

TiGenix
Naamloze vennootschap
(naamloze vennootschap die een openbaar beroep
doet of heeft gedaan op het spaarwezen)
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VAT BE 0471.340.123
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(the "Company")

SPECIAL REPORT OF THE BOARD OF DIRECTORS PURSUANT TO ARTICLES 596 AND 598 OF THE COMPANIES CODE WITH RESPECT TO THE CANCELLATION OF THE PREFERENTIAL SUBSCRIPTION RIGHT

This special report was drawn up pursuant to articles 596 and 598 of the Companies Code and relates to the proposed cancellation of the preferential subscription right of the existing shareholders with respect to the proposed issuance of up to 9,106,180 new shares (the "**Offered Shares**") by the board of directors in the framework of the authorised capital, by way of a private placement in two tranches: a first tranche offered to a broad group of unspecified institutional and professional investors conducted by KBC Securities NV (the "**Bookrunner**") through an accelerated book building offer and a second tranche to be subscribed for by the institutional investor Cormorant Global Healthcare Master Fund, LP (the "**Transaction**").

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

This report of the board of directors should be read together with the report of the Company's auditor prepared in accordance with articles 596 and 598 of the Companies Code.

1 Authorised capital

1.1 Description of the authorised capital

As set out in Article 6.1 of the Articles of Association of the Company, the extraordinary shareholders' meeting of 8 September 2014 has explicitly authorised the board of directors to increase the capital in one or more times for a (total) amount of EUR 16,047,662.00 in the framework of the authorised capital.

The board of directors can use this authorisation for a period of five years as of the publication of this authorisation in the Annexes to the Belgian State Gazette on 8 October 2014. The extraordinary shareholders' meeting made the authorisation subject to the conditions mentioned below.

The capital increase, which can be decided upon pursuant to the aforementioned authorisation, can take place in accordance with the modalities to be determined by the board of directors, through a contribution in cash or in kind or through the conversion of reserves and issuance premiums, with or without the issuance of new shares, with or without voting rights. The board of directors can also use this authorisation for the issuance

of convertible bonds, subordinated or not subordinated, warrants or bonds to which warrants or other tangible values are connected or other securities.

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

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

1.2 Available amount of the authorised capital

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

- On 26 February 2015, for a conditional capital increase in an amount of up to EUR 3,319,612.20 (excluding issuance premium) in relation to the issuance by the Company of 250 convertible bonds with a nominal value of EUR 100,000.00 per convertible bond completed 6 March 2015;
- On 31 July 2015, for a capital increase of EUR 771,275.70 (excluding issuance premium) in relation to the acquisition of Coretherapix S.L.

The available authorised capital therefore amounts to EUR 11,956,774.10.

2 Description of the Transaction

2.1 Structure of the Transaction

The board of directors intends to increase the registered capital of the Company, using the authorised capital, through the issuance of maximum 9,106,180 Offered Shares, subject to and to the extent of subscription of these Offered Shares in the framework of a private placement as described below.

In the framework of the proposed capital increase, the board of directors intends to cancel the preferential subscription rights of the existing shareholders of the Company in accordance with article 603 *juncto* articles 596 and 598 of the Companies Code with a view to offering the Offered Shares in two tranches within a global private placement: a first tranche in an "accelerated book building procedure" to a broad group of unspecified institutional and professional investors conducted by KBC Securities NV (the "**First Tranche**") and a second tranche to be subscribed for by Cormorant Global Healthcare Master Fund, LP (the "**Second Tranche**"):

- First Tranche of 4,149,286 Offered Shares - The board of directors will authorise the Bookrunner to select the institutional and professional investors to which the First Tranche will be offered through an accelerated bookbuilding (the "**ABO**"). An accelerated bookbuilding allows to measure the interest to subscribe for the Offered Shares and determine an objective issuance price. The preferential

subscription right will be cancelled in favour of a broad group of unspecified domestic and foreign qualified institutional and professional investors in the European Economic Area. The Bookrunner is free to determine which institutional and professional investors it will contact within the European Economic Area, it being understood that Offered Shares cannot be sold in or into the United States of America (in compliance with Regulation S under the U.S. Securities Act of 1933, as amended).

- Second Tranche of 4.956.894 Offered Shares - The Second Tranche of the private placement shall be subscribed for by, and the preferential subscription right will be cancelled in favour of, Cormorant Global Healthcare Master Fund, LP.

The exact number of Offered Shares to be issued under the First Tranche of the private placement will be determined by the board of directors or any of its proxy holders, in agreement with the Bookrunner, in accordance with and following the closing of the accelerated book building procedure.

The issuance price of the Offered Shares will be determined:

- In respect of the First Tranche: by the board of directors or any of its proxy holders, in agreement with the Bookrunner, in accordance with and following the closing of the accelerated book building procedure, and
- In respect of the Second Tranche: by the board of directors or any of its proxy holders, it being understood that the issuance price cannot be lower than the average closing price of the Company's shares on Euronext Brussels over the 30 day period preceding the date on which issuance of the Offered Shares commenced.

