ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE STATUTORY FINANCIAL STATEMENTS PER DECEMBER 31, 2016

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, 2016.

1. Overview

We are an advanced biopharmaceutical company focused on developing and commercializing novel therapeutics from our proprietary technology platforms of allogeneic, or donor derived, stem cells.

In 2015, we have completed, and received positive data in, a single pivotal Phase III trial in Europe of our most advanced product candidate Cx601, a potential first-in-class injectable allogeneic stem cell therapy indicated for the treatment of complex perianal fistulas in patients suffering from Crohn's disease.

Cx601 is our lead product candidate based on our platform of expanded adipose, or fat tissue, derived stem cells, known as eASCs. On July 4, 2016, we entered into a licensing agreement with Takeda, a large pharmaceutical company active in gastroenterology, under which Takeda acquired the exclusive right to commercialize and develop Cx601 for complex perianal fistulas outside the United States, Japan and Canada. The licensing agreement included an option for Takeda to expand the scope of the license to Japan and Canada, which Takeda exercised on December 20, 2016. In the randomized, double blind Phase III study in Europe and Israel with a single treatment of Cx601 the rate of combined remission in patients treated with Cx601 compared with patients who received placebo was statistically significant, meeting the primary endpoint of combined remission of complex perianal fistulas at twenty-four weeks. In the 'intention to treat,' or ITT, population, which was comprised of 212 Crohn's disease patients with inadequate response to previous therapies, 49.5% of patients treated with Cx601 had combined remission compared to 34.3% in the placebo arm. The trial's results indicated that patients receiving Cx601 had a 44.3% greater probability of achieving combined remission than placebo patients. The efficacy results had a p-value, the statistical measure used to indicate the strength of a trial's observations, of 0.024. (A p-value of 0.024 is equivalent to a probability of an effect happening by chance alone being less than 2.4%.) A p-value less than 0.05 is a commonly used criterion for statistical significance. Moreover, the trial confirmed a favorable safety and tolerability profile, and treatment emergent adverse events (non-serious and serious) and discontinuations due to adverse events were comparable between the Cx601 and placebo arms.

The results of the follow-up analysis after fifty-two weeks were also positive. A single injection of Cx601 was statistically superior to placebo in achieving combined remission in 54.2% of patients treated with Cx601 compared to 37.1% of patients in the placebo arm. The result had a p-value of 0.012, indicating high statistical significance. In addition, after fifty-two weeks, 75.0% of patients treated with Cx601 who were in combined remission at week twenty-four did not relapse, compared to 55.9% for patients in the placebo arm who were in combined remission at week 24. The results also confirmed the favourable safety and tolerability profile of Cx601.

The topline data at week 104 were consistent with the results communicated at week 24 and week 52. The clinical remission rate and difference between groups, as was previously observed at week 24 and week 52, was maintained at week 104. The tolerability of Cx601 was also maintained. The safety profiles of Cx601 and placebo (control) were similar for the duration of the trial. No new safety signals were reported during the 2 years extended follow up.

Based on the data from our pivotal Phase III trial in Europe, we submitted a marketing authorization application for Cx601 to the EMA in March 2016. In July 2016, the EMA sent us their initial response to our application for marketing authorization, which we refer to as the "day 120 list of questions". As part of its standard process, the EMA prepares a list of potential outstanding issues, including major objections (if any), 120 days after an application is submitted. In this response, the EMA informed us of certain major objections related to the stability of the master cell stock we proposed, donor selection, viral safety and the potential inadequacy of the primary endpoint of the trial.

Given the existence of major objections, the EMA followed its standard protocol for review at day 120 and stated in its response that our application was not approvable at that time. These objections would preclude a recommendation for marketing authorization unless we are able to address them adequately. In August 2016, we had a clarification meeting with the EMA reviewers during which we discussed our strategy to address their major objections. Based on this meeting and the results of the follow-up analysis after fifty-two weeks, we believe we have reasonable replies to each of the major objections identified by the EMA. We submitted our replies to the day 120 list of questions in December 2016, and the EMA sent us its "Day 180 List of Outstanding Issues" in February 2017. The day 120 list of questions and the day 180 list of outstanding issues are part of the EMA's official review timetable.

In addition, as part of the marketing authorization application process, we had a routine Good Clinical Practice inspection in September 2016. The inspectors identified certain critical and major deviations from Good Clinical Practices, in particular, a potential violation of patient privacy. We included our replies to the issues raised in the inspection as part of our replies to the day 120 list of questions. Although we expect a decision from the EMA on our marketing authorization application during the second half of 2017, our reply might not be satisfactory and our marketing authorization application might not be approved by the EMA. If marketing authorization were to be approved by the second half of 2017, Takeda could begin to commercialize Cx601 in Europe thereafter.

In the first half of 2017, we also intend to initiate a pivotal Phase III trial for Cx601 for the treatment of complex perianal fistulas to register Cx601 in the United States and have begun the technology transfer process to Lonza, a U.S. based contract manufacturing organization. Based on discussions with the U.S. Food and Drug Administration, or FDA, we believe that the U.S. Phase III trial, if successful, could, together with the European Phase III data, serve as evidence for filing a biologics license application, or BLA, for regulatory approval with the FDA. In 2015, we reached an agreement with the FDA through a special protocol assessment, or SPA, procedure for our proposed protocol. In January 2017, we had a Type C meeting in which changes to the protocol were discussed with the FDA. Based on feedback from that meeting, we submitted a revised protocol in February 2017. The agreed primary endpoint for the U.S. Phase III trial is the same as the one for the European Phase III trial. In addition, the required p-value is less than 0.05 for the U.S. trial, compared to the more stringent threshold of less than 0.025 that Cx601 was successfully able to meet in the European trial. The FDA indicated that the design and planned analysis of our study sufficiently addressed the study's objectives and that this study is adequately designed to provide the necessary data that, depending upon outcome, could support a license application submission. We are currently exploring options for expedited pathways that could facilitate and accelerate the development of Cx601 and the review of its future BLA.

Our eASC-based platform has generated other product candidates, including Cx611, for which we have completed a European Phase I safety trial. We initiated a Phase I/II clinical trial in severe sepsis in Europe in January 2017.

On July 31, 2015, we acquired Coretherapix, a Spanish biopharmaceutical company focused on developing cost effective regenerative therapeutics to stimulate the endogenous repair capacity of the heart and mitigate the negative effects of myocardial infarction, or a heart attack. Coretherapix has developed an allogeneic platform of expanded cardiac stem cells, or CSCs, and its lead product candidate, AlloCSC-01, employs allogeneic CSCs as a potential treatment for acute ischemic heart disease. We are sponsoring a European Phase I/II trial to evaluate the safety and efficacy of the intracoronary infusion of AlloCSC-01 in patients with acute myocardial infarction. We received six month interim exploratory data in June 2016, and top-line one-year results were made available on March 13, 2016. We are also developing AlloCSC-02, the second product candidate from the CSC based platform, which is in a preclinical proof of concept stage for a chronic cardiac indication.

In July 2016, for commercial reasons, we decided to terminate our distribution agreements with Sobi and Finnish Red Cross Blood Service and our manufacturing agreement with Pharmacell and we requested the withdrawal of our marketing authorization for ChondroCelect which became effective as of November 30, 2016.

2. Pipeline development

Our pipeline portfolio includes a product candidate with positive pivotal Phase III data and three further product candidates in Phases II and I and preclinical development.

- **Cx601**. Cx601, our lead product candidate, is a potential first-in-class local injectable allogeneic stem cell therapy that has completed a pivotal Phase III trial in Europe and Israel for the treatment of complex perianal fistulas in patients suffering from Crohn's disease. We have observed compelling clinical results that suggest that Cx601 has clinical utility in treating perianal fistulas in one injectable dose with increased efficacy and a more favorable adverse events profile than currently available therapies in Europe and the United States. Based on the results of our successful pivotal Phase III trial, we submitted a marketing authorization application to the EMA in March 2016, a decision by the EMA could be expected during the second half of 2017. Moreover, Cx601 enjoys significant benefits due to its designation as an orphan drug by the EMA.

