Real Estate Fund, which is currently in liquidation, VBO/FEB and Welbio.

Dirk Büscher: Director (non-executive)

Dr. Dirk Büscher, PhD, is CEO of Gri-Cel SA, which invests in advanced therapies and innovative therapeutics. Previously he served as Vice President R&D of Cellerix. Dr. Büscher obtained his PhD in biology and immunology from the University of Hannover, Germany, and conducted post doctoral studies in molecular developmental biology and stem cell research at the Salk Institute in La Jolla, California. He also holds an executive MBA from Instituto de Empresa Business School. Dr. Büscher has served as industry expert on mesenchymal stem cells at the European Medicines Agency. He is a member of the board of directors of VCN Biosciences and Araclon Biotech.

Nomination and remuneration committee

The following directors are member of the nomination and remuneration committee:

Name	Position
R&S Consulting BVBA, represented by Dirk Reyn	Chairman of the nomination and remuneration committee; Independent Director
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig	Member of the nomination and remuneration committee; Independent Director
Eduard Enrico Holdener	Member of the nomination and remuneration committee; Independent Director

The nomination and remuneration committee met seven times in 2014. At all seven meetings, all members of the nomination and remuneration committee were present.

Evaluation of the Board of Directors, the Board committees and the directors

Periodically, the Board of Directors undertakes a formal evaluation of its own size, composition and performance and that of the Board committees and of its interaction with the executive management. The purpose of this evaluation is to assess how the Board and its committees operate, to check whether important issues are suitably prepared and discussed, to evaluate whether each director makes a constructive contribution to the decision making, and to check the Board's or the Board committees' current composition against the Board's or Board committees' desired composition. Such formal evaluation is done at least once every three year by the Nomination and Remuneration Committee at the initiative of the Chairman and, if required, with the assistance of external advisors. The directors shall not attend the discussions on their evaluation.

8.6 Overview of the efforts made to ensure that at least one third of the board members is of another gender than the other members

The nomination and remuneration committee will draw up a plan to ensure that the composition of the Board of Directors timely complies with the requirement that at least one third of the board members is of another gender than the other members.

8.7. Remuneration report

8.7.1 Procedure for establishing remuneration policy and setting remuneration for members of the Board of Directors and for members of executive management

The remuneration policy is established and the remuneration for members of the Board of Directors and members of the executive management is set by the Board of Directors on the basis of proposals from the nomination and remuneration committee.

Warrant plans are determined by the Board of Directors on proposal from the nomination and remuneration committee.

8.7.2 Remuneration of Directors

Remuneration policy

Only the independent directors shall receive a fixed remuneration in consideration of their membership or chairmanship of the Board of Directors and board committees. The other directors will not receive any fixed remuneration in consideration of their membership of the board.

Pursuant to the Company's corporate governance charter, the independent directors do not in principle receive any performance related remuneration, nor will any option or warrants be granted to them in their capacity as director. 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 Board of Directors effectively proposed to the shareholders' meeting to deviate from this principle and to grant warrants to the independent directors.

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. The Directors' remuneration has been last determined by the shareholders' meeting of February 26, 2013. Currently, a fixed annual fee of EUR 25,000 is granted to each independent director. The chairman's fee amounts to EUR 40,000. An additional fixed annual fee of EUR 5,000 is granted to each independent director who is also a member of a committee. Such additional fixed annual fee amounts to EUR 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 EUR 2,000.00 for each additional meeting. Changes to these fees will be submitted to the shareholders' meeting for approval.

On February 26, 2013, the shareholders' meeting approved the principle that independent directors may receive performance related remuneration. In addition, the February 26, 2013 shareholders' meeting approved the grant of 54,600 warrants (which were effectively issued by the shareholders' meeting on March 20, 2013) to each of the independent directors.