After the selection of the investors and the determination of the effective number of Offered Shares to be issued and of the issuance price on the basis of the accelerated book building procedure, the Bookrunner will subscribe for the Offered Shares for the account of the final investors who participated in the First Tranche of the private placement in accordance with an underwriting agreement to be entered into between the Company and the Bookrunner. On the settlement date, the Company will deliver the relevant Offered Shares to the Bookrunner and the Bookrunner will subsequently deliver the relevant Offered Shares to the selected institutional and professional investors.

Cormorant Global Healthcare Master Fund, LP will be asked to underwrite the capital increase relating to the Second Tranche in accordance with the subscription agreement to be entered into between the Company and Cormorant Global Healthcare Master Fund, LP. On the settlement date, the Company, directly or indirectly, will deliver the relevant Offered Shares to Cormorant Global Healthcare Master Fund, LP.

2.2 Subscription

Cormorant Global Healthcare Master Fund, LP has irrevocably committed in a subscription agreement with the Company dated 24 November 2015 to subscribe to all Offered Shares of the Second Tranche.

Should the Second Tranche Offered Shares not be fully subscribed, the capital will only be increased up to the amount of the placed subscriptions, subject to the approval of the board of directors or any of its proxy holders. Even in case all Offered Shares of the First Tranche are placed, the board of directors or any of its proxy holders can resolve to have

the capital increase take place for a smaller number of subscriptions. The board of directors or any of its proxy holders can, for the sake of clarity, also resolve not to have the capital increase take place even in case all or a portion of the Offered Shares of the First Tranche are subscribed for.

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

Various reasons, including a deterioration of the situation on the financial markets, can lead to the placement of the First Tranche not taking place, or to the capital increase taking place with issuance of only a portion of the Offered Shares of the First Tranche.

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

Each director individually will be authorised to establish the completion of the capital increase in one or more notarial deeds on the basis of the submission of the documents which evidence the Transaction in accordance with Article 589 of the Companies Code.

2.3 Issuance price

The issuance price per Offered Share under the First Tranche of the placement will be established by the board of directors or its proxy holders in concert with the Bookrunner on the basis of the results of the accelerated book building procedure with institutional and professional investors. The issuance price will be at least equal to the current accounting par value of the existing shares (i.e. EUR 0.10). The final price per Offered Share under the First Tranche may be lower than the average closing price of the Company's shares on Euronext Brussels over the 30 day period preceding the date on which the issuance of the Offered Shares commenced.

Pursuant to article 598 of the Companies Code, the issuance price per Offered Share under the Second Tranche of the placement cannot be lower than the average closing price of the Company's shares on Euronext Brussels over the 30 day period preceding the date on which the issuance of the Offered Shares commenced.

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

Hence, the maximum amount of the capital increase as a result of the Transaction will be EUR 910,618.00 (i.e. maximum 9,106,180 shares x EUR 0.10 per share) and the effective amount of the capital increase will consist of the number of effectively issued Offered Shares multiplied by the accounting par value of EUR 0.10.

2.4 The Offered Shares

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

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

2.5 Listing

After the closing of the subscription for the capital increase, the listing of the Offered Shares will be requested immediately. For the listing, the Company shall rely on the exception provided for in article 18 § 2 (a) of the Prospectus Act of 16 June 2006, because the Offered Shares, when aggregated with all other shares that have been admitted to trading on Euronext Brussels in the last twelve months without a prospectus, represent less than 10% of the number of shares currently admitted to trading on Euronext Brussels.

3 Justification of the cancellation of the preferential subscription right

The purpose of the proposed capital increase and issuance of Offered Shares is to strengthen the cash resources and the equity capital of the Company. TiGenix intends to use the net proceeds of the private placement to advance in the Cx601 marketing authorization approval process in Europe and in the technology transfer to Lonza in the U.S. for Cx601 to enter in the contemplated future phase III study in the U.S.

The board of directors intends to cancel the preferential subscription rights of the existing shareholders in favour of qualified and institutional investors to be contacted by the Bookrunner in the ABO and in favour of Cormorant Global Healthcare Master Fund, LP. As Cormorant Global Healthcare Master Fund, LP will participate in the private placement, the requirements of article 596 of the Companies Code have been applied in conjunction with article 598 of the Companies Code.

The board of directors is of the opinion that the cancellation of the preferential subscription right offers the Company prospects (i) to take advantage of the opportunity to execute the Transaction and (ii) to obtain additional financial means within a short timeframe that will allow the Company to strengthen its cash position. An issuance with preferential subscription right would require more time to complete and the result would be more uncertain. Indeed, based on the feedback received from its financial advisors, it cannot be guaranteed that the same window of opportunity to proceed with the Transaction will continue to exist in the near future.