  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 Phase III trial to register Cx601 in the United States. We received positive feedback regarding our current pivotal European Phase III trial design for supporting a BLA and have reached an agreement with the FDA through an SPA procedure for our proposed protocol for a Phase III trial to register Cx601 in the United States. We are currently exploring the options for expedited review that could facilitate and accelerate the development of Cx601 and the review of its future BLA. In the first half of 2017, we intend to initiate a pivotal Phase II trial for Cx601 for the treatment of perianal fistulas to register Cx601 in the United States. Current therapies have limited efficacy, and there is currently no commercially available cell based therapy for this indication in the United States or Europe. We believe Cx601, if approved, would fulfil a significant unmet need in the market.
- **Cx611**. Cx611, our second eASC-based product candidate, is a potential first-in-class intravenous injectable allogeneic stem cell therapy intended for the treatment of severe sepsis. We believe that Cx611, if approved for severe sepsis, would be an add-on therapy that has the potential to reduce mortality. Following positive data from a Phase I trial in Europe, we are planning to advance Cx611 in severe sepsis in a Phase II trial in Europe in the fourth quarter of 2016.
- **Cx621**. We have also explored the intra-lymphatic administration of allogeneic eASCs with Cx621 and generated positive safety and feasibility information in a Phase I trial in Europe. This different route of administration has the potential to enable applications in autoimmune diseases.
- **AlloCSC-01**. AlloCSC-01, our first product candidate from the CSC-based platform, is a suspension of allogeneic CSCs administered into the coronary artery of the patient. We are currently in the second stage of a two stage Phase I/II trial in Europe to evaluate the safety and preliminary efficacy of the intracoronary infusion of AlloCSC-01 in patients with acute myocardial infarction. We received six month interim exploratory data in June 2016, and top-line one-year results confirming that all safety objectives of the study have been met, were made available on March 13, 2017. We believe that AlloCSC 01, if approved, would limit the extent of tissue damage caused by myocardial infarction and delay the onset or reduce the severity of congestive heart failure.
- **AlloCSC-02**. AlloCSC-02, our second product candidate from the CSC based platform, is in a preclinical proof of concept stage for a chronic cardiac indication.

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 April 5, 2017. The financial statements will be communicated to the shareholders at the annual general shareholders' meeting on June 1, 2017.

Result of Operations

Comparison of the Years Ended December 31, 2016 and 2015

The following table summarizes our results of operations for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	% Change
	Thousands of euros		(unaudited)
Revenues			
Royalties	395	537	(26)%
License revenues	25,000	—	*
Grants and other operating income	1,395	1,703	(18)%
Total revenues	**26,790**	**2,240**	1,096%
Research and development expenses	(21,454)	(19,633)	9%
General and administrative expenses	(8,363)	(6,683)	25%
Total operating charges	**(29,817)**	**(26,316)**	10%
Operating Loss	**(3,027)**	**(24,076)**	(91)%
Financial income	156	148	5%
Interest on borrowings and other finance costs	(7,288)	(6,651)	10%
Impairment and gains/(losses) on disposal of financial instruments	—	(161)	(100)%
Fair value gains	11,593	—	*
Fair value losses	—	(6,654)	(100)%
Foreign exchange differences	232	1,000	(77)%
Profit (Loss) before taxes	**1,666**	**(36,394)**	(105)%
Income taxes	2,136	1,325	61%
Profit (Loss) for the period	**3,802**	**(35,069)**	(111)%

* Not meaningful

Royalties

Royalties decreased by 26%, from 0.5 million euros for the year ended December 31, 2015 to 0.4 million euros for the year ended December 31, 2016. In both periods, we received these royalties in connection with the sales of ChondroCelect by Sobi under the license agreement that we entered into in June 2014. The decrease in the royalties is due to the decision of TiGenix to fully focus on its allogenic stem cell platforms. As such, during 2016, TiGenix withdrew the Marketing Authorization for ChondroCelect® for commercial reasons and terminated the license agreement with Sobi. No more royalties on net sales of ChondroCelect will be received as from November 2016. Going forward, we expect to receive ongoing royalty payments from Takeda and other partners with whom we may enter into distribution agreements or license agreements.

License revenues

On July 4, 2016, Takeda and TiGenix entered into an exclusive worldwide license excluding US development and commercialization agreement for Cx601, a suspension of allogeneic adipose-derived stem cells (eASC) injected intra-lesionally for the treatment of complex perianal fistulas in patients with Crohn's disease.

During July 2016, TiGenix received a non-refundable upfront cash payment of EUR 25.0 million in execution of this agreement, this amount has been recognized as License revenue in the Income Statement.

Grants and Other Operating Income

Grants and other operating income decreased by 18%, from 1.7 million euros for the year ended December 31, 2015 to 1.4 million euros for the year ended December 31, 2016. Grant income decreased by 15%, from 0.9 million euros to 0.7 million euros. During the year ended December 31, 2015, we received grants under the EU's Seventh Framework Program for Research and Technological Development, a transnational research funding initiative. During the year ended December 31, 2016, we recognized grant income under the Horizon 2020 program, the EU's framework program for research and innovation, to conduct a clinical Phase II trial for Cx611 in patients with severe sepsis as a result of severe community acquired pneumonia that we received at the end of 2015. In addition we received grant income of the benefit from government loans at a below market rate, received by the Ministry of Science and the Ministry of Economy in TiGenix SAU and Coretherapix SLU respectively. In addition other operating income decreased by 21% from 0.8 million euros for the year ended December 31, 2015 to 0.7 million euros for the year ended December 31, 2016. In both years, other operating income mainly represented reimbursement for certain regulatory and pharmacovigilance activities that we performed on behalf of Sobi under the license agreement.

	Years ended December 31,	
	2016	2015
	Thousands of euros	
Grant revenues	725	855
Other operating income	670	848
Total Grants and other operating income	**1,395**	**1,703**

For 2016, grant revenue had the following components:

- 0.3 million euros due to the recognition of grant income under the Horizon 2020 program, the EU's framework program for research and innovation, to conduct a clinical Phase II trial for Cx611 in patients with severe sepsis as a result of severe community acquired pneumonia.

- 0.2 million euros related to the recognition as grant income of the benefit obtained from a government loan at a below market rate (a soft loan received by SAU in 2013 by the Ministry of Science of 0.4 million euros with maturity February 2023).

- 0.2 million euros related to the recognition as grant income of the benefit obtained from a government loan at a below market rate (two soft loans received by CTX in 2016 by the Ministry of Economy of 0.3 million euros and 0.6 million euros respectively with maturity February 2025 and 2026).

For 2015, grant revenue had the following components:

- Income of 0.5 million euros from a grant from the EU Seventh Framework Program for research in connection with Cx611, a decrease of 55% from 1.1 million euros in 2014. The project lasted from January

2012 to December 2014, and all related activities and expenses were recognized in two reporting periods in June 30, 2013 and December 31, 2014, when we received the bulk of the grant. As our justified costs in relation to the project were higher than our initial grant allowance, in 2015, we received an additional part of the grant that was initially allocated to our partner institutions in the project that did not spend the entire amount of their respective authorized grants to cover some of our costs.

- Income of 0.3 million euros related to a so called "soft" loan of 0.7 million euros from the Spanish Ministry of Science. At December 31, 2015, we completed all the activities related to this loan, and, therefore, fully recognized as grant income the benefit received by borrowing these sums at a below market rate of interest (measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates), in an amount of 0.3 million euros.

Research and Development Expenses

Our research and development expenses increased by 9%, from 19.6 million euros for the year ended December 31, 2015 to 21.5 million euros for the year ended December 31, 2016. The increase was mainly driven by the following activities, which we undertook in 2016:

- Filing for marketing authorization for Cx601 in Europe.
- Preparation for the Phase III clinical trial for Cx601 in the United States.
- Preparation for the Phase II clinical trial for Cx611 in severe sepsis.
- Increase in the number of employees to prepare for the above mentioned projects.
- Activities in connection with the ongoing Phase I/II clinical trial for AlloCSC 01 in acute myocardial infarction, which were not reflected in our expenses during the same period in 2015, since the acquisition of Coretherapix was completed in July 2015.

Our research and development expenses in the year ended December 31, 2015 mainly related to costs in connection with the European Phase III trial for Cx601 and other related preparations to file for marketing authorization for Cx601 in Europe. In addition, we concluded the Phase I trial for Cx611 in severe sepsis and launched Phase II activities during this period.

The following table provides a breakdown of our research and development expenses for Cx601, Cx611 and AlloCSC 01, the three product candidates we have in clinical development, as well as our non allocated research and development expenses, which primarily include personnel and facility costs that are not related to specific projects:

	Years ended December 31,	
	2016	2015
	Thousands of euros	
Non-allocated research and development expenses	7,449	7,081
ChondroCelect impairment	-	1,121
Cx601	9,174	8,380
Cx611	1,854	2,155
AlloCSC-01	2,977	896
Total	**21,454**	**19,633**

General and Administrative Expenses.

General and administrative costs increased by 25% from 6.7 million euros for the year ended December 31, 2015 to 8.4 million euros for the year ended December 31, 2016. The increase was mainly attributable to non recurrent expenses including the costs in connection with our U.S. initial public offering and the Takeda licensing transaction and general and administrative expenses in connection with twelve months of Coretherapix, while in 2015 only 5 months were included as Coretherapix acquisition was completed in July 2015.