The warrants were granted to the independent directors free of charge. Each warrant entitles its holder to subscribe to one share in the Company at a fixed exercise price of EUR 1.00. The warrants have a duration of five (5) years as from the date of their issuance. Subject to the end of the cooperation and certain situations in which warrants can become null and void, (i) 1/3rd of the warrants granted to a warrant holder will be deemed definitively vested for the latter on the first anniversary of the granting of the warrants and (ii) 1/24th of the remaining 2/3rd of the warrants granted to such warrant holder will definitively vest on the last day of each of the 24 months following the month of the first anniversary of the granting of the warrants. The warrants can only be exercised by the warrant holder if they have definitively vested. The other terms and conditions of the warrants are described in the "Warrant Plan 2013", as attached to the special board report dated January 15, 2013 which is available on the Company's website.

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.

TiGenix has not made any loans to the members of the Board of Directors, except that the Company pre-pays the Belgian salary taxes payable by Eduardo Bravo on the part of his remuneration that is taxable under Belgian law, until such amounts are refunded (on an annual basis) by the Spanish fiscal authorities to Eduardo Bravo, at which time Eduardo Bravo repays the relevant amounts to the Company.

In the next two years, 2015 and 2016, the remuneration of the members of the Board of Directors will be on the same basis as approved by the shareholders' meeting of February 26, 2013.

Remuneration of the members of the Board of Directors in 2014

In 2014, the following amounts were accrued for fees of the independent directors as member of the Board of Directors (not as member of a Board committee) for the performance of their mandate during the financial year 2014:

Name	Fee
Gil Beyen BVBA, represented by Gil Beyen	-
Eduardo Bravo	-
Dirk Büscher	-
Willy Duron	27,000
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	25,000
Eduard Enrico Holdener	25,000
R&S Consulting BVBA, represented by Dirk Reyn	27,000
Innosté SA, represented by Jean Stéphenne	40,000
José Terencio	-
TOTAL	144,000

Remuneration of the audit committee in 2014

In 2014, the following amounts were accrued for fees of the independent directors as member of the audit committee for the performance of their mandate during the financial year 2014:

Name	Position	Fee
Willy Duron	Chairman of the audit committee; Independent Director	7,500
Innosté SA, represented by Jean Stéphenne	Member of the audit committee; Chairman of the Board of Directors; Independent Director	5,000
Dirk Büscher	Member of the audit committee; Director (non-executive)	-
TOTAL		12,500

Remuneration of the nomination and remuneration committee in 2014

In 2014, the following amounts were accrued for fees of the independent directors as member of the nomination and remuneration committee for the performance of their mandate during the financial year 2014:

Name	Position	Fee
R&S Consulting BVBA, represented by Dirk Reyn	Chairman of the nomination and remuneration committee; Independent Director	7,500
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig	Member of the nomination and remuneration committee; Independent Director	5,000
Eduard Enrico Holdener	Member of the nomination and remuneration committee; Independent Director	5,000
TOTAL		17,500

Shares and warrants held by independent and other non-executive directors

The table below provides an overview (as at December 31, 2014) of the shares, EBIP options on shares and warrants held by the independent and other non-executive directors. This overview must be read together with the notes referred to below.

	Shares		Options on existing shares under EBIPs[4]		Warrants		Total shares, options on existing shares under EBIPs and warrants	
	Number	%[1]	Number	%[1]	Number	%[2]	Number	%[3]
Dirk Büscher	172,126	0.1073%	0	0%	0	0%	172,126	0,1018%
Willy Duron	6,000	0.0037%	0	0%	54,600	0.6357%	60,600	0.0358%
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	0	0%	0	0%	54,600	0.6357%	54,600	0.0323%
Eduard Enrico Holdener	0	0%	73,989	0.0461%	54,600	0.6357%	128,589	0.0761%
R&S Consulting BVBA, represented by Dirk Reyn[5]	2,500	0.0016%	0	0%	54,600	0.6357%	57,100	0.0338%
Innosté SA, represented by Jean Stéphenne	0	0%	0	0%	54,600	0.6357%	54,600	0.0323%
José Terencio	0	0%	0	0%	0	0%	0	0%
Total	**180,626**	**0.1126%**	**73,989**	**0.0461%**	**273,000**	**3.1785%**	**527,615**	**0.3121%**

Notes:

(1) Calculated on the basis of the total number of issued voting financial instruments on December 31, 2014.

