
TiGENiX
Living Medicines
ANNUAL REPORT
2016

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RISK FACTORS

The risks that TiGenix believes to be material are described below. The occurrence of one or more of these risks may have a material adverse effect on the Company's cash flows, results of operations, financial condition and/or prospects and may even endanger the Company's ability to continue as a going concern. Moreover, the Company's share price could fall significantly if any of these risks were to materialise. However, these risks and uncertainties may not be the only ones faced by TiGenix. Additional risks, including those currently unknown or deemed immaterial, may also impair the Company's business operations. The risks listed below are not intended to be presented in any assumed order of priority.

Risks 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.

As part of the regulatory approval process, the Company conducts preclinical studies and clinical trials for each of its unapproved product candidates to demonstrate safety and efficacy. The number of required preclinical studies and clinical trials varies depending on the product, the indication being evaluated, the trial results and the applicable regulations. Clinical testing is expensive and can take many years to be completed, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and initial clinical trials do not necessarily predict the results of later stage clinical trials, and products may fail to show the desired safety, efficacy and quality despite having progressed through initial clinical trials. The data collected from preclinical studies and clinical trials may not be sufficient to support the European Medicines Agency ("EMA"), the U.S. Food and Drug Administration ("FDA") or other regulatory approval or approval by ethics committees in various jurisdictions. In addition, the review of a study by an independent data safety monitoring board or review body does not necessarily indicate that the clinical trial will ultimately be successfully completed.

The Company cannot accurately predict when its current preclinical studies and clinical trials or future clinical trials will be completed, if at all, nor when planned preclinical studies and clinical trials will begin or be completed. Successful and timely completion of clinical trials will require the Company to recruit a sufficient number of patient candidates, locate or develop manufacturing facilities with regulatory approval sufficient for production of the product to be tested and enter into agreements with third-party contract research organizations to conduct the trials. The Company may need to engage or further engage in preclinical studies and clinical trials with partners, which may reduce any future revenues from any future products.

The Company's products may cause unexpected side effects or serious adverse events that could interrupt, delay or halt the clinical trials and could result in the EMA, the FDA or other regulatory authorities denying approval of its products for any or all targeted indications. An institutional review board or ethics board, the EMA, the FDA, any other regulatory authorities or the Company itself, based on the recommendation of an independent data safety review board or otherwise, may suspend or terminate clinical trials at any time, and none of its product candidates may ultimately prove to be safe and effective for human use.

In addition, even if the data from the Company's clinical trials is sufficient to support an application for marketing authorization, detailed analysis of such data, including analysis of secondary end points and follow-up data from later periods, and the interpretation of such data by the regulatory authorities, prescribing physicians and others, including potential partners, could have a significant impact on the value of the asset and the Company's ability to realize its full value.

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.

In March 2016, TiGenix submitted a marketing authorization application for Cx601 to the EMA for the treatment of complex perianal fistulas in adult patients with non-active or mildly active luminal Crohn's disease whose fistulas have shown an inadequate response to at least one conventional or biologic therapy. In July 2016, the EMA sent TiGenix its initial response to TiGenix' application for marketing authorization, which TiGenix refers to as "the Day 120 List of Questions". In its response, the EMA informed TiGenix of certain major objections and, following its standard protocol for review at day 120, stated that TiGenix' application was not approvable at the present time. These objections would preclude a recommendation for marketing authorization unless TiGenix is able to address them adequately. These objections were as follows:

- inadequate data with respect to the stability of the intermediate master cell stock for Cx601 and the questionable relevance of the potency test for stability of the master cell stock;
- incomplete information with respect to the details on donor selection and testing;

- an insufficient viral safety risk assessment; and
- uncertainty as to whether the primary endpoint of the trial is adequately representative of complete closure of fistulas and is adequately sensitive as a measure of improvement.

In addition, as part of the marketing authorization application process, TiGenix 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. In their report to the EMA's Committee for Human Medicinal Products, the inspectors recommend that the data from the trial should be disregarded as part of the marketing authorization application. The Company included its replies to the issues raised in the inspection report as part of its replies to the Day 120 List of Questions, which it submitted in December 2016. In February 2017, the EMA sent TiGenix its "Day 180 List of Outstanding Issues".

While TiGenix believes that it is able to provide adequate responses to the outstanding issues, the EMA reviewers may not be satisfied with its responses or may require additional information, which TiGenix may not be able to provide in a timely manner or at all. If, however, TiGenix is not able to provide the EMA with satisfactory responses, TiGenix may not receive marketing authorization for Cx601, or if TiGenix needs additional time to provide the required information, approval for marketing authorization could be delayed. This would delay or preclude the Company's receipt of the milestone payment of 15 million euros from Takeda for receipt of marketing authorization of Cx601 in Europe, additional milestone payments for favorable pricing decisions in certain European markets and royalties from sales of Cx601 in Europe. In addition, Takeda has the option to terminate the licensing agreement if TiGenix does not receive marketing authorization in Europe by July 2020.

Regulatory approval of the Company's product candidates may be delayed, not obtained or not maintained.

In Europe, all of the Company's product candidates require regulatory approval through the centralized marketing authorization procedure coordinated by the EMA for advanced therapy medicinal products. In the United States, all of the Company's cell-based product candidates are subject to a biologics license application ("BLA") issued by the FDA.

Besides the marketing authorization, the Company also needs to obtain and maintain specific national licenses to perform its commercial operations, including manufacturing and distribution licenses, as well as authorizations to obtain and handle human cells and tissues.

Regulatory approval may be delayed, limited or denied for a number of reasons, most of which are beyond the control of the Company, including the following:

- The requirement to perform additional clinical trials.
- The failure of the product to meet the safety or efficacy requirements.
- The Company's ability to successfully conclude the transfer of its technology to its contract manufacturers.
- The Company's ability to scale up manufacturing processes to the level required to successfully run the clinical trials for its product candidates and to commercialize them.
- The failure of the relevant manufacturing processes or facilities to meet the applicable requirements.

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.

Regulatory authorities, including the EMA and the FDA, may disagree with the Company's interpretations of data from preclinical studies and clinical trials, its interpretation of applicable regulations including, without limitations, regulations relating to patent term extensions or restorations. They may also approve a product for narrower spectrum of indications than requested or may grant approval subject to the performance of post marketing studies for a product. Such post-approval studies, if required, may not corroborate the results of earlier trials. Furthermore, the general use of such products may result in either or both of the safety and efficacy profiles differing from those demonstrated in the trials on which marketing approval was based, which could lead to the withdrawal or suspension of marketing approval for the product. In addition, regulatory authorities may not approve the labelling claims that are necessary or desirable for the successful commercialization of its products.

In addition, a marketed product continues to be subject to strict regulation after approval. Changes in applicable legislation or regulatory policies or discovery of problems with the product, production process, site or manufacturer may result in delays in bringing products to the market, the imposition of restrictions on the product's sale or manufacture, including the possible withdrawal of the product from the market, or may otherwise have an adverse effect on the Company's business.

The failure to comply with applicable regulatory requirements may, among other things, result in criminal and civil proceedings and lead to imprisonment, fines, injunctions, damages, total or partial suspension of regulatory approvals, refusal to approve pending applications, recalls or seizures of products and operating and production restrictions.

The Company may not receive regulatory clearance for trials at each stage and approval for its products and product candidates still in development without delay or at all. If the Company fails to obtain or maintain regulatory approval for its products, it will be unable to market and sell such products, and such failure or any delay could prevent the Company from ever generating meaningful revenues or achieving sustained profitability.

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.

Regulatory guidelines may change during the course of a product development and approval process, making the chosen development strategy suboptimal. This may delay development, necessitate additional clinical trials or result in failure of a future product to obtain marketing authorization or the targeted price levels and could ultimately adversely impact commercialization of the authorized product. Market conditions may change, resulting in the emergence of new competitors or new treatment guidelines, which may require alterations in the Company's development strategy. This may result in significant delays, increased trial costs, significant changes in commercial assumptions or the failure of future product candidates to obtain marketing authorization.

In the past, the regulatory environment in Europe and certain EU member states has negatively affected the ChondroCelect business of the Company. In accordance with applicable advanced therapy medicinal product ("ATMP") regulations, after January 1, 2013, in principle, all ATMPs required central marketing authorization from the EMA. This should have been beneficial for ChondroCelect which was the first ATMP to have obtained such central marketing authorization. However, the ATMP regulation provided for an exemption for hospitals which allowed EU member states to permit the non-routine production of ATMPs in their markets without central marketing authorization from the EMA. The implementation of this exemption by certain EU Member States, notably Spain and Germany, which had very developed markets for autologous chondrocyte implantation procedures, has allowed such countries to keep local products in the market without central marketing authorization from the EMA, even after January 1, 2013, thereby significantly reducing the market potential for ChondroCelect.

Although the basic regulatory frameworks appear to be in place in Europe and in the United States for cell based products, at present regulators have limited experience with such products and the interpretation of these frameworks is sometimes difficult to predict. Moreover, the regulatory frameworks themselves will continue to evolve as the EMA and the FDA issue new guidelines. The interpretation of existing rules or the issuance of new regulations may impose additional constraints on the research, development, regulatory approval, manufacturing or distribution processes of future and existing product candidates, and could prevent the Company from generating revenues or achieving sustained profitability and force the Company to withdraw its products from the market.

Unexpected events may occur in the cell therapy field, in particular unforeseen safety issues of any cell therapy product. Moreover, scientific progress might yield new insights on the biology of stem cells which might in turn impact the requirements of safety and efficacy demonstration for stem cell or other cell therapies. Such events or new insights might change the regulatory requirements and framework, in particular strengthening the required clinical research package and increasing the amount of data required to be provided. This could result in additional constraints on the Company's product development process and lead to significant delays, which could prevent it from ever generating meaningful revenues or achieving sustained profitability.

Expedited pathways for Cx601, if obtained, may not lead to a faster development process.

The Company intends to seek an expedited review for Cx601 in the United States. The fast track program is intended to expedite or facilitate the process for reviewing new drugs and biologics that meet certain criteria. Specifically, new drugs and biologics are eligible for expedited review if they are intended, alone or in combination with one or more drugs or biologics, to treat a serious or life threatening disease or condition and demonstrate the potential to address unmet medical needs for the disease or condition. Expedited review applies to the combination of the product candidate and the specific indication for which it is being studied. The FDA has broad discretion in determining whether to grant review under any of its expedited development and review programs for a drug or biologic. Obtaining expedited review does not change the standards for product approval, but may expedite the development or approval process. There is no assurance that the FDA will grant such review. Even if the FDA does grant expedited review for Cx601, it may not actually result in faster clinical development or regulatory review or approval. Furthermore, such a review does not increase the likelihood that Cx601 will receive marketing approval in the United States.

In addition, the Company is broadly exploring available options which could result in the BLA being filed before the Phase III study (which the Company expects to begin during the first half of 2017) is complete. There is no guarantee, however, that any of these options will be successful.

Although TiGenix has entered into a special protocol assessment, or SPA, agreement 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.