Financial Income.

Financial income increased from 0.1 million euros for the year ended December 31, 2015 to 0.2 million euros for the year ended December 31, 2016. Financial income mainly consists of interest income on the cash balances in our bank deposits.

Interest on borrowings and other finance costs.

Interest on borrowings and other finance costs increased by 10% from 6.7 million euros for the year ended December 31, 2015 to 7.3 million euros for the year ended December 31, 2016. This financial expense had three primary components for the year ended December 31, 2016:

- Interest of 1.1 million euros under the loan facility with Kreos Capital IV (UK).

- Interest of 0.9 million euros on government loans.

- Interest of 5.0 million euros in connection with the issuance of senior unsecured convertible bonds on March 6, 2015, which constituted the majority of the increase.

Since the bonds were issued in March 2015, interest was only due for part of the year ended December 31, 2015, as compared to the entire year ended December 31, 2016.

Fair value gains.

Fair value gains significantly increased from 0 million euros for the year ended December 31, 2015 to 11.6 million euros for the year ended December 31, 2016. This increase is mainly driven by the evolution of the fair value of the embedded derivative related to our senior, unsecured convertible bonds and the Kreos loan, from December 31, 2015 to December 31, 2016. The fair value gain related to the derivative of the convertible bonds and Kreos loans amount to 11.0 and 0.6 million euros respectively. The variable with the most significant effect on the fair value calculation of the warrants linked to the convertible bonds and Kreos loan is our share price, which dropped from 1.19 euros at December 31, 2015 to 0.71 euros at December 31, 2016.

Fair value losses.

Fair value losses significantly decreased from 6.7 million euros for the year ended December 31, 2015 to 0 euros for the year ended December 31, 2016. This decrease is mainly driven by the evolution of the fair value of the embedded derivative related to our senior, unsecured convertible bonds and Kreos loans from December 31, 2015 to December 31, 2016. During 2015 these derivatives resulted in an increase of liabilities generating 6.1 million euros of fair value losses. This was mainly caused by the increase of the TiGenix's share price during that year, which rose from 0.56 euros at December 31, 2014 to 1.19 euros at December 31, 2015.

Foreign Exchange Differences.

Foreign exchange differences decreased from 1.0 million euros for the year ended December 31, 2015 to 0.2 million euros for the year ended December 31, 2016. The decrease is mainly due to the translation into euros of the U.S. dollar denominated intercompany balance existing between us and our subsidiary, TiGenix Inc. The decrease is due to the appreciation of the U.S. dollar against the euro from 1,086 €/USD at December 31, 2015 to 1,054 €/USD at December 31, 2016.

Income Taxes.

Income taxes changed from a benefit of 1.3 million euros for the year ended December 31, 2015 to 2.1 million for the year ended December 31, 2016. This resulted from the enactment in September 2013 of a new law for entrepreneurial enterprises in Spain under which our subsidiary TiGenix SAU recognized a cash tax credit as a result of research and development activities performed during 2014 and 2015. Research and development activities realized during 2014 and 2015 increased compared to research and development activities performed in 2014 and 2013.

As of December 31, 2015, we had a tax loss carried forward of 180.7 million euros compared to 200.3 million euros as of December 31, 2016. These tax losses generate a potential deferred tax asset of 61.8 million euros, and do not have an expiration date. Because we are 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 20.1 million euros as of December 31, 2015 compared to 20.8 million euros as of December 31, 2016.

Comparison of the Years Ended December 31, 2015 and 2014

The following table summarizes our results of operations for the years ended December 31, 2015 and 2014:

	Years ended December 31,		
	2015	2014	% Change
	Thousands of euros		
CONTINUING OPERATIONS			
Revenues			
Royalties	537	338	59%
Grants and other operating income	1,703	5,948	(71)%
Total revenues	**2,240**	**6,286**	**(64)%**
Research and development expenses	(19,633)	(11,443)	72%
General and administrative expenses	(6,683)	(7,406)	(10)%
Total operating charges	**(26,316)**	**(18,849)**	**40%**
Operating loss	**(24,076)**	**(12,563)**	**92%**
Financial income	148	115	29%
Interest on borrowings and other finance costs	(6,651)	(1,026)	548%*
Fair value gains and losses	(6,654)	60	*
Impairment and gains/(losses) on disposal of financial instruments	(161)	—	*
Foreign exchange differences net	1,000	1,101	(9)%
Loss before taxes	**(36,394)**	**(12,313)**	**196%**
Income taxes benefit	1,325	927	43%
Loss for the year from continuing operations	**(35,069)**	**(11,386)**	**208%**

DISCONTINUED OPERATIONS

Loss for the year from discontinued operations	—	(1,605)	*
Loss for the year	**(35,069)**	**(12,990)**	**170%**

* Not meaningful

Royalties.

In the year ended December 31, 2015, we earned 0.5 million euros in royalties on net sales of ChondroCelect by Sobi, compared to 0.3 million euros in royalties in the year ended December 31, 2014, which were earned after we entered into the license agreement with Sobi in June 2014. Income generated from sales of ChondroCelect prior to June 2014 is reflected under loss for the period from discontinued operations. Units of ChondroCelect sold dropped by 54% in the second half of 2015 compared to the same period in 2014, after the authorities in Belgium decided to reverse their decision to reimburse ChondroCelect in April 2015.

Grants and Other Operating Income.

Revenue from grants and other operating income decreased from 6.0 million euros in the year ended December 31, 2014 to 1.7 million euros in the year ended December 31, 2015. The following table provides a breakdown between grant revenues and other operating income:

	Years ended December 31,	
	2015	2014
	Thousands of euros	
Grant revenues	855	5,522
Other operating income	848	426
Total Grants and other operating income	**1,703**	**5,948**

For 2015, grant revenue had the following components:

- Income of 0.5 million euros from a grant from the EU Seventh Framework Program for research in connection with Cx611, a decrease of 55% from 1.1 million euros in 2014. The project lasted from January 2012 to December 2014, and all related activities and expenses were recognized in two reporting periods in June 30, 2013 and December 31, 2014, when we received the bulk of the grant. As our justified costs in relation to the project were higher than our initial grant allowance, in 2015, we received an additional part of the grant that was initially allocated to our partner institutions in the project that did not spend the entire amount of their respective authorized grants to cover some of our costs.

- Income of 0.3 million euros related to a so called “soft” loan of 0.7 million euros from the Spanish Ministry of Science. At December 31, 2015, we completed all the activities related to this loan, and, therefore, fully recognized as grant income the benefit received by borrowing these sums at a below market rate of interest (measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates), in an amount of 0.3 million euros.

For 2014, grant revenue had the following components:

- Income of 3.4 million euros related to two so called “soft” loans from Madrid Network, of 5.0 million euros and 1.0 million euros respectively. At December 31, 2014, we completed all the activities related to these loans, and, therefore, fully recognized as grant income the benefit received by borrowing these sums at a below market rate of interest (measured as the difference between the proceeds received and the fair

value of the loan based on prevailing market interest rates), in an amount of 2.8 million euros for the first loan and 0.6 million euros for the second loan.

- Income of 1.1 million euros from a grant from the EU Seventh Framework Program for research in connection with Cx611 in 2014.

- Income of 1.1 million euros related to six different "soft" loans for various projects from the Spanish Ministry of Science. At December 31, 2014, we completed all the activities related to these loans and the period for inspection for compliance with the terms of the loans had elapsed for all of these loans. We believed that there was sufficient assurance of the grant of the loans and recognized as grant income the benefit received by being able to borrow at a below market rate of interest.

Other operating income increased by 0.4 million euros in 2015. In 2014, this income was related to reimbursement for certain regulatory and pharmacovigilance activities that we performed on behalf of Sobi under the license agreement. In 2015, in addition to the reimbursement from Sobi, we received 0.2 million euros from the sale of a database of information related to our research in connection with ChondroCelect.

Research and Development Expenses.

Our research and development expenses increased by 72%, from 11.4 million euros for the year ended December 31, 2014 to 19.6 million euros for the year ended December 31, 2015. The increased expenses were in connection with the conclusion of the Phase III clinical trial for Cx601 and the Phase I sepsis challenge trial for Cx611, other activities in connection with the filing for marketing authorization for Cx601 in Europe, as well as 0.9 million euros in research and development expenses in connection with AlloCSC 01, the product candidate we acquired through the acquisition of Coretherapix in July 2015. As a result of an impairment test in the fourth quarter of 2015, we also recognized an impairment charge of 1.1 million euros in connection with the capitalized development costs related to ChondroCelect in 2010 and 2011. The following table provides a breakdown of our research and development expenses for Cx601, Cx611 and AlloCSC 01 (the three product candidates we currently have in clinical development) as well as the impairment charge for ChondroCelect and our non allocated research and development expenses, which primarily include personnel and facility costs that are not related to specific projects:

	Years ended December 31,	
	2015	2014
	Thousands of euros	
Non-allocated research and development expenses	7,081	6,580
ChondroCelect impairment	1,121	—
Cx601	8,380	4,144
Cx611	2,155	719
AlloCSC-01	896	—
Total	**19,633**	**11,443**

General and Administrative Expenses.