(2) Calculated on the basis of the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2014.

(3) Calculated on the basis of the sum of (i) the total number of issued voting financial instruments on December 31, 2014 and (ii) the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2014.

(4) This column refers to the number of existing shares that the beneficiary of the EBIP options would receive upon exercise of his options with delivery of 2.96 existing TiGenix shares per EBIP option. In this respect for the EBIP 2008 options it has been assumed that they shall all be exchanged for options on existing TiGenix shares. For more information on the EBIP options, see section 4 of this report above.

(5) R&S Consulting BVBA is controlled by Dirk Reyn, who also controls Horizon Pharmaventures BVBA. Horizon Pharmaventures BVBA holds 1,000 shares (0.0006% of the issued and outstanding shares, calculated on the basis of the total number of issued voting financial instruments on December 31, 2014). Therefore Dirk Reyn controls through R&S Consulting BVBA and Horizon Pharmaventures BVBA in aggregate 3,500 shares and 54,600 warrants (0.0343% of the issued and outstanding voting financial instruments, calculated on the basis of the sum of (i) the total number of issued voting financial instruments on December 31, 2014 and (ii) the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2014)

8.7.3 Remuneration of executive management

Remuneration policy

The remuneration of the members of the executive management is determined by the Board of Directors upon recommendation by the nomination and remuneration committee, after recommendation by the CEO to such committee.

The remuneration of the executive management is designed to attract, retain and motivate executive managers.

The remuneration of the members of the executive management currently consists of the following elements:

- Fixed remuneration: the members of the executive management are entitled to a basic fixed remuneration designed to fit responsibilities, relevant experience and competences, in line with market rates for equivalent positions. The amount of the fixed remuneration is evaluated and determined by the Board of Directors each year.

- Short-term variable remuneration: the members of the executive management are entitled to a variable remuneration in cash dependent on the executive management members meeting individual, team and/or company objectives in a certain year. The maximum short-term variable remuneration, or maximum bonus, is set at a percentage of the yearly fixed remuneration, and is not spread in time. The maximum bonus of the CEO amounts to 90% of his yearly fixed remuneration. The maximum bonus of the CFO and the CTO amounts to 45% of their yearly fixed remuneration. This short-term variable remuneration cannot be claimed back by the Company once it is granted.

  The individual, team and/or company objectives that determine the amount of the bonus are determined at the beginning of each year and are all formulated in such a way that they are measurable and that it can be clearly concluded whether or not, or to what extent, they have been met. They are set, among others, in respect of cash consumption, corporate development transactions and clinical trials (e.g. numbers of patients included in a trial, timing of interim or final results). Each member of executive management has various objectives, and each objective represents a pre-identified percentage of the overall potential bonus (with all objectives together representing 100% of the potential bonus). Every year, in principle in the month of January or February, the Board of Directors (upon recommendation by the nomination and remuneration committee, after recommendation by the CEO to such committee) evaluates and determines the extent to which the various objectives have been met and determines the amount of the variable remuneration (as the sum of the percentages allocated to the objectives that have been met). The variable remuneration relating to a certain calendar year is paid in the first quarter of the following year.

  On May 11, 2012, the extraordinary shareholders' meeting of the Company approved a modification of the Company's articles of association as a result of which the restrictions provided for in Article 520*ter*, first and second paragraph of the Belgian Companies Code (including a spread in time of variable remuneration) do not apply to the Company in respect of all persons who either directly or by reference fall within the scope of that Article.

- Long-term incentive plan: warrants may be granted to the members of the executive management, in accordance with the recommendations set by the nomination and remuneration committee, after recommendation by the CEO to such committee.