The protocol for its U.S. Phase III trial of Cx601 for the treatment of perianal fistulas was reviewed and agreed upon by the FDA under an SPA agreement in 2015. The FDA's SPA process is designed to facilitate the FDA's review and approval of drugs by allowing the FDA to evaluate the proposed design and size of clinical trials that are intended to form the primary basis for determining a drug product's safety and efficacy. Upon specific request by a clinical trial sponsor, the FDA will evaluate the protocol and respond to a sponsor's questions regarding, among other things, primary efficacy endpoints, trial conduct and data analysis. The FDA ultimately assesses whether the protocol design and planned analysis of the trial are acceptable to support regulatory approval of the product candidate with respect to the effectiveness of the indication studied.

Because the SPA provides for the evaluation of protocols for trials that have not been initiated, the conduct and results of the subsequent trial are not part of the evaluation. Therefore, the existence of an SPA agreement does not guarantee that the FDA will accept a new drug application or a BLA or that the trial results will be adequate to support approval. Those issues are addressed during the review of a submitted application; however, it is hoped that trial quality will be improved by the SPA process. In rare cases, the FDA may rescind an SPA agreement. In particular, an SPA agreement is not binding on the FDA if public health concerns emerge that were unrecognized at the time of the SPA agreement, other new scientific concerns regarding product safety or efficacy arise, the sponsor company fails to comply with the agreed upon trial protocols, or the relevant data, assumptions or information provided by the sponsor in a request for the SPA change or are found to be false or omit relevant facts.

An SPA agreement may be modified, and such modification will be deemed binding on the FDA review division, except under the circumstances described above, if the FDA and the sponsor agree in writing to modify the protocol and such modification is intended to improve the study.

In January 2017, TiGenix had a Type C meeting (is any meeting other than a Type A or Type B meeting between CBER or CDER and a sponsor or applicant regarding the development and review of a product) with the FDA to discuss changes to its Phase III Cx601 clinical trial protocol relating to sample size and patient recruitment, among other aspects. Based on feedback from that meeting, the Company submitted a revised protocol in February 2017. There is no guarantee, however, that our revised protocol will be accepted by the FDA.

Risks 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's operations have consumed substantial amounts of cash since inception. The Company expects to continue to spend substantial amounts to continue the clinical development of its product candidates. If its product candidates are approved, the Company will require significant additional funds in order to launch and commercialize such product candidates in the United States and internationally. The Company may also need to spend substantial amounts to expand its manufacturing infrastructure.

As at December 31, 2016, the Company had cash and cash equivalents of 78.0 million euros. The Company believes that this amount will be sufficient to fund the Company's operations through at least 12 months. However, changing circumstances may cause the Company to consume capital significantly faster than it currently anticipates, and the Company may need to spend more money than currently expected because of circumstances beyond its control. As a result, the Company may require additional capital for the further development and commercialization of its product candidates.

The Company's future funding requirements, both near and long term, will depend on many factors, including, but not limited to, the following:

- The initiation, progress, timing, costs and results of clinical trials for its product candidates.
- The clinical development plans the Company establishes for these product candidates.
- The number and characteristics of the product candidates that the Company develops and for which it seeks regulatory approval.
- The outcome, timing and cost of regulatory approvals by the EMA, the FDA and any other comparable foreign regulatory authorities, including the potential for the EMA, the FDA or any other comparable foreign regulatory authorities to require that the Company performs more studies than those that it currently expects.
- The ability to enter into licensing agreements with appropriate partners and to negotiate favourable terms with such partners.
- The cost of preparing, filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.
- The effects of competing technological and market developments.
- The cost and timing of completing the technology transfer to contract manufacturing organizations in the United States and other international markets.
- The ability to scale up manufacturing activities for the Company's product candidates and approved products to a commercial scale.

- The cost and timing of completion of commercial scale manufacturing activities.
- The cost of establishing sales, marketing and distribution capabilities for any product candidates for which the Company may receive regulatory approval in regions where it chooses to commercialize its products on its own.
- The cost of obtaining favorable pricing and market access decisions from public and private payers for the Company's products.

Additional funding may not be available on a timely basis, on favorable terms, or at all, and such funds, if raised, may not be sufficient to enable the Company to continue to implement its business strategy. The Company's ability to borrow may also be affected by the conditions under its financing agreements, including its 9% senior unsecured bonds due 2018 for 25.0 million euros in total principal amount, convertible into ordinary shares of the Company, that were issued on March 6, 2015. If the Company is unable to raise additional funds through equity or debt financing, it may need to delay, scale back or eliminate expenditures for some of its research, development and commercialization plans, or grant rights to develop and market products that it would otherwise prefer to develop and market itself, thereby reducing their ultimate value to the Company.

The Company has a history of operating losses and an accumulated deficit and may never achieve sustained profitability.

The Company has experienced operating losses since its founding in February 2000 until December 31, 2015. The Company experienced net losses of 13.0 million euros for the year ended December 31, 2014, net losses of 35.1 million euros for the year ended December 31, 2015 and a net income of 3.8 million euros for the year ended December 31, 2016. As of December 31, 2016, the Company had an accumulated deficit of 116.2 million euros. These losses resulted mainly from the following:

- Preclinical, clinical, manufacturing and regulatory efforts the Company undertook to advance the product candidates in its pipeline and to obtain marketing authorization from the EMA with respect to ChondroCelect and Cx601.
- The Company's commercial efforts in launching ChondroCelect.
- General and administrative costs associated with the Company's operations.

Except for the year ended December 31, 2016, the Company's costs have always exceeded its revenues, which have been historically generated mainly through grants and income from the sale of ChondroCelect[1].

1 *In July 2016, TiGenix requested the withdrawal of marketing authorization for ChondroCelect for commercial reasons, which became effective as of November 30, 2016. TiGenix no longer generates revenues from ChondroCelect.*

The Company's ability to become profitable depends on its ability to develop and commercialize its product candidates, and the Company does not know when, or if, it will generate significant revenues from their sale in the future.

Even if the Company does generate sales from its product candidates in the future, it may never achieve sustained profitability. The Company anticipates substantial operating losses over the next several years as it executes its plan to expand its research, development and commercialization activities, including the clinical development and planned commercialization of its product candidates, and incur the additional costs of operating as a U.S. listed public company. In addition, if the Company obtains regulatory approval of its product candidates, it may incur significant sales and marketing expenses. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, the Company is unable to predict the extent of any future losses or when it will become profitable, if ever.

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 has a limited operating history and has experienced net losses and significant cash used in operating activities in each period since inception except for year 2016. The Company expects to have significant cash outflows for at least the next year and had an accumulated deficit of 116.2 million euros as of December 31, 2016. In addition, the Company has debt service obligations under its convertible bonds and the loan facility agreement with Kreos Capital IV (UK) ("**Kreos**"), which have an impact on the Company's cash flow. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern could materially limit its ability to raise additional funds through the issuance of new debt or equity securities or otherwise. Future reports on the Company's financial statements may include an emphasis of matter paragraph with respect to its ability to continue as a going concern. Except for the year 2016, the Company has not been profitable since inception, and it is possible it will never achieve sustained profitability. None of its product candidates can be marketed until governmental approvals have been obtained. Accordingly, there is no substantial source of revenues, much less profits, to sustain the Company's present activities, and no substantial revenues will likely be available until, and unless, its product candidates are approved by the EMA, FDA or comparable regulatory agencies in other countries and successfully marketed, either by the Company or a partner, an outcome which may not occur. Based upon the Company's currently expected level of operating expenditures, it expects to be able to fund its operations through at least 12 months, but it will require significant

additional cash resources to launch new development phases of existing projects in its pipeline. In addition this period could be shortened if there are any significant increases in planned spending on development programs or more rapid progress of development programs than anticipated. Other financing may not be available when needed to allow the Company to continue as a going concern. The perception that it may not be able to continue as a going concern may cause others to choose not to deal with the Company due to concerns about its ability to meet its contractual obligations.

The Company's revenues and operating results may fluctuate and may not be sufficient to cover its fixed costs.

The Company's revenues and operating results have fluctuated in the past and are likely to do so in the future due to a number of factors, many of which are not under its control. Some of the factors that could cause the Company's operating results to fluctuate include, but are not limited to, those listed below and identified throughout this annual report:

- The (positive or negative) success rate of the Company's development efforts.
- The Company's ability to manage future clinical trials, given the regulatory environment.
- The timing of approval, if any, of the Company's products by the appropriate regulatory bodies.
- The Company's ability to commercialize its products whether by itself or in conjunction with licensing partners (including its ability to obtain funding or reimbursement from public and private payers for its products).
- The Company's ability to scale up manufacturing activities for its product candidates and approved products to a commercial scale.

There is no direct link between the level of the Company's expenses in connection with developing its pipelines of expanded adipose derived stem cell ("eASC") based product candidates and cardiac stem cell ("CSC") based product candidates and its revenues, which will primarily consist of Royalties from sales of Cx601 under its licensing agreement with Takeda, once the product comes to market until we are able to bring another product to market. Accordingly, if revenues decline or do not grow as the Company expects, it may not be able to reduce its operating expenses correspondingly and may suffer losses accordingly.

The Company's ability to borrow and maintain outstanding borrowings is subject to certain restrictions under its convertible bonds.

On March 6, 2015, the Company issued 9% senior unsecured bonds due 2018 for 25.0 million euros in total principal amount, convertible into ordinary shares. Under the terms of the convertible bonds, the Company is restricted from creating any security interests over any of its assets, including any part of its business, unless certain conditions are met. The Company may not be able to meet the conditions imposed by the trustee under the notes or the bondholders, which may restrict its ability to borrow and maintain outstanding borrowings. In addition, a breach of the covenant or other provisions of the bonds could result in an event of default, which, if not cured or waived, could result in outstanding borrowings becoming immediately due and payable.

The allocation of available resources could affect the Company's ability to carry out its business plan.

The Company has significant flexibility and broad discretion to allocate and use its available resources. If such resources are not wisely allocated, the Company's ability to carry out its business plan could be threatened. The Board of Directors and management of the Company determines, in their sole discretion and without the need for approval from the holders of ordinary shares and ADSs, the amounts and timing of the Company's actual expenditures, which will depend upon numerous factors, including the status of its product development and commercialization efforts, if any, and the amount of cash received resulting from partnerships and out-licensing activities.

For example, after the acquisition of Coretherapix, the Company decided to prioritize the ongoing Phase I/II clinical trial of AlloCSC-01, in acute myocardial infarction, which resulted in the decision to put the planned Phase IIb trial for Cx611 in early rheumatoid arthritis on hold. Likewise, in prior years, the Company did not have sufficient resources to both pursue the clinical development of the products coming from the allogeneic eASC platform while simultaneously aggressively commercializing ChondroCelect. As a result, the Company's board of directors decided to license out ChondroCelect to Sobi in order to concentrate the existing human and capital resources on the clinical development of product candidates from the eASC-based platform, which was perceived to be of more value than commercializing ChondroCelect[2].