General and administrative costs decreased by 10%, from 7.4 million euros for the year ended December 31, 2014 to 6.7 million euros for the year ended December 31, 2015. The decrease was related to lower expenses to obtain additional funding during 2015 as compared to 2014 as well as lower employee benefits costs, due to a reduction in the number of our staff in Belgium by approximately 60%, which was partially offset by additional staff joining as a result of the Coretherapix acquisition.

Financial Income.

Financial income remained broadly stable at 0.1 million euros for the years ended December 31, 2014 and 2015. Financial income consists of interest income and varies based on the cash balances in our bank deposits.

Interest on borrowings and other finance costs.

Interest on borrowings and other finance costs increased from 1.0 million euros for the year ended December 31, 2014 to 6.7 million euros for the year ended December 31, 2015. This significant increase was primarily driven by interest expense in connection with our borrowings, of 3.9 million euros (with respect to the convertible bonds issued on March 6, 2015), 1.6 million euros (with respect to the Kreos loans) and 0.9 million euros (with respect to various government loans). Financial expenses in 2014 related mainly to the interest expense under the Kreos loans of 1.0 million euros.

Fair value gains and losses. Fair value gains and losses changed from a gain of 60,000 euros for the year ended December 31, 2014 to a loss of 6.7 million euros for the year ended December 31, 2015. This was due to the evolution of the fair value of the embedded derivatives in connection with our borrowings, of which 5.5 million euros related to the fair value of our 9% senior unsecured convertible bonds due 2018 and 0.6 million euros related to the fair value of the Kreos loans, as well as a change in the value of the contingent deferred elements of the purchase price for the Coretherapix acquisition, amounting to 0.7 million euros.

Impairment and gains/ (losses) on disposal of financial instruments.

In the year ended December 31, 2015, we recognized an impairment loss of 0.2 million euros in connection with our investment in Arcarios, our Dutch spin off, due to continuing losses, representing a total impairment of our investment.

Foreign Exchange Differences.

Foreign exchange differences remained stable at approximately 1 million euros during the years ended December 31, 2015 and 2014. The differences are related to the intercompany loan (expressed in U.S. dollars) incurred by our subsidiary. We have an intercompany receivable in U.S. dollars against TiGenix Inc. As of December 31, 2015 and due to the appreciation of the U.S. dollar against the euro in 2015, the balance of the receivable in euros has been updated with the new closing exchange rate, generating a foreign exchange difference in TiGenix NV.

Income Taxes.

Income taxes changed from a benefit of 0.9 million euros for the year ended December 31, 2014 to a benefit of 1.3 million euros for the year ended December 31, 2015. These benefits resulted from the enactment in September 2013 of a new law for entrepreneurial enterprises in Spain under which our subsidiary TiGenix SAU recognized a cash tax credit as a result of research and development activities performed during 2013 and 2014.

As of December 31, 2014, we had a tax loss carried forward of 143.4 million euros compared to 180.7 million euros as of December 31, 2015. These tax losses generate a potential deferred tax asset of 55.7 million euros, and do not have an expiration date. Because we are 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 15.0 million euros as of December 31, 2014 compared to 20.1 million euros as of December 31, 2015, consisting of approximately 3 million euros in tax credits resulting from the Coretherapix acquisition, as well as additional tax credits generated during 2015.

Loss for the Period from Discontinued Operations.

During 2015, we had no gain or loss from discontinued operations. Our loss from discontinued operations for the year ended December 31, 2014 was 1.6 million euros.

The following table provides a breakdown of the loss from discontinued operations during 2014:

	Years ended December 31, 2014
	Thousands of euros, except per share data
Revenue	3,527
Expenses	(4,991)
Operating expenses	(3,875)
Impairment losses	—
Loss on disposal	(1,116)
Other income and expenses	(141)
Loss before taxes	**(1,605)**
Attributable income tax expense	—
Total	**(1,605)**
Basic and diluted loss per share from discontinued operations (in euros)	**(0.01)**

The loss on disposal included in the discontinued operations at December 31, 2014 of 1.1 million euros is composed of the following (thousands of euros):

Consideration received in cash	3,490
Deferred consideration	534
Net assets disposed of	(5,139)
Loss on disposal	**(1,116)**

These costs were incurred in connection with the discontinuation during the first six months of 2014 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 would receive a final payment of 0.8 million euros on May 30, 2017, which finally was received during December 2016. 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 market and distribute the product within the European Union (excluding Finland), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. We received royalties on the net sales of ChondroCelect, and Sobi reimbursed nearly all of our costs in

connection with the product. The agreements with our former subsidiary, now owned by PharmaCell, and Sobi both included commitments for minimum quantities of ChondroCelect that were 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 were nevertheless entitled to receive payment from Sobi up to a maximum undiscounted amount of 8.8 million euros and were required to pass on such payment to PharmaCell over a three year period from June 2014.

The sale of our Dutch subsidiary also included 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 passed on this cost relief on a like for like basis to Sobi, which purchased ChondroCelect from us at cost.

As a result of these transactions, for the year ended December 31, 2014, all ChondroCelect operations, including revenues, production costs, sale and marketing expenses, have been presented as discontinued operations in the consolidated financial statements.

Cash Flows

The following table summarizes the results of our cash flows for the periods ended December 31, 2016, 2015 and 2014 in thousand of euros:

	Years ended December 31,		
	2016	**2015**	**2014**
Net cash generated from (used in):			
Operating activities	3,548	(19,574)	(13,367)
Investing activities	510	(4,434)	3,307
Financing activities	55,928	28,523	7,969
Net increase (decrease)	**59,987**	**4,515**	**(2,091)**
Cash and cash equivalents	77,969	17,982	13,471

Comparison of the Years Ended December 31, 2016 and 2015

Net cash generated from operating activities was 3.5 million euros for the year ended December 31, 2016 compared to cash used in operating activities of 19.6 million euros for the year ended December 31, 2015, an increase of 118%. This increase was mainly due to the Cx601 license deal with Takeda which increased by 25.0 million euros the operating income. This higher income was partially offset by higher operating expenses incurred during the year ended December 31, 2016 due to the research and development activities related to the filing for market authorization for Cx601 in Europe, preparation for the Phase III trial of Cx601 in the United States, activities in connection with the Phase I/II for AlloCSC01 for acute myocardial infarction and other general and administrative expenses including those related to the U.S. initial public offering process and the license agreement with Takeda.

Net cash generated from investing activities was 0.5 million euros for the year ended December 31, 2016 compared to an outflow of 4.4 million euros for the year ended December 31, 2015. This cash is derived from the use in 2016 of an escrow account to pay 2.2 million euros interest in connection with the 9% senior unsecured convertible bonds due 2018 and the last payment from Pharmacell from the selling in 2014 of our Dutch manufacturing facility for a total amount of 0.8 million euros. This amount was partially offset by investments in property, plant and equipment for additional space for our facility in Madrid, we started the investment in our manufacturing installations with the objective of increasing our manufacturing capacity and additionally, we invested in intangible assets. During the year ended December 31, 2015, we acquired our subsidiary Coretherapix. Part of the payment was done in cash for a total amount of 1.2 million euros.

In addition we transferred 3.4 million euros received from our issuance of 9% senior, unsecured convertible bonds due 2018 into an escrow account partly classified as “other non-current assets” and partly as “other current financial assets” for the purposes of the interest payment on the convertible bonds.

Net cash generated from financing activities was 55.9 million euros for the year ended December 31, 2016 compared to 28.5 million euros for the year ended December 31, 2015, an increase of 96%. During the year ended December 31, 2016, we raised net proceeds of 22.1 million euros from a private placement in March 2016, we raised 31.7 million euros of net proceeds from the US IPO in December 2016, we raised 10.0 million euros of net proceeds from the equity investment from Takeda during December 2016 and we received 1.1 million euros in government loans and grants. The costs of issuance of the equity instruments were 5.7 million euros and there were repayments of 7.3 million euros in principal and interest on financial loans. Inflow from financing activities in 2015 derived from the issuance of convertible bonds in March 2015, for an amount of 25.0 million euros, and the private placement in November and December 2015, which raised 8.7 million euros in gross proceeds. These inflows were partially offset by costs of 1.6 million euros relating to the issuance of the convertible bonds and the private placements, interest expense of 2.2 million euros and 2.7 million euros in the repayment of principal on outstanding.