- Other benefits: members of the executive management who are salaried employees may be entitled to a number of fringe benefits, which may include participating in a defined contribution pension or retirement scheme, disability insurance, a company car, a mobile telephone, a laptop computer and/or a lump sum expense allowance according to general Company policy, and other collective benefits (such as hospitalisation insurance and meal vouchers). Members of executive management who are engaged on the basis of a service agreement do not receive fringe benefits, except that they may be provided with a mobile phone and laptop computer according to general Company policy.

The members of the executive management do not receive any remuneration based on the overall financial results of the Company or the Company's group, nor do they receive any long-term variable remuneration in cash.

In the next two years, 2015 and 2016, it is expected that the remuneration of the members of the executive management will be broadly on the same basis as in 2014. Adjustments to the salaries are possible in view of Company events.

Termination payments

Eduardo Bravo (CEO) is engaged as CEO of TiGenix SAU on the basis of his corporate responsibility as a member of the Board of Directors of TiGenix SAU and as Managing Director (*Consejero Delegado*) governed by the applicable Spanish Law on capital companies (*Ley de Sociedades de Capital*). His relationship with TiGenix SAU can be terminated at any time, without notice period, subject to the payment, in case TiGenix SAU terminates the relationship, of a termination fee equal to his yearly remuneration applicable at such time. An additional termination fee of maximum two years is payable in case the relationship is terminated by TiGenix SAU within one year of a corporate transaction involving the company (such as a merger, sale of shares, sale of assets, etc).

Claudia D'Augusta (CFO) has an employment contract with TiGenix SAU. The employment contract is for an indefinite term and may be terminated at any time by TiGenix SAU, subject to a three month notice period and, in case TiGenix SAU terminates the agreement, a severance payment of minimum nine months. An additional severance payment of maximum one year is payable in certain cases, including unfair or collective dismissal by TiGenix SAU.

Wilfried Dalemans (CTO) has an employment contract with TiGenix NV. The employment contract is for an indefinite term and may be terminated at any time by the Company, subject to a notice period and a severance payment in accordance with applicable law.

Marie Paule Richard (CMO) has an employment contract with TiGenix SAU. The employment contract is for an indefinite term and may be terminated at any time by TiGenix SAU, subject to either a three month notice period, or a compensation equal to three months fixed salary, or a combination of both.

Remuneration of the CEO in 2014

	2014
Fix remuneration (gross)	322,000
Variable remuneration (short term)	154,560
Pension/Life	20,809
Other benefits	22,012
	519,380

No warrants, shares, options on shares or rights to acquire shares were granted to Eduardo Bravo in 2014. No warrants, options on shares or rights to acquire shares were exercised by Eduardo Bravo in 2014 or expired in 2014.

Remuneration of the other members of the executive management in 2014

	2014
Fix remuneration (gross)	479,575
Variable remuneration (short term)	122,584
Pension/Life	36,438
Other benefits	46,477
	685,073

No warrants, shares, options on shares or rights to acquire shares were granted to Claudia D'Augusta, Wilfried Dalemans or Marie Paule Richard in 2014. No warrants, options on shares or rights to acquire shares were exercised by them in 2014 or expired in 2014.

Shares and warrants held by executive management

The table below provides an overview (as at December 31, 2014) of the shares, EBIP options on shares and warrants held by the executive management, including the executive directors. This overview must be read together with the notes referred to below.

	Shares		Options on existing shares under EBIPs[4]		Warrants		Total shares, options on existing shares under EBIPs and warrants	
	Number	%[1]	Number	%[1]	Number	%[2]	Number	%[3]
Eduardo Bravo, CEO	150,263	0.09%	782,771	0.49%	1,883,740	21.93%	2,816,774	1.67%
Claudia D'Augusta, CFO	127,682	0.08%	206,492	0.13%	805,080	9.37%	1,139,254	0.67%
Wilfried Dalemans, CTO	0	0%	0	0%	815,900	9.50%	815,900	0.48%
Marie Paule Richard, CMO	0	0%	0	0%	0	0%	0	0%
Total	**277.945**	**0.17%**	**989,263**	**0.62%**	**3,504,720**	**40.80%**	**4,771,928**	**2.82%**

Notes:

(1) Calculated on the basis of the total number of issued voting financial instruments on December 31, 2014.