More generally, before the launch of ChondroCelect, the Company was expecting the product to be approved in both Europe and the United States. In order to approve the product in the United States, the FDA would have required the Company to perform a second Phase III trial in the United States and the costs associated with such a trial made it impossible for the Company to launch the product into the United States, which the Company

2 *In July 2016, TiGenix requested the withdrawal of marketing authorization for ChondroCelect for commercial reasons, which became effective as of November 30, 2016. TiGenix no longer generates revenues from ChondroCelect.*

perceives as its most important market. In Europe, the Company had anticipated that funding or reimbursement would be granted more rapidly in Spain and in the United Kingdom, that reimbursement would be approved on an unrestricted basis in Germany, and that reimbursement would be approved in France (see also risk factor "*There may be uncertainty over reimbursement from third parties for newly approved healthcare products or such reimbursement may be refused, which could affect the Company's ability to commercialize its product candidates*" below). The Company had also expected that the ATMP regulation would be more strictly enforced (see risk factor "*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*" above), which would have forced all existing autologous chondrocyte implantation products that had not been approved through the ATMP regulation to exit the market. Therefore, the expectations in respect of the potential market and the uptake of the product were higher than the results that were effectively obtained.

In addition, the Company constantly evaluates opportunities to acquire businesses and technologies that it believes are complementary to its business activities, such as the acquisition of Coretherapix, which has a platform of allogeneic cardiac stem cell products, and the Company also expends its human and capital resources on the integration of such acquired businesses and the development of their technologies, which may affect the Company's ability to develop its own product candidates.

The Company's international operations pose currency risks, which may adversely affect its operating results and net income.

The Company's operating results may be affected by volatility in currency exchange rates and its ability to manage effectively its currency transaction risks. The Company uses the euro as its currency for financial reporting purposes. In the future, a significant portion of its operating costs may be in U.S. dollars, because the Company has entered into an agreement with Lonza, a U.S. based contract manufacturing organization, to manufacture its lead product candidate in the United States, and will enter into research and development collaborations, trial collaborations, and professional services contracts in the United States. The Company also expects a share of its future revenues to be in U.S. dollars. The Company's exposure to currency risks could increase over time. The Company does not currently manage its foreign currency exposure in a manner that would eliminate the effects of changes in foreign exchange rates. For example, the Company has not engaged in any active hedging techniques, and it has not employed any derivative instruments to date. Therefore, unfavorable fluctuations in the exchange rate between the euro and U.S. dollars could have a negative impact on its financial results.

Risks 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.

The Company's product candidates must be manufactured to high standards in compliance with regulatory requirements. The manufacture of such product candidates is subject to regulatory authorization and to current good manufacturing practice ("cGMP") requirements, prescribed in the relevant country or territory of manufacture or supply.

The cGMP requirements govern quality control of the manufacturing process and require written documentation of policies and procedures. Compliance with such procedures requires record keeping and quality control to ensure that the product meets applicable specifications and other requirements including audits of vendors, contract laboratories and suppliers. Manufacturing facilities are subject to inspection by regulatory authorities at any time. If an inspection by a regulatory authority indicates that there are deficiencies, the Company or its contract manufacturer could be required to take remedial actions, stop production or close the relevant facility. If the Company fails to comply with these requirements, it also may be required to curtail the relevant clinical trials, might not be permitted to sell its product candidates or may be limited as to the countries or territories in which it is permitted to sell them.

The Company's eASC-based development and clinical stage product candidates are manufactured in its facilities in Madrid, Spain, which have been certified by the Spanish Medicines and Medical Devices Agency under cGMP requirements. Cx601 will be manufactured by Lonza, a U.S. based contract manufacturing organization, at its facility in Walkersville, Maryland, for the expected Phase III trial following the completion of technology transfer. Outside the United States, under its licensing agreement, the Company expects Takeda to assume responsibility for manufacturing Cx601 following the completion of technology transfer no later than January 1, 2021. AlloCSC-01, the CSC-based product candidate developed by the Company's subsidiary Coretherapix, is manufactured by 3P Biopharmaceuticals, which has been certified as cGMP compliant by the Spanish Medicines and Medical Devices Agency, based on a process developed by Coretherapix. However, the certification may be interrupted, suspended or discontinued because of a failure to maintain compliance or for any other reason. In addition, the regulations or policies applied by the relevant authorities may change, and any such change would require the Company to undertake additional work, which may not be sufficient for it to comply with the revised standards.

Any failure to comply with applicable cGMP requirements and other regulations may result in fines and civil penalties, suspension of production, product seizure or recall, import ban or detention, imposition of a consent decree, or withdrawal of product approval, and may limit the availability of the Company's product candidates. Any manufacturing defect or error discovered after its product candidates have been produced and distributed also could result in significant consequences, including adverse health consequences, injury or death to patients, costly recall procedures, damage to the Company's reputation and potential for product liability claims. An inability to continue manufacturing adequate supplies of the Company's product candidates at its facilities in Madrid, Spain, or elsewhere, could result in a disruption in the supply 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 Company's ability to commercialize future product candidates will depend, in part, on the availability of reimbursement from government and health administration authorities, private health insurers, managed care programs and other third-party payers. Significant uncertainty exists as to the pricing, market access or reimbursement status of newly approved healthcare products. In many countries, medicinal products are subject to a regime of reimbursement by government health authorities, private health insurers or other organizations. Such organizations are under significant pressure to limit healthcare costs by restricting the availability and level of reimbursement. For example, the Company has not been successful in obtaining certain forms of reimbursement with respect to ChrondroCelect, such as the opinion of the French *Haute Autorité de la Santé* that ChondroCelect should not be reimbursed in France, the delays in obtaining funding or reimbursement in Spain and the United Kingdom and the decision to grant limited reimbursement in Germany, and the reversal of the decision to reimburse ChondroCelect in Belgium. Negative decisions or reversals of reimbursement decisions by certain authorities or third-party payers may have an unfavorable spillover effect on pending or future funding or reimbursement applications.

The Company may not be able to obtain or maintain prices for products sufficient to realize an appropriate return on investment if adequate public health service or health insurance coverage is not available. In addition, rules and regulations regarding funding or reimbursement may change, in some cases at short notice, especially in light of the global cost pressures on healthcare and pharmaceutical markets. Such changes could affect whether funding or reimbursement is available at adequate levels or at all.

The regulatory landscape that will govern TiGenix' product candidates is evolving, and changes in regulatory requirements could result in delays or discontinuation of development of its product candidates or unexpected costs in obtaining regulatory approval.

Because the Company is developing novel stem cell therapy product candidates that are unique biological entities, the regulatory requirements that it will be subject to may change. Even with respect to more established products that fit into the categories of cell therapies, the regulatory landscape is still developing and will likely continue to change in the future. In particular, such products may be subject to increased scrutiny by regulatory authorities. For example, the EMA established a special committee called the Committee for Advanced Therapies to assess the quality, safety and efficacy of advanced therapy medicinal products, a category that includes cell therapy products including our product candidates. This committee advises the Committee for Medicinal Products for Human Use, or CHMP, which is responsible for a final opinion on the granting, variation, suspension or revocation of an application for marketing authorization in the European Union.

Likewise, in the United States, the FDA has established the Office of Tissues and Advanced Therapies (OTAT), formerly known as the Office of Cellular, Tissue and Gene Therapies (OCTGT) within its Center for Biologics Evaluation and Research, or CBER, to consolidate the review of cell therapy and related products, and the Cellular, Tissue and Gene Therapies Advisory Committee to advise CBER on its review. Cell therapy clinical trials are also subject to review and oversight by an institutional biosafety committee, or IBC, a local institutional committee that reviews and oversees basic and clinical research conducted at the institution participating in the clinical trial. Although the FDA decides whether individual cell therapy protocols may proceed, review process and determinations of other reviewing bodies can impede or delay the initiation of a clinical study, even if the FDA has reviewed the study and approved its initiation. Conversely, the FDA can place an IND application on clinical hold even if such other entities have provided a favorable review. Furthermore, each clinical trial must be reviewed and approved by an independent institutional review board, or IRB, at or servicing each institution at which a clinical trial will be conducted. Similarly complex regulatory environments exist in other jurisdictions in which the Company might consider seeking regulatory approvals for our product candidates, further complicating the regulatory landscape.

As the Company advances its product candidates, it will be required to consult with these regulatory and advisory groups and comply with all applicable guidelines, rules and regulations. If the Company fails to do so, it may be required to delay or discontinue development of its product candidates. Delay or failure to obtain, or

unexpected costs in obtaining, the regulatory approval necessary to bring a potential product to market could decrease the Company's ability to generate sufficient product revenue to maintain our business.

These various regulatory review committees and advisory groups may also promulgate new or revised guidelines from time to time that may lengthen the regulatory review process, require the Company to perform additional studies, increase its development costs, lead to changes in regulatory positions and interpretations, delay or prevent approval and commercialization of its product candidates or lead to significant post-approval limitations or restrictions. Because the regulatory landscape for the Company's stem cell therapy product candidates is evolving, it may face even more cumbersome and complex regulations in the future. Furthermore, even if the Company's product candidates obtain required regulatory approvals, such approvals may later be withdrawn as a result of changes in regulations or the interpretation of regulations by applicable regulatory agencies.

In addition, adverse developments in clinical trials of cell therapy products conducted by others may cause the FDA or other regulatory bodies to change the requirements for approval of any of the Company's product candidates.

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.

Tissue based products are regulated differently in different countries. Many foreign jurisdictions have a different sometimes more difficult regulatory pathway for human tissue based products, which may prohibit the distribution of these products until the applicable regulatory agencies grant marketing approval, or licensure. The process of obtaining regulatory approval is lengthy, expensive and uncertain, and TiGenix may never seek such approvals, or if it does, it may never gain those approvals. Any adverse events in its clinical trials for a future product under development could negatively impact its products.

Safe and efficacious human medical applications may never be developed using cell therapy products or related technology.

If serious adverse events related to cell therapy products were to arise in clinical trials or after marketing approval, the EMA or FDA could impose more restrictive safety requirements on cell therapy products generally, including in the manner of use and manufacture, could require safety warnings in product labelling, and could limit, restrict or deny permission for new cell therapy products to enter clinical trials or to be marketed.

TiGenix' cell therapy product candidates represent new classes of therapy and may not be accepted by patients or medical practitioners.

TiGenix' ability to commercialize Cx601 and future product candidates will depend, in part, on market acceptance, including the willingness of medical practitioners to invest in training programs to use the products. Cell therapy products are a novel treatment, and such products may not be immediately accepted as complementary or alternative treatments to the current standards of care. TiGenix may not be able to obtain or maintain recommendations and endorsements from influential physicians, which are an essential factor for market acceptance of its product candidates, or its product candidates may not gain sufficient market recognition in spite of favorable opinions from key leaders. The degree of market acceptance of its cell therapy product candidates will depend on a number of factors, including the following:

- The clinical safety and effectiveness of its products and their demonstrated advantage over alternative treatment methods.
- Its ability to demonstrate to healthcare providers that its products provide a therapeutic advancement over standard of care or other competitive products or methods.
- Its ability to educate healthcare providers on the use of patient-specific human tissue, to avoid potential confusion with and differentiate itself from the ethical controversies associated with human fetal tissue and engineered human tissue.
- Its ability to educate healthcare providers, patients and payers on the safety and adverse reactions involving its products.
- Its ability to meet supply and demand and develop a core group of medical professionals familiar with and committed to the use of its products.
- The cost-effectiveness of its products and the reimbursement policies of government and third-party payers.