Comparison of Years Ended December 31, 2015 and 2014

Net cash outflow from operating activities was 19.6 million euros for the year ended December 31, 2015 compared to net cash outflow of 13.4 million euros for the year ended December 31, 2014. This increase is mainly due to an increase in research and development activities and the consolidation of Coretherapix in the consolidation scope.

Net cash outflow from investing activities amounted to 4.4 million euros for the year ended December 31, 2015 compared to net cash inflow of 3.3 million euros for the year ended December 31, 2014. The principal outflows during 2015 related to the acquisition of Coretherapix, for which we paid 1.2 million euros in cash, and the allocation of future interest payments in connection with the 9% senior unsecured convertible bonds due 2018 into an escrow amount in the amount of 3.4 million euros. In 2014, we sold our Dutch manufacturing facility for 3.5 million euros.

Net cash inflow from financing activities was 28.5 million euros for the year ended December 31, 2015 compared to net cash inflow of 8.0 million euros for the year ended December 31, 2014. Inflow from financing activities in 2015 derived from the issuance of convertible bonds in March 2015, for an amount of 25.0 million euros, and the private placement in November and December 2015, which raised 8.7 million euros in gross proceeds. These inflows were partially offset by costs of 1.6 million euros relating to the issuance of the convertible bonds and the private placements, interest expense of 2.2 million euros and 2.7 million euros in the repayment of principal on outstanding loans. In 2014, the cash inflow of 8.0 million euros mainly corresponded to the drawdown of the Kreos loan.

Statement of financial position

The balance sheet at December 31, 2016 presents the following key ratios:

	2016	2015	2014
Cash and cash equivalents as a % of total assets	57%	23%	25%
Working capital as a % of total assets	47%	14%	16%
Solvency ratio (equity/total assets)	59%	17%	64%
Gearing ratio (financial debt/equity)	44%	320%	37%

(Working capital is defined as current assets minus current liabilities)

- *Cash asset ratio: this ratio measures the firm liquidity and its ability to pay our short term obligations. It is calculated as: Cash and cash equivalents / Total assets.*

- *Working capital to total assets ratio: this ratio measures the Company´s ability to cover its short term financial obligations. It is calculated as: Current assets – current liabilities / Total assets.*

- *Equity ratio: it is a solvency ratio and measures how much of the Company is owned by its investors. It is calculated as: Equity / Total assets.*

The major assets of the balance sheet at December 31, 2016 are:

- Cash and cash equivalents of 78.0 million euros, for about 57% of the total assets.
- Intangible assets of 46.6 million euros, mainly the fair value of the intangible assets out of the acquisition of TiGenix SAU (25.6 million euros) and the intangible assets as a result of Coretherapix acquisition (18.1 million euros), for about 34% of the total assets.
- Tangible assets of 1.6 million euros, mainly related to the leasehold improvements of the Spanish offices and the works to increase the manufacturing capacity in TiGenix SAU, for about 1% of the total assets.
- Other non-current assets relate to the guarantees of both TiGenix NV and TiGenix SAU for rental of buildings, a deposit for the guarantee of the second soft loan of Madrid Network and deposits for the Retos soft loans received in Coretherapix, and the cash receivables from the Spanish Tax Authorities for the R&D activities developed in 2015 and to be collected in 2018 up to 2.2 million euros or 3% of the total assets.
- Inventories related to the stock of TiGenix SAU, for about 0.2% of the total assets.
- Trade and other receivables have decreased from 3.0 million euros in 2015 to 2.7 million euros mainly due to the application of the monthly recollection of the VAT in Belgium as from 2016, partially offset by the increase in the receivables of TiGenix NV due to the termination agreement with Sobi. Weight of trade and other receivables amounts up to 2% of the total assets.
- Other current financial assets mainly relate to interests on convertible bonds to be paid on short term and maintained in an escrow account, representing 1% of the total assets.
- Total equity of 78.7 million euros, for 58% of the total balance sheet at December 31, 2016.

The other major liabilities are:

- Non-current liabilities of 36.4 million euros, mainly related to convertible bonds issued on March 6, 2015 amounting to 20.8 million euros and related warrants (2.4 million euros), the financial loans including Kreos (1.2 million euros), Madrid Network and the rest of soft loans and contingent consideration consequence of Coretherapix acquisition on July 2015 amounting to 7.3 million euros, for about 5.4% of the total balance sheet.
- Current portion of financial loans of 5.4 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 0.4 million euros, related to the warrants issued in respect of the Kreos loan, for about 0.3% of the total balance sheet.
- Trade and other payables of 5.1 million euros, for about 4% of the total balance sheet. The increase in 2016 with respect to 2015 (5.1 million euros in 2016 versus 3.3 million euros in 2015) is mainly driven by the decrease in the operating accruals included in other current liabilities.
- Other current liabilities related to operating accruals of 3.7 million euros, representing about 3% of the total balance sheet. The decrease in 2016 is mainly driven by the increase in trade and other payables.
- Other current liabilities contingent consideration of 5.5 million euros representing the short term contingent liabilities related to the Coretherapix acquisition in 2015, representing 4.1% of the total balance sheet.

Other commitments

The Group has off-balance sheet commitments related to rent for leased facilities, vehicles and equipment. At December 31, 2016, these commitments amounted to 1.4 million euros (2015: 1.9 million euros; 2014: 1.1 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, 2016 for which TiGenix Inc. was a guarantor were 0.3 million euros. Cognate was the party with whom TiGenix had a joint venture, TC CEF LLC, in the past.

Going concern

The Group has experienced net losses and significant cash used in operating activities since our inception in 2000 except for year 2016. As of December 31, 2016, the Group had an accumulated deficit of 116.2 million euros, a profit for the year of 3.8 million euros and net cash provided by operating activities of 3.5 million euros. As of December 31, 2015 it had an accumulated deficit of 120.0 million euros, a loss for the year of 35.1 million euros and net cash used in operating activities of 19.6 million euros. Management expects the Group to continue to have significant cash outflows for at least the next twelve months. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. These consolidated financial statements have been prepared assuming that the Group will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. A successful transition to attaining profitable operations is dependent upon achieving a level of positive cash flows adequate to support our cost structure.

As at December 31, 2016, the Group had cash and cash equivalents of 78.0 million euros. Taking into account this liquidity position and the anticipated cash inflows relation to the licensing deal with Takeda, our board of directors is of the opinion that our liquidity position is sufficient to continue our current operations for at least 12 months.

In order to continue financing our operations and be able to launch such new development phases, we intend timely to obtain additional non dilutive funding, such as from partnering, and/or dilutive funding. In addition, a successful transition to attaining profitable operations is dependent upon achieving a level of positive cash flows adequate to support our cost structure.

In accordance with Article 96, 6° of the Belgian Companies Code, the Board of Directors has decided, after consideration, to apply the valuation rules assuming “going concern”, for the reasons set out above in this section.

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.

4. Discussion and analysis of the statutory financial statements

The annual accounts cover the accounting period from January 1, 2016 to December 31, 2016.

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 54.4 million euros on December 31, 2016;
- The non-current assets represent an amount of 106.2 million euros, including 105.70 million euros of financial assets, representing mainly the business combination with TiGenix SAU and the acquisition of Coretherapix SLU and the formation expenses of 0.5 million euros, being the costs (after depreciation) associated with the various capital increases. The remaining non-current assets mainly relate to guarantees for the offices in Leuven.

- The current assets, excluding the cash at bank and in hand, amount to 3.2 million euros. They mainly consist of trade and other receivables within one year, deferred charges and accrued income and short term interest payment (1.1 million euros) of convertible bonds in escrow account.

Balance sheet - liabilities

- The issued capital of the Company amounts 26.0 million euros and the share premium account amounts to 180.7 million euros;
- Accumulated losses reached 76.5 million euros at December 31, 2016;
- The liabilities of 33.7 million euros consist mainly of short and long term financial debts from Kreos, convertible bonds and intra-group loans (30.5 million euros); trade payables (1.5 million euros) and liabilities in respect of remuneration and social security obligations (0.2 million euros).

Results of the fiscal year

The operating income amounts to 1.5 million euros and relates to other income of services reinvoiced to Sobi of 0.6 million euros and royalties from Sobi from the licencing of the ChondroCelect of 0.4 million euros.

The operating charges of 12.9 million euros mainly consist of:

- The expenses for services and other goods for an amount of 10.1 million euros, significantly higher than in 2015 5.6 million euros and mainly related to the expenses needed to obtain additional funding during the year 2016.
- The total personnel costs of 1.2 million euros, in line with the expenditure of 2015;
- Depreciation costs of 1.4 million euros compared to 2.4 million euros in 2015. The decrease is due to the impairment on intangible assets related to Chondrocelect amounting 1.1 million euros that was registered at the end of 2015.