The participation of Cormorant Global Healthcare Master Fund, LP under the Second Tranche of the private placement will also send a strong signal to the capital markets in view of their leading biotech expertise, confirming that the Company is an interesting investment opportunity.

The cancellation of the preferential subscription rights in the framework of the Transaction in favour of qualified and institutional investors (including Cormorant Global Healthcare Master Fund, LP) is therefore in the interest of the Company.

4 Financial consequences of the Transaction for the shareholders

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

The registered capital of the Company currently amounts to EUR 16,818,937.70 represented by 168,189,377 shares, without nominal value, each representing 1/168,189,377th of the registered capital.

In addition, as per 30 September 2015:

- there are 8,581,200 outstanding warrants (i.e., warrants that have been granted and accepted and that have not yet become null and void for any reason as per 30 September 2015)¹ (the "**Outstanding Warrants**"). In accordance with the conditions of the warrants plans under which they were issued, upon exercise, the Outstanding Warrants entitle the warrant holders to one new share in the Company per exercised warrant, being a total of 8,581,200 new shares in the Company in case all 8,581,200 Outstanding Warrants are exercised.
- there are 250 outstanding convertible bonds due 2018 ("**Convertible Bonds**") which, at their current conversion price of EUR 0.9414, can be converted into 26,556,192 new shares in the Company in case all 250 Convertible Bonds are converted.

Leaving the 8,581,200 Outstanding Warrants and the 250 Convertible Bonds aside and only taking into account the number of shares that are outstanding at the date of this report, the issuance of 9,106,180 new Offered Shares will result in a dilution of the share of the existing shares in the Company in the profits of the Company and in the voting rights of (rounded-off) 5.14%. In case, in addition to the number of shares that are outstanding on the date of this report, also the maximum number of shares that can be issued upon exercise of all Outstanding Warrants and upon conversion of all Convertible Bonds is taken into account, the issuance of 9,106,180 new Offered Shares will result in a dilution of up to (rounded-off) 4.29 %.

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

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

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

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

¹ These warrants include the 1,994,302 warrants granted to Kreos Capital IV (Expert Fund) on 22 April 2014, of which 664,767 warrants were transferred by Kreos Capital IV (Expert Fund) to the Company following the exercise by Kreos Capital IV (Expert Fund) of its put option on 5 May 2015.

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

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

5 Report of the auditor

The auditor shall prepare a report on the aforementioned issuance of Offered Shares with cancellation of the preferential subscription right of the existing shareholders, in accordance with articles 596 and 598 of the Companies Code.

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

Date: 24 November 2015

Innosté SA, represented by Jean Stéphane
Director

Willy Duron
Director

Annex 1: Simulations

A. Situation before the issuance of the Offered Shares - fully diluted for the Outstanding Warrants and Convertible Bonds⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.105	0.322
TOTAL	21,302,708.06	65,511,471.86
B. Situation after the issuance of all Offered Shares at an issuance price of €0.90 - fully diluted for the Outstanding Warrants and Convertible Bonds⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.105	0.347
TOTAL	22,213,326.06	73,707,033.86
C. Situation after the issuance of all Offered Shares at an issuance price of €0.95 - fully diluted for the Outstanding Warrants and Convertible Bonds⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.105	0.349
TOTAL	22,213,326.06	74,162,342.86
D. Situation after the issuance of all Offered Shares at an issuance price of €1.00 - fully diluted for the Outstanding Warrants and Convertible Bonds⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.105	0.351
TOTAL	22,213,326.06	74,617,651.86
E. Situation after the issuance of all Offered Shares at an issuance price of €1.05 fully diluted for the Outstanding Warrants and Convertible Bonds⁽¹⁾		
	Registered Capital⁽²⁾	Net Assets⁽³⁾
	€	€
Amount represented by one share	0.105	0.353
TOTAL	22,213,326.06	75,072,960.86

Remarks

- (1) Assuming that all 8,581,200 Outstanding Warrants are exercised and all 250 outstanding Convertible Bonds are converted at the current conversion price. For the warrants issued on 26 February 2007, €0.997 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 20 March 2008, €0.977 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 19 June 2009 and 12 March 2010, €0.978 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium. For the warrants issued on 6 July 2012, 20 March 2013, 16 December 2013 and 22 April 2014, €0.10 (par value at that time) of the exercise price per warrant shall be recorded as capital and the excess shall be recorded as issuance premium.
- (2) As starting point for the calculation of the registered capital on a fully diluted basis, the registered capital of TiGenix NV as per 30 September 2015 was taken, being € 16,818,937.70 represented by 168,189,377 shares.
- (3) As starting point for the calculation of the net assets on a fully diluted basis, the unaudited net assets of TiGenix NV on a consolidated basis under IFRS per 30 June 2015 was taken, increased by the amount of the capital increase (including the issuance premium) of 31 July 2015, it being understood that Coretherapix SLU is not yet included in the consolidated equity of TiGenix NV on 30 June 2015.