If the medical community or patients do not accept the safety and effectiveness of TiGenix' product candidates or TiGenix' product candidates fail to demonstrate a favorable risk/benefit profile, this could negatively affect any future sales.

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 public perception of ethical and social issues surrounding the use of tissue-engineered products or stem cells may limit or discourage the use of TiGenix' product candidates. The use of human cells, such as dif-

ferentiated cartilage cells, eASCs, CSCs and other adult stem cells, as starting material for the development of its product candidates could generate negative public perceptions of its product candidates and public expressions of concern could result in stricter governmental regulation, which may, in turn, increase the cost of manufacturing and marketing its product or impede market acceptance of its product candidates.

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 manufacture of cell therapy products, such as TiGenix' product candidates, is highly complex and is characterized by inherent risks and challenges such as raw material inconsistencies, logistical challenges, significant quality control and assurance requirements, manufacturing complexity, and significant manual processing. Unlike products that rely on chemicals for efficacy, such as most pharmaceuticals, cell therapy products are difficult to characterize due to the inherent variability of biological input materials. As a result, assays of the finished product may not be sufficient to ensure that the product will perform in the intended manner. Accordingly, TiGenix employs multiple steps to control its manufacturing process to ensure that the process works and that its product candidate is made strictly and consistently in compliance with the process. Problems with the manufacturing process, even minor deviations from the normal process, could result in product defects or manufacturing failures that result in lot failures, product recalls, product liability claims or insufficient inventory, which could be costly to TiGenix or result in reputational damage. TiGenix has experienced lot failures in the past and might experience such failures in the future.

TiGenix may encounter problems achieving adequate quantities and quality of clinical-grade materials that meet EMA, FDA or other applicable standards or specifications with consistent and acceptable production yields and costs. In addition, EMA, FDA and other foreign regulatory authorities may require TiGenix to submit samples of any lot of any approved product together with the protocols showing the results of applicable tests at any time. Under some circumstances, EMA, FDA or other foreign regulatory authorities may require that TiGenix does not distribute a lot until the agency authorizes its release.

Successfully transferring complicated manufacturing techniques to contract manufacturing organizations and scaling up these techniques for commercial quantities is time consuming and subject to potential difficulties and delays. TiGenix has entered into an agreement with Lonza, a leading U.S.-based contract manufacturing organization active in biological and cell therapy manufacturing, to produce Cx601 in the United States in connection with the proposed Phase III clinical trial to register Cx601 in the United States. TiGenix' technology transfer to Lonza may result in setbacks in replicating the current manufacturing process at a new facility and in scaling up production. Likewise, TiGenix or any other third parties with whom TiGenix enters into strategic relationships, including Takeda, might not be successful in streamlining manufacturing operations or implementing efficient, low-cost manufacturing capabilities and processes that will enable TiGenix to meet the quality, price and production standards or production volumes to achieve profitability. Its failure to develop these manufacturing processes in a timely manner could prevent TiGenix from achieving its growth and profitability objectives as projected or at all.

The Company faces competition and technological change, which could limit or eliminate the market opportunity for its product candidates.

The pharmaceutical industry is characterized by intense competition and rapid innovation. The Company's product candidates will compete against a variety of therapies in development for inflammatory and autoimmune diseases that use therapeutic modalities such as biologics and cell therapy, including products under development by Anterogen, Delenex, Therapeutics, Novartis, Celgene, Bristol Myers Squibb, Sanofi/Regeneron, Johnson & Johnson, GlaxoSmithKline and others, including various hospitals and research centers. Finally, with respect to the product candidates of the Company's subsidiary Coretherapix, there are a variety of cell therapy treatments in development for acute myocardial infarction, including products under development by Pharmicell, Caladrius, Athersys, Mesoblast and Capricor.

The Company's competitors may be able to develop other products that are able to achieve similar or better results than its product candidates. The Company's potential competitors include established and emerging pharmaceutical and biotechnology companies and universities and other research institutions. Many of its competitors have substantially greater financial, technical and other resources, such as larger research and development staff and experienced marketing and manufacturing organizations and well established sales forces. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated in the Company's competitors. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. The Company's competitors may succeed in developing, acquiring or licensing on an exclusive basis products that are more effective or less costly than its product candidates. The Company believes the key competitive

factors that will affect the development and commercial success of its product candidates are efficacy, safety and tolerability profile, reliability, price and reimbursement.

The Company's employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.

The Company is exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with EMA or FDA regulations, to provide accurate information to the EMA or the FDA, to comply with manufacturing standards the Company has established, to comply with federal and state healthcare fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to the Company. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent off label promotion, fraud, kickbacks, self dealing and other abusive practices in the United States or in jurisdictions outside of the United States where the Company conducts business. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to the Company's reputation. If governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of significant fines or other sanctions, up to and including criminal prosecution, fines and imprisonment.

The Company could face product liability claims, resulting in damages against which it is uninsured or underinsured.

The Company's business exposes it to potential product liability and professional indemnity risks, which are inherent in the research, development, manufacturing, marketing and use of medical treatments. It is impossible to predict the potential adverse effects that the Company's product candidates may have on humans. The use of its product candidates in human clinical trials may result in adverse effects, and long term adverse effects may only be identified following clinical trials and approval for commercial sale. In addition, physicians and patients may not comply with any warnings that identify the known potential adverse effects and the types of patients who should not receive the Company's product candidates. The Company may not be able to obtain necessary insurance at an acceptable cost or at all. The Company currently carries 20 million euros of liability insurance. In the event of any claim, the level of insurance the Company carries now or in the future may not be adequate, and a product liability or other claim may materially and adversely affect its business. If the Company cannot adequately protect itself against potential liability claims, it may find it difficult or impossible to commercialize its product candidates. Moreover, such claims may require significant financial and managerial resources, may harm the Company's reputation if the market perceives its drugs or drug candidates to be unsafe or ineffective due to unforeseen side effects, and may limit or prevent the further development or commercialization of its product candidates and future product candidates.

The Company uses various chemical and biological products to conduct its research and to manufacture its medicines. Despite the existence of strict internal controls, these chemical and biological products could be the object of unauthorized use or could be involved in an accident that could cause personal injury to people or damage to the environment, which could result in a claim against the Company. Its activities are subject to specific environmental regulations that impose obligations which, if not complied with, could give rise to third-party or administrative claims and could even result in fines being imposed or, in the worst case scenario, in its operations being suspended or shut down.

TiGenix' international operations subject it to various risks, and its failure to manage these risks could adversely affect its results of operations.

The Company faces significant operational risks as a result of doing business internationally, such as the following:

- fluctuations in foreign currency exchange rates;
- potentially adverse and/or unexpected tax consequences, including penalties due to the failure of tax planning or due to the challenge by tax authorities on the basis of transfer pricing and liabilities imposed from inconsistent enforcement;
- potential changes to the accounting standards, which may influence the Company's financial situation and results;
- becoming subject to the different, complex and changing laws, regulations and court systems of multiple jurisdictions and compliance with a wide variety of foreign laws, treaties and regulations;
- difficulties in attracting and retaining qualified personnel;
- rapid changes in global government, economic and political policies and conditions, political or civil unrest or instability, terrorism or epidemics and other similar outbreaks or events, and potential failure in confidence of the Company's suppliers or customers due to such changes or events; and
- tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers.

The Company's inability to manage its expansion, both internally and externally, could have a material adverse effect on its business.

TiGenix may in the future acquire other businesses, companies with complementary technologies or products to expand its activities. As a consequence, intangible assets, including goodwill, may account for a larger part of the balance sheet total than is currently the case. Despite the fact that the Company carefully investigates every acquisition, the risk remains, amongst others, that corporate cultures may not match, expected synergies may not be fully realized, restructurings may prove to be more costly than initially anticipated and that acquired companies may prove to be more difficult to integrate than foreseen. The Company can therefore not guarantee that it will successfully be able to integrate any acquired companies.

The Company's ability to manage its growth effectively will require the Company to continue to improve its operations, financial and management controls, reporting systems and procedures, and to train, motivate and manage its employees and, as required, to install new management information and control systems. The Company may not be able to implement improvements to its management information and control systems in an efficient and timely manner or such improvements, if implemented, may not be adequate to support its operations.

The results of the United Kingdom's referendum on leaving the European Union may have a negative effect on TiGenix' business.

On June 23, 2016, a majority of voters in the United Kingdom voted to leave the European Union in a referendum and on March 29, 2017 the United Kingdom delivered its official withdrawal notification to the President of the European Council. The terms of the United Kingdom's withdrawal are subject to a negotiation period that could last up to two years after from the date the withdrawal notification was delivered. The United Kingdom's decision has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply in the future. These developments have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict the Company's access to capital. In addition, it is uncertain whether the Company's EMA approvals, if granted, will cover the United Kingdom. If not, it is not yet known what the new U.K. approval process will involve.

Risks 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.

The Company's ability to compete effectively with other companies depends, among other things, on the exploitation of its technology. In addition, filing, prosecuting and defending patents on all of its product candidates throughout the world would be prohibitively expensive. The Company's competitors may, therefore, develop equivalent technologies or otherwise gain access to its technology, particularly in jurisdictions in which the Company has not obtained patent protection or in which enforcement of such protection is not as strong as it is in Europe and in the United States.

Patents might not be issued with respect to the Company's pending or future applications. The lack of any such patents may have a material adverse effect on its ability to develop and market its proposed product candidates. The Company may not be able to develop product candidates that are patentable, or its current or future patents may not be sufficiently broad in their scope to provide commercially meaningful protection against competition from third parties. The validity or scope of any of its patents may be insufficient, claims relating to its patents may be asserted by other parties and, if challenged, its patents may be revoked. Even if competitors do not successfully challenge the Company's patents, they might be able to design around such patents or develop unique technologies or products providing effects similar to its product candidates.

If the Company's intellectual property rights, trade secrets and know-how are infringed, litigation may be necessary to protect its intellectual property rights, trade secrets and know-how, which could result in substantial costs and diversion of efforts with no guarantee of success. The Company's attempts to obtain patent or other protection for certain of its product candidates or technologies may also be subject to opposition. The Company may need to incur substantial costs to overcome such opposition with no guarantee of success. From time to time, the Company engages in opposition or interference proceedings to prevent third parties from obtaining relevant patent or other protection, which may be expensive and time-consuming again with no guarantee of success.

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.