The non-recurring operational charges of 0.2 million euros mainly related to the impairment of the leasehold facilities in Leuven.

The financial charges of 3.5 million euros are mainly related to the convertible bonds, Kreos loan and intra-company loan with TiGenix SAU.

The operating losses before taxes in 2016 amount to 13.8 million euros.

The Company has closed its annual accounts with respect to the financial year 2016 with a loss of 13.7 million euros.

Statutory and non-distributable reserves

The Company has a share capital of 26.0 million euros. 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

Capital increases and capital decreases

The following capital increases occurred in 2016:

- Increase of the registered capital of the Company in the framework of the authorised capital with an amount of EUR 2,500,000.00 and payment of an issuance premium of EUR 21,250,000.00

through the issuance of 25,000,000 shares pursuant to a capital increase in cash (private placement via an accelerated bookbuilding procedure) completed on March 14, 2016.

- Increase of the registered capital of the Company in the framework of the authorised capital with an amount of EUR 4,600,000.00 and payment of an issuance premium of EUR 29,511,568.27 through the issuance of 46,000,000 shares pursuant to a capital increase in cash (US IPO) completed on December 20, 2016.
- Increase of the registered capital of the Company in the framework of the authorised capital with an amount of EUR 1,165,177.80 and payment of an issuance premium of EUR 8,834,822.20 through the issuance of 11,651,778 shares pursuant to a capital increase in cash (private placement) completed on December 29, 2016.

No capital decreases occurred in 2016.

Warrants

In 2016, no new warrants were issued, and as at December 31, 2016, a total of 9,948,165 warrants were outstanding at an average weighted exercise price of EUR 1.32.

Under the existing warrant plans, 800,000, 400,000, 500,000, 500,000, 4,000,000, 777,000, 1,806,000, 1,994,302 and 2,250,000 warrants were created in February 2007, March 2008, June 2009, March 2010, July 2012, March 2013, December 2013, April 2014 and December 2015 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, the March 2013 and the December 2015 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.

Following December 31, 2016, more precisely on February 20, 2017, 5,505,477 new warrants were issued by the Board of Directors in the framework of the authorized capital. The conditions of these new warrants are similar to the conditions of the warrants issued under the December 2015 warrant plan.

EBIPs

[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.

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

Under the existing EBIP 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 options under the EBIPs, a beneficiary receives a number of TiGenix NV shares corresponding to approximately 2.96 shares per option (rounded down to the nearest integer).

The options relating to the EBIP 2008 had to be exercised prior to August 6, 2015. As no beneficiary exercised its options, they have now expired. The Company is exploring its options with respect to a new plan that would be based on the existing shares underlying the expired options.

Pursuant to the initial terms of the EBIP 2010, the options under the 2010 EBIP had to be exercised before September 30, 2016. However, the exercise period of the EBIP 2010 was extended until December 31, 2016, and all remaining options under the EBIP 2010 were exercised in October 2016.

As per December 31, 2016, no EBIP options were outstanding.

Convertible bonds

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 SAU. At the current conversion price, the bonds will be convertible into 27,830,346 fully paid ordinary shares 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.
- If the EMA does not approve Cx601 for the treatment of complex perianal fistulas in patients with Crohn's disease, Takeda may not be able to commercialize Cx601 in Europe and TiGenix may not receive its milestone payment in connection with approval of marketing authorization and subsequent milestone payments and royalties in a timely manner or at all.
- 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.

- Expedited review for Cx601, if obtained, may not lead to a faster development process.
- Although TiGenix has entered into a special protocol assessment, or SPA, with the FDA relating to the U.S. Phase III trial of Cx601 for the treatment of perianal fistulas, this agreement does not guarantee any particular outcome with respect to regulatory review of the trial or any associated biologics license application, or BLA.

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 achieve sustained profitability.
- 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 Company's ability to borrow and maintain outstanding borrowings is subject to certain restrictions under its convertible bonds.
- 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 funding or reimbursement from third parties for newly approved healthcare products or such funding or reimbursement may be refused, which could affect the Company's ability to commercialize its product candidates.
- The regulatory landscape that will govern our product candidates is evolving, and changes in regulatory requirements could result in delays or discontinuation of development of our product candidates or unexpected costs in obtaining regulatory approval.
- Tissue-based products are regulated differently in different countries. These requirements may be costly and result in delay or otherwise preclude the distribution of TiGenix' products in some foreign countries, any of which would adversely affect its ability to generate operating revenues.
- Safe and efficacious human medical applications may never be developed using cell therapy products or related technology.
- TiGenix' cell therapy product candidates represent new classes of therapy and may not be accepted by patients or medical practitioners.
- Ethical, legal, social and other concerns surrounding the use of human tissue in synthetic biologically engineered products may negatively affect public perception of TiGenix or its product candidates, or may result in increased scrutiny of TiGenix' product candidates from a regulatory perspective.
- The manufacture of cell therapy products is characterized by inherent risks and challenges and may be a more costly endeavor than manufacturing other therapeutic products.
- 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.
- TiGenix' international operations subject us to various risks, and our failure to manage these risks could adversely affect our results of operations.
- The Company's inability to manage its expansion, both internally and externally, could have a material adverse effect on its business.
- The results of the United Kingdom's referendum on leaving the European Union may have a negative effect on TiGenix' business.

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.
- Developments in U.S. patent law may prevent TiGenix from obtaining or enforcing patents directed to its stem cell technologies, which could have a material adverse effect on its business.
- 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

- In the future, the Company may rely on third parties to manufacture its product candidates in Spain and the United States; a failure of service by such parties could adversely affect its business and reputation.
- TiGenix will depend heavily on its licensing arrangement with Takeda for the success of Cx601 for complex perianal fistulas outside of the United States. If Takeda terminates the licensing agreement or is unable to meet its contractual obligations, it could negatively impact TiGenix' business.
- 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 or maintain favorable reimbursement decisions by private and public insurers.
- 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, or if the Company or these third parties do not comply with applicable regulatory requirements, 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.

Risks and uncertainties related to the Company's ADSs being publicly traded in the United States

- If the Company fails to maintain an effective system of internal control over financial reporting in the future, it may not be able to report accurately its financial condition, results of operations or cash flows, which may adversely affect investor confidence in it.

- TiGenix will incur significant increased costs as a result of operating as a company whose American Depositary Shares are publicly traded in the United States, and its management will be required to devote substantial time to new compliance initiatives.

Please also refer to the "Risk Factors" starting on page 7 of this registration document.

7. Use of financial instruments

Besides investments in term deposits and the issue of convertible bonds described in section 5 of this board report, the Company did not use any financial instruments during 2016.

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. On June 2, 2016, the shareholders' meeting approved the grant of additional warrants to certain 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 assess 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;
- 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 annual report:

Shareholder	Number of shares declared in transparency declaration	% of shares at time of transparency declaration[1]
Gri-Cel SA[2]	34,188,034	19.84%[3]
Cormorant Asset Management LLC[4]	11,756,894	5.81%[5]
Takeda Pharmaceuticals International AG	11,651,778	4.48%
BNP Paribas Investments Partners SA[6]	6,650,503	3.75%
Subtotal[7]	**64,247,209**	
Other shareholders	195,709,156	
TOTAL	**259,956,365**	

(1) Percentages based on number of shares and denominator at time of transparency declaration. Note that as a result of transactions that do not need to be disclosed to TiGenix, the percentages mentioned might not be the actual percentage of shares held by the relevant shareholder at the date of this annual report. Any such disclosure, however, will be required each time the threshold of 3%, 5% or a multiple of 5% of the total number of outstanding voting rights is crossed (upwards of downwards).

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

(3) This percentage excludes 7,741,920 shares purchased in the form of ADSs in the US IPO.

(4) Cormorant Asset Management, LLC has received the discretionary power to exercise the voting rights of the TiGenix shares from the following two entities, which are both controlled by it: Cormorant Global Healthcare Master Fund, LP and CRMA SPV, LP.

(5) This percentage excludes 2,580,640 shares purchased in the form of ADSs in the US IPO.

(6) BNP Paribas Investments Partners SA holds its participation through its subsidiaries investment companies BNP Paribas Investments Partners UK Ltd and BNP Paribas Investments Partners Belgium SA, and is controlled by BNP Paribas SA which benefits from an exemption to aggregate its participations with the participations of its subsidiaries investment companies pursuant to article 21 of the Royal Decree of February 14, 2008 regarding the publication of major holdings.

(7) 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 annual report, the Board of Directors consists of the following five (5) members.