(2) Calculated on the basis of the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2014.

(3) Calculated on the basis of the sum of (i) the total number of issued voting financial instruments on December 31, 2014 and (ii) the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2014.

(4) This column refers to the number of existing shares that the beneficiary of the EBIP options would receive upon exercise of his options with delivery of 2.96 existing TiGenix shares per EBIP option. In this respect for the EBIP 2008 options it has been assumed that they shall all be exchanged for options on existing TiGenix shares. For more information on the EBIP options, see section 4 of this report above.

9. Continuity of the Company

On December 31, 2014, the Company had a cash position of EUR 13.5 million. Taking into account this cash position, as well as the net proceeds from the issue by the Company of a 25 million euros convertible bond loan on March 6, 2015, the Board of Directors is of the opinion that the cash position is sufficient to continue the Company's current operations during at least the next twelve months (until the next ordinary shareholders' meeting of April 2016).

In accordance with Article 96, 6° of the Belgian Companies 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 reasons set out above.

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

10. Conflicts of interest

In 2014, during two (2) Board meetings, decisions were taken that required the application of the conflict of interests procedure pursuant to Article 523 of the Belgian Companies Code. The relevant parts of the minutes are copied below.

Meeting of the Board of Directors of February 4, 2014

"**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, Eduardo Bravo declared, prior to the meeting of the board of directors, 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 his evaluation and bonus relating to 2013 and his remuneration for 2014.

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 conflict of interests.

Furthermore, the minutes of the resolutions regarding the evaluation and bonus of Eduardo Bravo relating to 2013 and his remuneration for 2014 will be included in the annual report of the board of directors in relation to the financial year ending 31 December 2014.

Eduardo Bravo is not present at the meeting.

Deliberation and resolutions

Dirk Reyn, representative of R&S Consulting, chairman of the nomination and remuneration committee, presented to the board of directors the proposal of the nomination and remuneration committee on (i) the evaluation of the 2013 Company objectives, (ii) the evaluation of the members of the executive management and their bonuses for 2013, and (iii) the remuneration of the members of the executive management for 2014.

Evaluation of the 2013 Company objectives

In particular, it is proposed that the evaluation of the 2013 Company objectives is set at 75% of the target Company objectives.

The board of directors RESOLVED to approve the evaluation of the 2013 Company objectives as proposed by the nomination and remuneration committee.

Evaluation of the members of the executive management and their bonuses for 2013

It is further proposed that all members of executive management will each receive a bonus equal to 75% of their target bonus.

As regards the proposed bonus for Eduardo Bravo, the board of directors is of the opinion that this bonus is justified in view of Eduardo Bravo's role and the efforts that are requested from him.

The board of directors RESOLVED to approve the evaluation of and the bonuses granted to the members of executive management for 2013 as proposed by the nomination and remuneration committee.

Remuneration of the members of the executive management for 2014

The proposal of the nomination and remuneration committee on the remuneration of the members of the executive management for 2014 is as follows:

Eduardo Bravo, CEO:

- Fixed remuneration for 2014: equal to the fixed remuneration for 2013;
- Variable remuneration: a target bonus of 60% of the fixed remuneration (whereby the actual bonus can vary from 0% to 150% of the target bonus in proportion to the relevant objectives reached);
- Company car: for a value equal to the company car granted in 2013;
- Pension, life and medical insurances: in accordance with applicable Company policy.

Claudia D'Augusta, CFO:

- Fixed remuneration for 2014: equal to the fixed remuneration for 2013, as the case may be indexed for 2014 in accordance with applicable provisions;

- Variable remuneration: a target bonus of 30% of the fixed remuneration (whereby the actual bonus can vary from 0% to 150% of the target bonus in proportion to the relevant objectives reached);

- Company car: for a value equal to the company car granted in 2013;

- Meal vouchers, pension, life and medical insurances: in accordance with applicable Company policy.