U.S. courts have recently issued decisions limiting the patent eligibility of natural products and natural cor-

relations. On June 13, 2013, in *Association for Molecular Pathology v. Myriad Genetics,* the U.S. Supreme Court held that isolated genomic DNA segments are not patentable subject matter, but complementary DNA molecules are patentable subject matter. On May 8, 2014, the U.S. Court of Appeals for the Federal Circuit held that cloned animals are not patentable subject matter. Furthermore, on March 20, 2012, in *Mayo Collaborative Services v. Prometheus Laboratories*, the U.S. Supreme Court held that certain algorithms for measuring drug metabolite levels from patient samples and correlating them to drug doses are not patentable subject matter. On June 19, 2004, in *Alice Corporation Pty. Ltd. v. CLS Bank International, et al.*, a case involving patent claims directed to a method for mitigating settlement risk, the Court held that the patent eligibility of claims directed to abstract ideas, products of nature, and laws of nature should be determined using the same framework set forth in *Prometheus.*

The Patent and Trademark Office has issued guidelines setting forth procedures for determining patent eligibility of claims directed to abstract ideas, product of nature and laws of nature in line with the *Prometheus, Myriad,* and *Alice* decisions. The guidelines indicate that a claim reciting any natural phenomenon or natural product will be treated as ineligible for patenting, unless the claim as a whole recites something significantly different from the natural product. The effect of these decisions on patents for inventions relating to other natural phenomena and natural products, such as stem cells, is uncertain. Because TiGenix' patent portfolio is largely directed to stem cells and their use, as well as to uses of naturally-occurring biomarkers, these developments in U.S. patent law could affect its ability to obtain new U.S. patents or to enforce its existing patents. In some of the Company's pending U.S. patent applications the Patent and Trademark Office has questioned whether certain of its claims are eligible for patenting. If TiGenix is unable to procure additional U.S. patents or to enforce its existing U.S. patents, it would be vulnerable to competition in the United States.

Third-party claims of intellectual property infringement may prevent or delay the Company's product discovery and development efforts.

The Company's commercial success depends in part on avoiding infringement of the patents and proprietary rights of third parties. There is a substantial amount of litigation involving patents and other intellectual property rights in the biotechnology and pharmaceutical industries, as well as administrative proceedings for challenging patents, including interference and reexamination proceedings before the Patent and Trademark Office or oppositions and other comparable proceedings in foreign jurisdictions. Recently, under U.S. patent reform, new procedures inlcuidng *inter partes* review and post grant review have been implanted. This reform is untried and untested and whill bring uncertainty to the possibility of challenge to our patents in the future. Numerous U.S. and non-U.S. issued patents and pending patent applications, which are owned by third parties, exist in the fields in which the Company is developing its product candidates. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that the Company's product candidates may give rise to claims of infringement of the patent rights of others.

Third parties may assert that the Company is employing their proprietary technology without authorization. There may be third-party patents of which the Company is currently unaware with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of its product candidates. Because patent applications can take many years, there may be currently pending patent applications that may later result in issued patents that the Company's product candidates may infringe. In addition, third parties may obtain patents in the future and claim that the use of the Company's technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of the Company's product candidates, any molecules formed during the manufacturing process or any final product itself, the holders of any such patents might be able to block the Company's ability to commercialize the product candidate, unless the Company were to obtain a license under the applicable patents, or until such patents expired or they were finally determined to be invalid or unenforceable. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of the Company's formulations, processes for manufacture or methods of use, the holders of any such patent might be able to block the Company's ability to develop and commercialize its product candidate unless the Company were to obtain a license or until such patent expired or was finally determined to be invalid or unenforceable. In either case, such a license might not be available on commercially reasonable terms or at all. If the Company is unable to obtain a necessary license to a third-party patent on commercially reasonable terms, or at all, its ability to commercialize its product candidates might be impaired or delayed, which could in turn significantly harm its business.

Parties making claims against the Company may seek and obtain injunctive or other equitable relief, which could effectively block the Company's ability to develop further and commercialize its product candidates. Defence of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from the Company's business. In the event of a successful claim of infringement against the Company, it might have to pay substantial damages, including treble damages and attorneys' fees for wilful infringement, obtain one or more licenses from third parties, pay royalties or rede-

sign its infringing products, which might be impossible or require substantial time and monetary expenditure. The Company cannot predict whether any such license would be available at all or whether it would be available on commercially reasonable terms. Furthermore, even in the absence of litigation, the Company might need to obtain licenses from third parties to advance its research or allow commercialization of its product candidates. The Company may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all.

The Company's future development may depend on its ability to obtain and maintain licenses to certain technologies.

The Company might further expand its activities in the future by in-licensing certain technologies. Collaboration and integration may have an important impact on the success of its expansion strategy. In such a case, the Company might not own the patents or supplementary protection certificates on the basis of which these licenses may be granted. These licenses may generally be terminated by the licensor if the Company breaches certain of its obligations under the license and in other specified circumstances. If any of its license agreements were to be terminated, the further development and commercialization of some of its product candidates could be prevented or delayed, reducing their potential revenues. The scope of the Company's rights under such licenses may be subject to dispute by licensors or third parties. The Company might not control the filing or the prosecution of all the patents to which it holds licenses and may need to rely upon its licensors to enforce the patents and to prevent or to challenge possible infringement by third parties. The Company might not be able to obtain licenses for the technologies that it requires in the future.

The Company may be involved in lawsuits to protect or enforce its patents, which could be expensive, time-consuming and unsuccessful.

Competitors may infringe the Company's patents. To counter infringement or unauthorized use, the Company may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that one or more of the Company's patents is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that the Company's patents do not cover the technology in question. An adverse result in any litigation or defence proceedings could expose one or more of the Company's patents to the risk of being invalidated, held unenforceable, or interpreted narrowly and could put its patent applications at risk of not issuing. Defence of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from the Company's business. In the event of a successful claim of infringement against the Company, it may have to pay substantial damages, including treble damages and attorneys' fees for wilful infringement, obtain one or more licenses from third parties, pay royalties or redesign its infringing products, which may be impossible or require substantial time and monetary expenditure.

Interference proceedings provoked by third parties or brought by the US Patent and Trademark Office may be necessary to determine the priority of inventions with respect to the Company's patents or patent applications. An unfavorable outcome could require the Company to cease using the related technology or to attempt to license rights to it from the prevailing party. The Company's business could be harmed if the prevailing party does not offer it a license on commercially reasonable terms. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract the Company's management and other employees. The Company may not be able to prevent misappropriation of its confidential information, particularly in countries where the laws may not protect those rights as fully as in the United States and in Europe.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of the Company's confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of the Company's shares.

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.

On April 1, 2011, Cellerix (the predecessor entity of the Company's subsidiary TiGenix SAU) filed an inter partes re-examination request with the US Patent and Trademark Office regarding the patent US6777231, owned by the University of Pittsburgh. The US Patent and Trademark Office examiner issued a decision concluding that all ten originally issued and all eighteen newly submitted claims of the patent granted to the University of Pittsburgh were invalid. The University of Pittsburgh then appealed the examiner's decision, but only with respect to two of the newly submitted claims. The Company cross appealed the examiner's refusal to reject those two newly submitted claims as anticipated by the prior art. The Patent Trial and Appeal Board issued a decision simultaneously granting both appeals, thus confirming that all claims of the patent were invalid, but with respect

to the newly submitted claims, on different grounds than those cited in the decision by the initial examiner. On this basis, the University of Pittsburgh filed a request to reopen prosecution and submitted claim amendments to those newly submitted claims to the US Patent and Trademark Office for further consideration in an attempt to overcome the Patent Trial and Appeal Board's institution of a new ground for rejection as anticipated by the prior art. The Company submitted comments to the US Patent and Trademark Office arguing that these claim amendments did not overcome the anticipated rejection. On March 16, 2015, the examiner issued her determination that the claim amendments did not overcome the anticipated rejection and further adopted the Company's proposed anticipated rejections over two additional prior art references and two proposed indefiniteness rejections. The Company and the University of Pittsburgh have submitted comments on the examiner's determination and replied to each other's comments. The comments and replies have been entered into the record and the proceeding was forwarded to the Patent Trial and Appeal Board (PTAB) on December 18, 2015. The proceedings were docketed at the PTAB as of September 13, 2016; accordingly a decision could be rendered by the PTAB at any time. The Company does not know exactly when a final decision can be rendered, and at this stage, it is not in a position to assess the probable outcome of these proceedings.

This proceeding may take longer than expected and may not ultimately succeed, which may result in unexpected additional costs and may have a material adverse effect on the Company's future business, financial condition, operating results and cash flow. If the re-examination is not successful, the Company may be required to obtain a license on unfavorable terms, or may not be able to obtain a license at all in order to commercialize its adipose-derived stem cell products in the United States. The Company would potentially be susceptible to patent infringement or litigation regarding patent infringement while commercializing its eASC products in the United States. The Company may, therefore, choose to delay the launch of its adipose-derived stem cell products in the U.S. market until the expiration of the patent US6777231 on March 10, 2020. To avoid infringing granted patents equivalent to US6777231 in other countries, the Company may at any given point in time be forced to develop and utilize alternative technology, to exploit its current technology and products under a royalty-bearing license with respect to the intellectual property rights of other parties or to delay the launch of its adipose-derived stem cell products in the relevant market until patent expiration.

Risks 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.

The Company has entered into an agreement with Lonza, a leading U.S. based contract manufacturing organization active in biological and cell therapy manufacturing, to produce Cx601 in the United States in connection with the proposed Phase III clinical trial to register Cx601 in the United States. Outside the United States, under its licensing agreement, the Company expects Takeda to assume responsibility for manufacturing Cx601 following the completion of technology transfer no later than January 1, 2021.The Company's CSC-based product candidates are manufactured by 3P Biopharmaceuticals in Spain. The Company is, therefore, exposed to risks relating to the conduct of business of such parties, including the following:

- Their ability to employ and retain suitably qualified staff and maintain good labor relations with their workforce.
- Their ability to meet the required legal, regulatory or quality control standards, including the cGMP requirements prescribed in the relevant country or territory of manufacture or supply.
- Their level of investment in their facilities and equipment and their ability to consistently manufacture the Company's product candidates to the required standard.

In addition, the Company may face challenges in communicating with such third parties, which could potentially lead to mistakes and difficulties in coordinating activities. The Company could also face unexpected cost increases that are beyond its control.

Any failure by such parties to meet the required standards could have a materially adverse effect on the Company's reputation or expose it to legal liability, with respect to which it may have limited recourse to the defaulting party. If such a party were to breach its contractual commitments to the Company, its only option might be to seek a legal remedy, which could be costly or time-consuming and, even if successful, may not fully compensate the Company for its damages. If the Company has to terminate its relationship with such a party due to problems with the timeliness or quality of their work, it may not be able to replace them on commercially acceptable terms, or at all, which could delay or threaten its ability to generate meaningful revenue from product sales as a result of which the Company may have insufficient capital resources to support its operations.

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.

In July 2016, TiGenix entered into a licensing agreement pursuant to which it granted exclusive rights to Takeda to commercialize and develop Cx601 for complex perianal fistulas outside of the United States.

Under the terms of the licensing agreement, TiGenix is entitled to receive specified regulatory and sales milestone payments, as well as royalty payments and an equity investment (which was already exercised on December 20, 2016). In addition, as part of the licensing agreement with Takeda, TiGenix will expand its production facility in Madrid, the cost of which it has agreed to share equally with Takeda. In addition, Takeda will be solely responsible for all commercialization activities and associated costs, relating to the licensed product in the licensed territories.