Name	Age (as per December 31, 2016)	Position	Term[1]	Professional Address
Innosté SA, represented by Jean Stéphenne[2]	67	Chairman / Independent director	2020	Avenue Alexandre 8, 1330 Rixensart, Belgium
Eduardo Bravo Fernández de Araoz[3]	51	Managing Director (executive) / CEO	2019	Marconi, 1, Parque Tecnológico de Madrid, 28760 Tres Cantos (Madrid), Spain
Willy Duron[4]	71	Independent director	2019	Oude Pastoriestraat 2, 3050 Oud-Heverlee, Belgium
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig[2]	64	Independent director	2020	1241 Karen Lane, Wayne, PA 19087, USA
June Almenoff[5]	60	Independent director	2019	2804 Trail Wood Drive, Durham North Carolina 27705, USA

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.

(1) *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. Reappointed by the shareholders' meeting of June 2, 2016.*

(2) *First appointed on April 26, 2011 with effect as of May 3, 2011; reappointed on April 20, 2015.*

(3) *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. Reappointed on April 20, 2015.*

(4) *First appointed on a provisional basis by the meeting of the Board of Directors on September 21, 2016 subject to confirmation by the shareholders at the next shareholders' meeting and replacing R&S Consulting BVBA, represented by Dirk Reyn, who resigned as a director with effect as of September 21, 2016. It will be proposed to the shareholders' meeting of May 9, 2017 to confirm her appointment.*

Functioning of the Board of Directors in 2016

In 2016, the Board of Directors met 16 times.

Individual presence of the members of the Board of Directors in 2016

Name	Number of meetings attended
Eduardo Bravo	14
Willy Duron	11
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	9
R&S Consulting BVBA, represented by Dirk Reyn	7
Innosté SA, represented by Jean Stéphenne	15
June Almenoff	3

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
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig	Member of the audit committee; Independent Director

The audit committee met three times in 2016. At all three meetings, all members of the audit committee (who were a member at the time of the relevant meeting) were present.

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 Agfa-Gevaert NV and Ethias NV. In addition, he serves as chairman of the board of Van Lanschot Bankiers NV and 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, Universitair Centrum St Jozef Kortenberg, Vanbreda Risk & Benefits NV, Ravago NV, Universitaire Ziekenhuizen Leuven and Z.org KU Leuven.

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

Jean Stéphenne was, until April 2012, a 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 OncoDNA, as board member of NSide, Curevac, Vaxxilon, Merieux Development, Ronveaux and the Belgian Foundation against Cancer; and as president of Welbio and Foundation University Louvain. Previously, Mr. Stéphenne served as Chairman of BioWin and as a board member of Auguria Residential Real Estate Fund, which is currently in liquidation, BNP Paribas Fortis, Groupe Bruxelles Lambert (GBL), VBO/FEB and Theravectys.

Russell Greig, permanent representative of Greig Biotechnology Global Consulting, Inc.: Independent Director

Dr. Russell Greig worked at GlaxoSmithKline for three decades, most recently as President of SR One, GSK's Corporate Venture Group. Prior to joining SR One, he served as President of GSK's Pharmaceuticals International from 2003 to 2008 as well as on the GSK Corporate Executive Team. Dr. Greig currently serves as Chairman of AM Pharma and Mint Solutions in the Netherlands, eTheRNA in Belgium, and Sanifit in Spain. He also serves as a board member of Ablynx in Belgium, and Onxeo Pharma (previously BioAlliance Pharma) in France. He also serves as a venture partner at Kurma Life Sciences (Paris, France). Dr. Russell Greig used to be Chairman of Isconova AB in Sweden (acquired by Novavax, USA), Novagali in France (acquired by Santen, Japan), and Syntaxin in the UK (acquired by Ipsen, France) and Bionor in Norway, as well as board member of Oryzon in Spain.

Nomination and remuneration committee

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

Name	Position
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig(1)	Chairman of the nomination and remuneration committee; Independent Director
Innosté SA, represented by Jean Stéphenne(2)	Member of the nomination and remuneration committee; Independent Director
June Almenoff(3)	Member of the nomination and remuneration committee; Independent Director

(1) Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig, was a member of the nomination and remuneration committee until September 21, 2016 and was appointed chairman of the nomination and remuneration committee since September 21, 2016, replacing R&S Consulting BVBA, represented by Dirk Reyn, who resigned as a director with effect as of September 21, 2016.

(2) Innosté SA, represented by Jean Stéphenne, has been a member of the nomination and remuneration committee since September 21, 2016, replacing Willy Duron as a member of the nomination and remuneration committee.

(3) June Almenoff has been a member of the nomination and remuneration committee since September 21, 2016.

The nomination and remuneration committee met three times in 2016. At all three meetings, all members of the nomination and remuneration committee (who were a member at the time of the relevant meeting) 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 Board of Directors strives to maintain a well-balanced general diversity at the Board of Directors. Currently, there is 1 female director among a total of 5 board members. The Companies Code provides that by January 1, 2017, at least one third of the members of the Board of Directors will in principle have to be of the opposite gender. However, the deadline to comply with this obligation is January 1, 2019 for companies that meet on a consolidated basis at least two of the following criteria: (a) an average number of employees of less than 250; (b) a balance sheet total of EUR 43 million or less; and (c) an annual turnover of EUR 50 million or less. The Company complies with at least two of these criteria. The nomination and remuneration committee has drawn 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 June 2, 2016. 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 for each additional meeting, provided that the board of directors determines that such additional meetings qualify for this additional fee. 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. The February 26, 2013 shareholders' meeting further 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.

In addition, the shareholders' meeting of June 2, 2016 approved the grant of 193,863 additional warrants to the independent directors (48,000 warrants for each of Willy Duron, Greig Biotechnology Global Consulting, Inc. (represented by Russell Greig) and R&S Consulting BVBA (represented by Dirk Reyn), and 49,863 warrants for the Company's chairman Innosté SA (represented by Jean Stéphenne)). The warrants were granted free of charge, and each warrant entitles its holder to subscribe to one share in the Company at a fixed exercise price of EUR 0.97. The other terms and conditions of these warrants are described in the "Warrants Plan 2015", as attached to the special board report dated December 7, 2015 which is available on the Company's website.

The Board of Directors will propose to the May 9, 2017 shareholders' meeting to approve the grant of 48,000 warrants to June Almenoff, independent director since September 21, 2016.

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.

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, 2017 and 2018, the remuneration of the members of the Board of Directors will be on the same basis as approved by the shareholders' meeting of June 2, 2016.

Remuneration of the members of the Board of Directors in 2016

In 2016, the following amounts were recognized 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 2016:

Name	Fee (Euro)
Eduardo Bravo	-
Willy Duron	27,000
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	25,000
R&S Consulting BVBA, represented by Dirk Reyn	18,750
Innosté SA, represented by Jean Stéphenne	46,000
June Almenoff	6,250
TOTAL	123,000

Remuneration of the audit committee in 2016

In 2016, the following amounts were recognized for fees of the independent directors as member of the audit committee for the performance of their mandate during the financial year 2016:

Name	Position	Fee (Euro)
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
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig	Member of the audit committee; Independent Director	5,000
TOTAL		17,500

Remuneration of the nomination and remuneration committee in 2016

In 2016, the following amounts were recognized for fees of the independent directors as member of the nomination and remuneration committee for the performance of their mandate during the financial year 2016:

Name	Position	Fee (Euro)
R&S Consulting BVBA, represented by Dirk Reyn	Chairman of the nomination and remuneration committee; Independent Director	5,625
Greig Biotechnology Global Consulting, Inc., represented by Russell G. Greig	Member/Chairman of the nomination and remuneration committee; Independent Director	5,625
Willy Duron	Member of the nomination and remuneration committee; Independent Director	3,750
Innosté SA, represented by Jean Stéphenne	Member of the nomination and remuneration committee; Independent Director	1,250
June Almenoff	Member of the nomination and remuneration committee; Independent Director	1,250
TOTAL		17,500

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

The table below provides an overview (as at December 31, 2016) of the 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		Warrants		Total shares and warrants	
	Number	%(1)	Number	%(2)	Number	%(3)
Willy Duron	6,000	0.0023 %	102,600	1.0313%	108,600	0.0402%
Greig Biotechnology Global Consulting, Inc., represented by Russell Greig	0	0%	102,600	1.0313%	102,600	0.0380%
Innosté SA, represented by Jean Stéphenne	0	0%	104,463	1.0501%	104,463	0.0387%
June Almenoff	0	0%	0	0%	0	0%
Total	**6,000**	**0.0023 %**	**309,663**	**3.1128%**	**315,663**	**0.1170%**

Notes:

(1) Calculated on the basis of the total number of issued voting financial instruments on December 31, 2016.