Wilfried Dalemans, CTO:

- Fixed remuneration for 2014: equal to the fixed remuneration for 2013, as the case may be indexed for 2014 in accordance with applicable provisions;

- Variable remuneration: a target bonus of 30% of the fixed remuneration (whereby the actual bonus can vary from 0% to 150% of the target bonus in proportion to the relevant objectives reached);

- Company car: for a value equal to the company car granted in 2013;

- Meal vouchers, expense reimbursement, group insurance and hospitalization insurance: in accordance with applicable Company policy.

As regards the proposed remuneration package for Eduardo Bravo, the board of directors is of the opinion that this remuneration package is justified in view of Eduardo Bravo's role and the efforts that are requested from him.

The board of directors RESOLVED to approve the remuneration of the members of the executive management for 2014 as proposed by the nomination and remuneration committee.

Furthermore, in line with almost identical agreements entered into for 2011, 2012 and 2013, the board of directors CONFIRMED to approve the entering into of an agreement between the Company and Eduardo Bravo for 2014 in respect of the reimbursement by Eduardo Bravo of Belgian salary taxes that are pre-paid by the Company to avoid that Eduardo Bravo has to bear a double withholding on the Belgian part of his remuneration (as both Spanish and the Belgian tax authorities withhold taxes on such Belgian part of his remuneration)."

Meeting of the Board of Directors of March 31, 2014

"**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, Eduardo Bravo declared, prior to the meeting of the board of directors, 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 the modification of the vesting conditions of the warrants granted to him under the "second warrants plan 2013".

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 conflict of interests.

Furthermore, the minutes of the resolutions regarding the modification of the vesting conditions of the warrants granted to Eduardo Bravo under the "second warrants plan 2013" will be included in the annual report of the board of directors in relation to the financial year ending 31 December 2014.

Eduardo Bravo is not present at the meeting.

Deliberation and resolutions

Due to changed circumstances since the date on which the warrants issued under the "second warrants plan 2013" were granted to the beneficiaries, the nomination and remuneration committee proposes to slightly modify the vesting conditions related to said warrants as set out in the proposal attached in Annex 1.

As regards the warrants that were granted to and accepted by Eduardo Bravo, the board of directors is of the opinion that the modification of the vesting conditions is justified in view of Eduardo Bravo's role and the efforts that are requested from him. In addition, the modification of the vesting conditions of the warrants does not have negative patrimonial consequences for the Company itself. On the contrary, the net assets of the Company shall be reinforced when the warrants will be effectively exercised.

The board of directors RESOLVED to approve the modification of the vesting conditions of the warrants issued and granted under the "second warrants plan 2013" as set out in the proposal attached in Annex 1."

11. Branches

The Company does not have any branches.

12. Subsequent events

On March 6, 2015, the Company issued senior, unsecured convertible bonds due 2018 for a total principal amount of 25 million euros and with a nominal value of 100,000 euros per convertible bond. The bonds are convertible into fully paid ordinary shares of the Company and are guaranteed by the Company's subsidiary, TiGenix S.A.U.

The bonds are issued and will be redeemed at 100% of their principal amount and have a coupon of 9% per annum, payable semi-annually in arrear in equal instalments on March 6 and September 6 of each year, commencing with the first interest payment date falling on September 6 2015.

The initial conversion price has been set at 0.9414 euros. At this initial conversion price, the bonds will be convertible into 26,556,192 fully paid ordinary shares of the Company.

The shareholders' meeting shall be requested to approve the statutory financial statements as submitted and to release the directors and auditor from liability for the performance of their duties in the course of the financial year ended December 31, 2014.

Done on March 16, 2015

On behalf of the Board of Directors

Eduardo Bravo,

CEO