Unless earlier terminated, the licensing agreement will expire on a country-by-country basis upon the expiration of the royalty term in such country for such licensed product. Either party may, subject to a cure period, terminate the licensing agreement in the event of the other party's uncured material breach. Takeda may also terminate the licensing agreement under specified circumstances relating to regulatory approval, infringement of intellectual property rights or increases in production costs.

If Takeda were to terminate the licensing agreement or fail to meet its contractual obligations, the assumption by TiGenix of all costs related to the development of Cx601 and the establishment of a commercial infrastructure in the licensed territories would require substantial resources, financial and otherwise, and could result in TiGenix incurring greater expenses than the increase in revenues from its direct sales of the licensed product in the licensed territories. It could also cause a delay in the development of Cx601. Seeking and obtaining a viable, alternative collaborator to partner on the development and commercialization of the licensed product may not be available on similar terms or at all.

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.

For some market opportunities, the Company may need to enter into co-development, co-promotion or other licensing arrangements with larger pharmaceutical firms to increase the chances of commercial success of its product candidates. For example, with respect to Cx601, the Company has entered into a licensing agreement with Takeda, a large pharmaceutical company active in gastroenterology, under which Takeda currently has the exclusive right to commercialize Cx601 outside the United States. Previously, with respect to ChondroCelect, the Company entered into an exclusive distribution agreement with Sobi for the European Union (excluding Finland, where it had a pre-existing distribution agreement with Finnish Red Cross Blood Service) as well as several other countries.[3] In the future, the Company may enter into additional distribution agreements in other territories. It may not be able to establish sales, marketing and distribution, pricing, reimbursement and market access capabilities of its own or to enter into arrangements with contract sales organizations or larger pharmaceutical firms in a timely manner or on acceptable terms. Additionally, building marketing and distribution capabilities may be more expensive than the Company anticipates and may require it to divert funds from other intended purposes or prevent it from building its own marketing and distribution capabilities to desired levels.

Therefore, the performance of the Company's product candidates will depend in part on its ability to attract and retain suitable partners that will be able to market and support its products effectively. The Company may lose one or more of its distributors or might not be able to recruit additional or replacement distributors.

The Company's dependence on third parties may also reduce its profit margins and delay or limit its ability to develop and commercialize its products on a timely and competitive basis.

The Company's distributors may be faced with hurdles in reimbursement, market acceptance, distribution and competition that delay or even prevent the commercialization of its product candidates or result in the early termination of licensing agreements. The ability of its distributors to commercialize its product candidates also depends, in part, on the extent to which the Company's competition will react.

3 *In July 2016, TiGenix requested the withdrawal of marketing authorization for ChondroCelect for commercial reasons, which became effective as of November 30, 2016. TiGenix no longer generates revenues from ChondroCelect.*

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 relies on third-party contract research organizations to conduct clinical trials for its product candidates, and it controls only certain aspects of their activities. Nevertheless, the Company is responsible for ensuring that each of its studies is conducted in accordance with applicable protocol, legal, regulatory and scientific standards, and its reliance on its contract research organizations does not relieve it of its regulatory responsibilities. The Company and its contract research organizations will be required to comply with good clinical practices ("GCP") requirements, and good tissue practice ("GTP") requirements which are a collection of regulations enforced by the EMA, the FDA and comparable foreign regulatory authorities for product candidates in clinical development. These GCP and GTP requirements are intended to protect the health, safety and welfare of study subjects through requirements such as informed consent, and to ensure data integrity, among other things. Regulatory authorities enforce these GCP and GTP requirements through periodic inspections of trial sponsors, contract research organizations, principal investigators and study sites. If the Company or any of these contract research organizations fail to comply with applicable GCP and GTP regulations, the clinical data generated in the Company's clinical trials may be deemed unreliable and the EMA, the FDA or a comparable foreign regulatory authority may require it to perform additional clinical trials before approving its marketing applications. Upon inspection, such regulatory authorities might determine that any of its clinical trials do not comply with GCP and GTP regulations. In addition, for biological products, its clinical trials must be conducted with products made under cGMP regulations and will require a large number of test subjects. The Company's failure or any failure by its contract research organizations to comply with these regulations or to recruit a sufficient number of patients may disregard the clinical data generated in such trial and require it to repeat clinical trials, which would delay the regulatory approval process. Moreover, the Company may be implicated or subject to civil or criminal liability if any of its contract research organizations violates fraud and abuse or false claims laws and regulations or healthcare privacy and security laws in any jurisdiction in which it conducts its trials.

For example, as part of the marketing authorization application process, the Company had a routine Good Clinical Practice inspection in September 2016. Following this inspection, the Company received an inspection report identifying certain critical and major deviations from Good Clinical Practices. The Company submitted its initial replies to the report from this inspection, including the corresponding planned "corrective and preventive actions", on October 21, 2016. The Company received the inspector's report to the EMA's Committee for Human Medicinal Products, or the Integrated Inspection Report, in November 2016, which indicated that the inspectors continue to be concerned about potential critical GCP deviations, in particular a potential violation of patient privacy due to the presence of a company-sponsored healthcare professional during the administration of Cx601. The inspectors recommended to the EMA that the data from the trial should be disregarded as part of the marketing authorization application. In making their recommendation, the inspectors focused on the infringement of the patient's right to consent to the presence of a company-sponsored healthcare professional. Due to the nature of this finding, the inspectors deemed the trial not to be conducted in accordance with ethical principles, including GCP and applicable regulatory requirements. The Company included its replies to the issues raised in the Integrated Inspection Report as part of its replies to the Day 120 List of Questions, which it submitted in December 2016.

In February 2017, EMA sent TiGenix its "Day 180 List of Outstanding Issues". The Company believes to have adequate answers to the issues identified by EMA, but if the Company's replies are not deemed sufficient by the EMA, it may face additional consequences, including rejection of data or other direct action by national regulatory authorities, which could require the Company to conduct additional clinical trials or other supportive studies to obtain EMA approval.

The contract research organizations will not be employed directly by the Company and, except for remedies available to it under its agreements with such contract research organizations, the Company cannot control whether they devote sufficient time and resources to its ongoing preclinical and clinical programs. These contract research organizations may also have relationships with other commercial entities, including competitors of the Company, for whom they may also be conducting clinical studies or other product development activities, which could affect their performance on the Company's behalf. If these contract research organizations do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to the Company's clinical protocols or regulatory requirements or for other reasons, its clinical trials may be extended, delayed or terminated or be deemed unreliable, and the Company may not be able to complete development of, obtain regulatory approval for, or commercialize its product candidates.

Switching or adding contract research organizations involves substantial cost and requires extensive management time and focus. In addition, there is a natural transition period when a new contract research organization commences work. As a result, delays may occur, which could materially affect the Company's ability to meet its desired clinical development timelines, and the quality of work may be affected. The Company is not experiencing, nor does it expect to experience in the foreseeable future, any problems with its contract research organizations that may have a significant effect on its business. However, there is no assurance that the Company will not encounter challenges in its relationships with its contract research organizations or delays in the future.

The Company may form or seek strategic alliances in the future, and it might not realize the benefits of such alliances.

The Company may form or seek strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties that it believes will complement or augment its development and commercialization efforts with respect to its product candidates and any future products that it may develop. Any of these relationships may require the Company to incur non-recurring and other charges, increase its near and long-term expenditures, issue securities that dilute its existing shareholders or disrupt its management and business. In addition, the Company faces significant competition in seeking appropriate strategic partners, and the negotiation process is time-consuming and complex. Moreover, the Company may not be successful in its efforts to establish a strategic partnership or other alternative arrangements for its product candidates, because they may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view its product candidates as having the requisite potential to demonstrate safety and efficacy. If the Company licenses products or businesses, it may not be able to realize the benefit of such transactions if it is unable to integrate them with its existing operations and company culture. Following a strategic transaction or license, the Company might not be able to achieve the revenues or specific net income that justifies such transaction. Any delays in entering into new strategic partnership agreements related to the Company's product candidates could delay the development and commercialization of its product candidates in certain geographies for certain indications.

Risks Resulting from 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.

The Sarbanes-Oxley Act requires, among other things, that the Company maintains effective internal control over financial reporting and disclosure controls and procedures. In particular, in the future, the Company will be required, under Section 404 of the Sarbanes-Oxley Act, to perform system and process evaluations and testing of its internal controls over financial reporting to allow management and its independent registered public accounting firm to report on the effectiveness of its internal control over financial reporting. This assessment will need to include disclosure of any material weaknesses in the Company's internal control over financial reporting identified by its management or its independent registered public accounting firm. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from the Company's independent registered public accounting firm on the effectiveness of its internal control over financial reporting. However, for as long as the Company remains an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), it intends to take advantage of the exemption permitting it not to comply with the independent registered public accounting firm attestation requirement. At the time when the Company is no longer an emerging growth company, its independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which the Company's controls are documented, designed or operating. The Company's remediation efforts may not enable it to avoid a material weakness in the future.

The Company's compliance with Section 404 will require that the Company incurs substantial accounting expense and expend significant management efforts. The Company currently does not have an internal audit group, and it may need to hire additional accounting and financial staff or a third-party service provider with the appropriate experience, as well as understanding of internal control processes around supervision and monitoring of its accounting and reporting functions and technical accounting knowledge and application, and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

The Company may not be able to complete its evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if the Company identifies one or more material weaknesses

in its internal control over financial reporting, it will be unable to assert that its internal control over financial reporting is effective. The Company cannot assure that there will not be material weaknesses or significant deficiencies in its internal control over financial reporting in the future. If the Company is unable to conclude that its internal control over financial reporting is effective, or if its independent registered public accounting firm determines it has a material weakness or significant deficiency in its internal control over financial reporting, the Company could lose investor confidence in the accuracy and completeness of its financial reports, the market price of the ADSs or shares could decline, and the Company could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in the Company's internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict its future access to the capital markets.

TiGenix has incurred and will continue to 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 continue to be required to devote substantial time to new compliance initiatives.

As a company whose American Depositary Shares **(ADSs)** have recently begun to be publicly traded in the United States, the Company has incurred and will continue to incur significant legal, accounting, insurance and other expenses that it did not previously incur. In addition, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act and related rules implemented by the SEC and the NASDAQ Stock Market have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls. These costs will increase at the time when the Company is no longer an emerging growth company, eligible to rely on exemptions under the JOBS Act from certain disclosure and governance requirements. The Company's management and other personnel will need to continue to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and may continue to increase the legal and financial compliance costs and will make some activities more time-consuming and costly. For example, it is expected that these rules and regulations make it more difficult and more expensive for the Company to obtain director and officer liability insurance, and the Company may be required to incur substantial costs to maintain the same or similar coverage. These laws and regulations could also make it more difficult and expensive for the Company to attract and retain qualified persons to serve on its board of directors or its committees. Furthermore, if the Company is unable to satisfy its obligations as a U.S.-listed public company, it could be subject to delisting of the ADSs, fines, sanctions and other regulatory action and potentially civil litigation.