(2) Calculated on the basis of the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2016.

(3) Calculated on the basis of the sum of (i) the total number of issued voting financial instruments on December 31, 2016 and (ii) the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2016.

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 104% of his yearly fixed remuneration. The maximum bonus of the CFO and the CMO amounts to 52% of their yearly fixed remuneration. The maximum bonus of the CTO amounts to 45.5% of his 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 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, 2017 and 2018, it is expected that the remuneration of the members of the executive management will be broadly on the same basis as in 2016. 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' remuneration. 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 2016

	2016
Fix remuneration (gross)	350,000
Variable remuneration (short term)	282,100
Pension/Life	24,226
Other benefits	21,760
	678,087

In addition, in 2016, Eduardo Bravo (in his capacity as CEO) exercised 126,260 EBIP 2010 options in return for which he received 374,546 TiGenix NV shares. No warrants, shares, options on shares or rights to acquire shares were granted to Eduardo Bravo in 2016. Except for the exercise of EBIP 2010 options, Eduardo Bravo did not exercise any warrants, options on shares or rights to acquire shares in 2016, and none of his warrants expired in 2016.

Remuneration of the other members of the executive management in 2016

	2016
Fix remuneration (gross)	639,703
Variable remuneration (short term)	252,424
Pension/Life	48,961
Other benefits	67,560
	1,008,648

In addition, in 2016, Claudia D'Augusta exercised 42,087 EBIP 2010 options in return for which she received 124,849 TiGenix NV shares. No warrants, shares, options on shares or rights to acquire shares were granted to the other members of the executive management in 2016. Except for the exercise of EBIP 2010 options by Claudia D'Augusta, the other members of the executive management did not exercise any warrants, options on shares or rights to acquire shares in 2016, and none of their warrants expired in 2016.

Shares and warrants held by executive management

The table below provides an overview (as at December 31, 2016) of the 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		Warrants		Total shares and warrants	
	Number	%(1)	Number	%(2)	Number	%(3)
Eduardo Bravo, CEO	535,093	0.21%	2,192,161	22.04%	2,727,254	1.01%
Claudia D'Augusta, CFO	252,531	0.1%	1,072,378	10.78%	1,324,909	0.49%
Wilfried Dalemans, CTO	0	0%	1,021,514	10.27%	1,021,514	0.38%
Marie Paule Richard, CMO	0	0%	226,175	2.27%	226,175	0.08%
Total	**787,624**	**0.30%**	**4,512,228**	**45.36%**	**5,299,852**	**1.96%**

Notes:

(1) Calculated on the basis of the total number of issued voting financial instruments on December 31, 2016.

(2) Calculated on the basis of the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2016.

(3) Calculated on the basis of the sum of (i) the total number of issued voting financial instruments on December 31, 2016 and (ii) the total number of outstanding warrants that can be converted into voting financial instruments on December 31, 2016.

9. Conflicts of interest

In 2016, during one (1) Board meeting, 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 3, 2016

"**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:

a. Innosté SA (represented by Jean Stéphenne), Willy Duron, Greig Biotechnology Global Consulting, Inc. (represented by Russell G. Greig) and R&S Consulting BVBA (represented by Dirk Reyn) declared to have an interest of a patrimonial nature which is conflicting with certain of the decisions that fall within the scope of the powers of the board of directors, in particular with respect to the determination as to whether or not certain of the board and committee meetings held in 2015 qualify for additional remuneration; and

b. Eduardo Bravo declared to have an interest of a patrimonial nature which is conflicting with certain of 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 2015 and his remuneration for 2016.

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 (a) the determination of the board and committee meetings held in 2015 that qualify for additional remuneration and (b) the evaluation and bonus of Eduardo Bravo relating to 2015 and his remuneration for 2016 will be included in the annual report of the board of directors in relation to the financial year ending 31 December 2016.

All board members are present at the meeting, but do not take part in the deliberation and resolutions in respect of which they have a conflict of interest.

Deliberations 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 board and committee meetings that qualify for additional remuneration, (ii) the evaluation of the 2015 Company objectives, (iii) the evaluation of the members of the executive management and their bonuses for 2015, and (iv) the remuneration of the members of the executive management for 2016.

(i) Board remuneration: determination of board and committee meetings that qualify for additional remuneration

In particular, it is proposed that:

- Out of the 23 board meetings held in 2015, the four meetings held in the presence of a Belgian notary will qualify for the additional remuneration of EUR 2,000 per additional meeting, which results in an additional remuneration for Innosté SA (EUR 6,000), Willy Duron (EUR 8,000) and R&S Consulting BVBA (EUR 2,000).

  The board of directors RESOLVED to approve that said four board meetings qualify for the additional remuneration of EUR 2,000 per additional meeting, as proposed by the nomination and remuneration committee. Innosté SA, Willy Duron and R&S Consulting BVBA did not take part in this resolution.

- Out of the 6 meetings of the nomination and remuneration committee held in 2015, one meeting will qualify for the additional remuneration of EUR 2,000 per additional meeting, which results in an additional remuneration for Greig Biotechnology Global Consulting, Inc. (EUR 2,000) and R&S Consulting BVBA (EUR 2,000).

  The board of directors RESOLVED to approve that one meeting of the nomination and remuneration committee qualifies for the additional remuneration of EUR 2,000 per additional meeting, as proposed by the nomination and remuneration committee. Greig Biotechnology Global Consulting, Inc. and R&S Consulting BVBA did not take part in this resolution.

(ii) Evaluation of the 2015 Company objectives

It is further proposed that the evaluation of the 2015 Company objectives is set at 120% of the target Company objectives for the first half of 2015, and at 81.5% of the target Company objectives for the second half of 2015.

The board of directors RESOLVED to approve the evaluation of the 2015 Company objectives as proposed by the nomination and remuneration committee. Eduardo Bravo did not take part in this resolution.

(iii) Evaluation of the members of the executive management for 2015 and their bonuses for 2015

It is proposed that the members of executive management will each receive a bonus as follows: (i) CEO: actual bonus equal to 100.75% of target bonus, (ii) CFO: actual bonus equal to 106.75% of target bonus, (iii) CMO: actual bonus equal to 118.50% of target bonus, and (iv) CTO: actual bonus equal to 94.25% of 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 2015 as proposed by the nomination and remuneration committee. Eduardo Bravo did not take part in this resolution.

(iv) Remuneration of the members of the executive management for 2016

The proposal of the nomination and remuneration committee on the remuneration of the members of the executive management for 2016 is as follows:

Eduardo Bravo, CEO:

- Fixed remuneration for 2016: EUR 350,000 per year, to be increased to EUR 390,000 per year in case of a successful US IPO;
- Variable remuneration: a target bonus of 80% of the fixed remuneration (whereby the actual bonus can vary from 0% to 130% of the target bonus in proportion to the relevant objectives reached);
- Company car: in accordance with applicable Company policy;
- Pension, life and medical insurances: in accordance with applicable Company policy.

Claudia D'Augusta, CFO:

- Fixed remuneration for 2016: EUR 217,957 per year, to be increased to EUR 240,000 per year in case of a successful US IPO;
- Variable remuneration: a target bonus of 40% of the fixed remuneration (whereby the actual bonus can vary from 0% to 130% of the target bonus in proportion to the relevant objectives reached);
- Company car: in accordance with applicable Company policy;
- Meal vouchers, pension, life and medical insurances: in accordance with applicable Company policy.

Marie Paule Richard, CMO:

- Fixed remuneration for 2016: EUR 217,413 per year;
- Variable remuneration: a target bonus of 40% of the fixed remuneration (whereby the actual bonus can vary from 0% to 130% of the target bonus in proportion to the relevant objectives reached);
- Company car: in accordance with applicable Company policy;
- Meal vouchers, pension, life and medical insurances: in accordance with applicable Company policy.

Wilfried Dalemans, CTO:

- Fixed remuneration for 2016: EUR 204,333.36 per year;
- Variable remuneration: a target bonus of 35% of the fixed remuneration (whereby the actual bonus can vary from 0% to 130% of the target bonus in proportion to the relevant objectives reached);
- Company car: in accordance with applicable Company policy;
- 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 2016 as proposed by the nomination and remuneration committee. Eduardo Bravo did not take part in this resolution.

Furthermore, in line with almost identical agreements entered into for 2011, 2012, 2013, 2014 and 2015, the board of directors CONFIRMED to approve the entering into of an agreement between the Company and Eduardo Bravo for 2016 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)."

10. Branches

The Company does not have any branches.

11. Subsequent events

As from December 31, 2016 there are no subsequent events that would require adjustment to, or disclosure in the financial statements.

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, 2016.

Done on April 5, 2017

On behalf of the Board of Directors