1. INTRODUCTION

Annual report 2016

This annual report of TiGenix (also referred to herein as the "Company") is a registration document in accordance with article 28 of the Belgian Act of June 16, 2006 relating to public offerings of securities and the admission for trading on a regulated market. On April 5, 2017, the Board of Directors authorised the publication of this registration document and of the financial statements per December 31, 2016. The English version of this annual report has been approved by the Financial Services and Markets Authority on April 6, 2017, according to article 23 of the aforementioned Act.

This registration document has not been submitted for approval to any supervisory body or governmental authority outside Belgium.

Language of this annual report

TiGenix has prepared its annual report in English. TiGenix has also made a translation in Dutch of this annual report. Both the English version and the Dutch version of the annual report are legally binding. TiGenix has verified and is responsible for the translation and the conformity of both versions. However, in case of inconsistencies between the language versions, the English version shall prevail.

Availability of the annual report

To obtain a copy of the annual report free of charge, please contact:

TiGenix NV
Attn. Claudia D'Augusta
Romeinse straat 12, box 2
3001 Leuven
Belgium
Phone: +32 16 39 60 60
Fax: +32 16 39 79 70
E-mail: investor@tigenix.com

The annual report is also available from the website of TiGenix (www.tigenix.com).

As U.S. listed company, TiGenix is also subject to the reporting requirements of the U.S. Securities and Exchange Commission, or SEC. An annual report will be filed with the SEC on Form 20-F. The Form 20-F will be available in the SEC's EDGAR database (https://www.sec.gov/edgar.shtml) and a link thereto will be posted on its website.

Forward looking statements

This annual report contains forward-looking statements and estimates made by the Company with respect to the anticipated future performance of TiGenix and the market in which it operates. Certain of these statements, forecasts and estimates can be recognised by the use of words such as, without limitation, "believes", "anticipates", "expects", "intends", "plans", "seeks", "estimates", "may", "will", "predicts", "projects" and "continue" and similar expressions. They include all matters that are not historical facts. Such statements, forecasts and estimates are based on various assumptions and assessments of known and unknown risks, uncertainties and other factors, which were deemed reasonable when made but may or may not prove to be correct. Actual events are difficult to predict and may depend upon factors that are beyond the Company's control. Therefore, actual results, the financial condition, performance or achievements of TiGenix, or industry results, may turn out to be materially different from any future results, performance or achievements expressed or implied by such statements, forecasts and estimates. Factors that might cause such a difference include, but are not limited to, those discussed in the section "Risk Factors". Given these uncertainties, no representations are made as to the accuracy or fairness of such forward-looking statements, forecasts and estimates. Furthermore, forward-looking statements, forecasts and estimates only speak as of the date of the publication of this annual report. TiGenix disclaims any obligation to update any such forward-looking statement, forecast or estimates to reflect any change in the Company's expectations with regard thereto, or any change in events, conditions or circumstances on which any such statement, forecast or estimate is based, except to the extent required by Belgian law. This document does not constitute, or form part of, any offer or invitation to sell or issue, or any solicitation of any offer, to purchase or subscribe for any securities issued by TiGenix NV.

All statements are made and all information is provided as of December 31, 2016, except when explicitly mentioned otherwise.

2. PERSONS RESPONSIBLE FOR THE CONTENT OF THIS REGISTRATION DOCUMENT

The Board of Directors of TiGenix (see section 7.2) assumes responsibility for the content of this registration document. The Board of Directors declares that having taken all reasonable care to ensure that such is the case, the information contained in this registration document is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

3. STATUTORY AUDITOR

BDO Bedrijfsrevisoren - BDO Réviseurs d'Entreprises CVBA/SCRL, a civil company, having the form of a co-operative company with limited liability *(coöperatieve vennootschap met beperkte aansprakelijkheid / société coopérative à responsabilité limitée)* organised and existing under the laws of Belgium, with registered office at The Corporate Village, Da Vincilaan 9 – Box E.6, Elsinore Building, 1935 Zaventem, Belgium (registered with the Institute of Statutory Auditors *(Instituut van de Bedrijfsrevisoren / Institut des Réviseurs d'Entreprises)* under number B00023), represented by Veerle Catry in 2016 and by Gert Claes in 2015 and 2014, has been re-appointed statutory auditor of the Company on June 2, 2016 for a term of 3 years, ending immediately after the closing of the shareholders' meeting to be held in 2019, that will have deliberated and resolved on the financial statements for the financial year ended on December 31, 2018.

On June 29, 2016, the Belgian law containing various provisions concerning the Economy was adopted (the "Audit Law"). The Audit Law partly implemented the EU Regulation n° 537/2014 on specific requirements regarding statutory audit of public-interest entities (the "Audit Regulation") in relation to the external rotation of auditors. According to new article 132/1, paragraph 2 of the Companies Code (as introduced by the Audit Law), the mandate of an auditor cannot be renewed if it has reached the maximum term of 9 years.

As BDO Bedrijfsrevisoren - BDO Réviseurs d'Entreprises CVBA/SCRL has been appointed as statutory auditor of the Company since 2007, it has exceeded the maximum term. Pursuant to the transitional provisions set out in Article 41 of the Audit Regulation, as further clarified by the European Commission, the new requirements will apply for the first financial year starting after the applicable date of 17 June 2016. For the financial year starting on January 1, 2017, the Company will therefore need to appoint a new auditor. However, the maximum duration of the mandate of BDO Bedrijfsrevisoren - BDO Réviseurs d'Entreprises CVBA/SCRL as statutory auditor may be extended, if the Company would organize a public tendering process in accordance with article 16, paragraphs 2 to 5 of the Audit Regulation (see article 17, paragraph 4, a) of the Audit Regulation), it being understood that the selection process set out in article 16, paragraph 3 does not apply to the Company because it qualifies as a 'small and medium-sized company' in the meaning of article 2(1), point f of Directive 2003/71/EC (see article 16, paragraph 4 of the Audit Regulation). Following the motivated recommendation of the audit committee, the Board of Directors will ask the shareholders' meeting of June 1, 2017 which will be asked to resolve on the financial statements for the financial year ended on December 31, 2016, to appoint or, as the case may be, re-appoint the statutory auditor of the Company for a term of 3 years, ending immediately after the closing of the shareholders' meeting to be held in 2020, that will have deliberated and resolved on the financial statements for the financial year ended on December 31, 2019.

4. SELECTED FINANCIAL INFORMATION

Thousands of euros	Years ended December 31,		
CONSOLIDATED INCOME STATEMENTS	**2016**	**2015**	**2014**
Royalties	395	537	338
License revenues	25,000	—	—
Grants and other operating income	1,395	1,703	5,948
Total revenues	**26,790**	**2,240**	**6,286**
Research and development expenses	-21,454	-19,633	-11,443
General and administrative expenses	-8,363	-6,683	-7,406
Operating Loss	**-3,027**	**-24,076**	**-12,563**
Financial income	156	148	115
Interest on borrowings and other finance costs	-7,288	-6,651	-1,026
Fair value gains	11,593	—	60
Fair value losses	—	-6,654	—
Impairment and gains /(losses) on disposal of financial intruments	—	-161	—
Foreign exchange differences, net	232	1,000	1,101
Income taxes	2,136	1,325	927
Profit (Loss) for the year from continuing operations	**3,802**	**-35,069**	**-11,386**
Loss for the year from discontinued operations	—	—	-1,605
Profit (Loss) for the year	**3,802**	**-35,069**	**-12,990**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	**2016**	**2015**	**2014**
Non-current assets	52,081	54,241	36,808
Current assets	84,120	24,930	17,113
Of which cash and cash equivalents	77,969	17,982	13,471
TOTAL ASSETS	**136,201**	**79,171**	**53,921**
Total equity	79,679	13,145	34,757
Non-current liabilities	36,395	52,137	10,681
Current liabilities	20,127	13,889	8,483
TOTAL EQUITY AND LIABILITIES	**136,201**	**79,171**	**53,921**

CONSOLIDATED STATEMENTS OF CASH FLOWS	**2016**	**2015**	**2014**
Operating cash flows	3,548	-19,574	-13,367
Investing cash flows	510	-4,434	3,307
Financing cash flows	55,929	28,523	7,969
Net change in cash and cash equivalents	59,987	4,515	-2,091
Cash and cash equivalents at end of period	77,969	17,982	13,471

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1. GENERAL

TiGenix was incorporated on February 21, 2000 for an unlimited duration. The Company has the legal form of a limited liability company making or having made a public appeal on savings *(naamloze vennootschap - NV die een openbaar beroep op het spaarwezen doet of heeft gedaan / société anonyme - SA faisant ou ayant fait appel public à l'épargne)* organised and existing under the laws of Belgium. Pursuant to the Companies Code, the liability of the shareholders is, in principle, limited to the amount of their respective committed contribution to the capital of the Company. The Company's registered office is located at Romeinse straat 12, box 2, 3001 Leuven, Belgium. The Company is registered with the register of legal entities *(rechtspersonenregister – RPR / registre des personnes morales - RPM)* (Leuven) under enterprise number 0471.340.123. The Company can be reached by phone at the number +32 (0)16 39 60 60.

This chapter summarises the corporate purpose, share capital and corporate structure of the Company and is partially based on the Company's Articles of Association that have last been amended by shareholders' meeting of December 29, 2016.

The description hereafter is only a summary and does not purport to give a complete overview of the Company's Articles of Association, nor of all relevant provisions of Belgian law. Neither should it be considered as legal advice regarding these matters.

5.2. CORPORATE PURPOSE

The corporate purpose of the Company is set forth in Article 3 of its Articles of Association and reads as follows:

"The company has as its corporate purpose engaging in activities in the field of research and development regarding biological compounds and biomaterials for its own account and for the account of third parties, as well as the industrialisation and commercialisation of the results hereof.

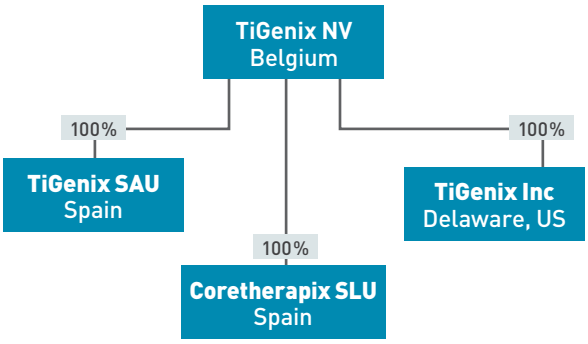
It may engage in all possible commercial, industrial, financial, movable and immovable, transactions, which are, directly or indirectly related to its corporate purpose or which are likely to enhance it. It may, amongst others, cooperate with, participate in, in any way whatsoever, directly or indirectly, take a stake in each enterprise the corporate purpose of which is similar, analogous or related to its own purpose.

It may mortgage its real estate and may pledge all its other assets, including its entire business, and it may guarantee a bill for all loans, credits and other undertakings, on its own behalf as well as on behalf of third parties, provided that the company itself has an interest thereto."

5.3. ORGANISATIONAL STRUCTURE

The Company was founded on February 21, 2000, initially to capitalize on technology developed at the universities of Leuven and Ghent for the regeneration of cartilage, bone and other musculoskeletal tissues.

The following chart illustrates the Company's corporate structure as of the date of this annual report:



Coretherapix SLU. On July 31, 2015, the Company acquired Coretherapix, a cardiology focused cell therapy company based in Madrid, Spain, from Genetrix. Coretherapix's lead product candidate is AlloCSC-01, an allogeneic cardiac stem cell product in a Phase I/II clinical trial in acute myocardial infarction.

TiGenix SAU. On May 3, 2011, the Company acquired Cellerix, a cell therapy company based in Madrid, Spain. Cellerix, which was later renamed TiGenix SAU, had an eASC based technology platform for indications of inflammatory and autoimmune origin that are the basis of our pipeline. The Cellerix team and facilities have been completely integrated into our organization.

TiGenix Inc. On February 7, 2006, the Company incorporated TiGenix Inc., a wholly owned U.S. subsidiary. On May 8, 2007, TiGenix Inc. and Cognate BioServices, Inc. created a 50/50 joint venture asset management company, TC CEF LLC. TC CEF LLC subsequently acquired the assets of a fully equipped cell expansion facility from Cell Genesys, Inc., with a view to manufacturing ChondroCelect in the context of clinical trials required by the FDA and to be able to service the US market after obtaining marketing approval of ChondroCelect in the U.S. However, in view of the time and costs related to obtaining such marketing approval in the U.S., the Company abandoned its plans to enter the US market independently as a result of which, with effect as of November 23, 2010, TiGenix Inc. has withdrawn itself from TC CEF LLC and has terminated its membership interests in TC CEF LLC. Currently, TiGenix Inc. is not active.

Former Subsidiaries. On September 24, 2009, the Company set-up a wholly-owned Dutch subsidiary, TiGenix B.V. TiGenix B.V. constructed a new European human cell expansion facility in Geleen to increase the manufacturing capacity of ChondroCelect in Europe. Effective May 31, 2014, the Company sold all shares of TiGenix B.V. to PharmaCell B.V.

On November 30, 2009, the Company acquired Orthomimetics Limited, a biomaterials company which was later renamed to TiGenix Ltd. TiGenix Ltd designed, developed and manufactured novel, bioresorbable implants for the regenerative repair of articular joint damage resulting from sports injuries and other trauma. However, in view of TiGenix's new strategic direction and exclusive focus on cell therapy since 2011 and to allow the Company to fully focus on the further commercial roll-out of ChondroCelect and its cell therapy product development pipeline, the Company decided to cease the activities of TiGenix Ltd and close-down TiGenix Ltd. Therefore, the IP of TiGenix Ltd., recognized in the Group's intangible assets, was fully impaired in the 2011 financial accounts. TiGenix Ltd was dissolved in May 2014.

On July 8, 2010, the Company spun off certain drug discovery assets to the Dutch company Arcarios B.V. (formerly named Therosteon B.V.) in which TiGenix held a 3.53% equity stake as of December 31, 2015. On November 30, 2016, the shareholders approved the sale of the remaining assets and started the liquidation process. As of December 30, 2016, the liquidation of Arcarios B.V. was closed and the company consequently ceased to exist.

5.4. IMPORTANT EVENTS IN THE DEVELOPMENT OF THE COMPANY'S BUSINESS

An overview of key operational milestones and achievements since the Company's incorporation is presented below.

Year	Key operational milestones and achievements
2000	Incorporation of TiGenix NV
2001	TiGenix's cell expansion facility in Leuven (Belgium) operational
2002	Start of Phase III clinical trial for ChondroCelect
2007	IPO – Listing on NYSE Euronext
2009	ChondroCelect is granted European Marketing Authorisation Acquisition of Orthomimetics Limited (renamed: TiGenix Ltd)
2010	Commercial launch of ChondroCelect
2011	National reimbursement for ChondroCelect in Belgium Business combination with Cellerix SA (renamed: TiGenix SAU) Commercialization agreement for ChondroCelect in Finland Cx611 Phase IIa initiated Cx621 Phase I initiated
2012	Decision to close TiGenix Ltd (Orthomimetics Limited) TiGenix's manufacturing facility in Geleen (the Netherlands) operational National reimbursement for ChondroCelect in the Netherlands (retroactive to January 2011) Cx621 Phase I successful conclusion Cx601 European Phase III initiated Commercialization agreement for ChondroCelect in the Middle East
2013	National reimbursement for ChondroCelect in Spain Cx611 positive Phase IIa results Grifols (Gri-Cel) acquires 21% of TiGenix's capital
2014	Sale of Dutch subsidiary and manufacturing facility TiGenix B.V. to PharmaCell Exclusive license of marketing and distribution rights for ChondroCelect to Sobi Cx601 European Phase III completion of patient recruitment Cx611 Phase I trial in severe sepsis initiated Submission of US trial design for Cx601 to the FDA for Special Protocol Assessment
2015	Exclusive agreement with Lonza for the manufacturing of Cx601 in the United States Cx611 Phase I sepsis challenge trial completion of treatment Cx611 Phase I sepsis challenge trial safety and tolerability confirmed Cx601 start of Marketing Authorisation Application process Acquisition of Coretherapix SLU Cx601 Phase III registration trial in the US obtains FDA agreement through Special Protocol Assessment Cx601 European Phase III meets primary endpoint AlloCSC-01 Phase I/II in acute myocardial infarction completion of patient recruitment

2016	Cx601 submission of Marketing Authorization Application to EMA Cx601 European Phase III Positive 52-week results AlloCSC-01 Phase I/II in acute myocardial infarction six-months results Withdrawal of the Marketing Authorization for ChondroCelect Licensing agreement with Takeda for Ex-U.S. rights to Cx601 for the treatment of complex perianal fistulas in patients with Crohn's disease Publication in The Lancet of 24-week results of Cx601 European Phase III study U.S. IPO – Listing of ADSs on Nasdaq Global Select Market
2017	Cx611 Phase Ib/IIa clinical trial in severe sepsis – first patient enrollment initiated Cx601 global Phase III trial protocol receives positive feedback from the FDA Cx601 European Phase III positive top-line week-104 data AlloCsC-01 Phase I/II in acute myocardial infarction top-line one-year results

5.5. SHARE CAPITAL AND SHARES

5.5.1. Share capital and shares

As per December 31, 2016, the Company's registered capital amounted to EUR 25,995,636.50, represented by 259,956,365 common shares without nominal value. The capital is fully paid up.

As per January 1, 2016, the Company's registered capital was represented by 177,304,587 shares.

The 82,651,778 shares that were issued in 2016, were issued as follows:
- 25,000,000 shares were issued on March 10, 2016 pursuant to a contribution in cash,
- 46,000,000 shares were issued on December 20, 2016 pursuant to a contribution in cash,
- 11,651,778 shares were issued on December 29, 2016 pursuant to a contribution in cash.

The table below provides an overview of the history of the Company's share capital for the financial years 2014, 2015 and 2016. The overview should be read together with the notes set out below the table.

Date	Transaction	Number and class of shares issued	Issuance price per share (EUR) (incl. issuance premium)	Capital increase (EUR)	Share capital after transaction	Aggregate number of shares after capital increase
Situation as per January 1, 2014	NA	NA	NA	NA	16,047,662.00	160,476,620
July 31, 2015	Capital increase in kind[1]	7,712,757	0.71	771,275.70	16,818,937.70	168,189,377
November 27, 2015	Capital increase in cash[2]	4,149,286	0.95	414,928.60	17,233,866.30	172,338,663
December 3, 2015	Capital increase in cash[2]	4,956,894	0.9516	495,689.40	17,729,555.70	177,295,557
December 14, 2015	Capital increase in cash[3]	9,030	0.46	903.00	17,730,458.70	177,304,587
March 10, 2016	Capital increase in cash[4]	25,000,000	0.95	2,500,000	20,230,458.70	202,304,587
December 20, 2016	Capital increase in cash[5]	46,000,000	0.7415	4,600,000	24,830,458.70	248,304,570
December 29 2016	Capital increase in cash[5]	11,651,778	0.8582	1,165,177.80	25,995,636.50	259,956,365

Notes
(1) The 7,712,757 shares were subscribed to at the occasion of a contribution in kind in July 2015.
(2) The 9,106,180 (i.e. 4,149,286 + 4,956,894) shares were subscribed to at the occasion of a private placement in November-December 2015.
(3) The 9,030 shares were subscribed to at the occasion of an exercise of warrants in December 2015.
(4) The 25,000,000 shares were subscribed to at the occasion of a private placement in March 2016.
(5) The 46,000,000 shares were subscribed to, in the form of ADSs, at the occasion of an initial public offering of ADSs in the United States in December 2016.
(6) The 11,651,778 shares were subscribed to at the occasion of a private placement in December 2016.

At the occasion of the initial public offering of ADSs in the United States referred to in note 5 above, which was completed on December 20, 2016, the Company issued 46,000,000 new shares representing 2,300,000 ADSs that were sold. Please refer to section 5.7 for more information on the ADSs.

5.5.2. Authorized capital

On September 8, 2014, the shareholders' meeting authorized the Board of Directors to increase the Company's share capital in one or more transactions with a maximum amount equal to the Company's share capital of EUR 16,047,662.00.

If the capital is increased within the limits of the authorized capital, the Board of Directors will be authorized to request payment of an issuance premium. This issuance premium will be booked on a non-available account, which may only be decreased or disposed of by a resolution of a shareholders' meeting taken in accordance with the provisions governing an amendment of the Articles of Association.

This Board of Directors' authorization will be valid for capital increases subscribed for in cash or in kind, or made by capitalisation of reserves and issuance premiums, with or without issuing new shares. The Board of Directors is authorized to issue convertible bonds, warrants, a combination thereof or other securities within the limits of the authorized capital.

The Board of Directors is authorized, within the limits of the authorized capital, to restrict or exclude the preferential subscription rights granted by law to the holders of existing shares if in doing so it is acting in the interests of the Company and in accordance with Article 596 and following of the Companies Code. The Board of Directors is authorized to limit or cancel the preferential subscription rights in favour of one or more persons, even if such limitation or cancellation is in favour of persons who are not members of the personnel of the Company or its subsidiaries.

The powers of the Board of Directors within the framework of the authorized capital are valid for a period of five years as of the publication thereof in the annexes to the Belgian Official Gazette, *i.e.* until October 8, 2019.

Since the authorisation by the extraordinary shareholders' meeting on September 8, 2014, the Board of Directors has used the authorised capital for:

- a conditional capital increase of maximum EUR 3,319,612.20 conditional upon the conversion of the convertible bonds due 2018 issued on March 6, 2015;
- a capital increase of EUR 771,275.70 in relation to the acquisition of Coretherapix S.L. on July 31, 2015;
- a total capital increase of EUR 910,618 completed in two tranches on, respectively, November 27, 2015 and December 3, 2015 further to a private placement of 9,106,180 new shares announced on November 25, 2015;
- a conditional capital increase of maximum EUR 225,000 on December 7, 2015 in relation to the issue of 2,250,000 warrants to the benefit of the current and future employees of the Company and its subsidiaries, the current and future independent directors of the Company and the CEO of the Company;
- a capital increase of EUR 2,500,000 further to a private placement of 25,000,000 new shares completed on March 14, 2016;
- A capital increase of EUR 4,600,000 further to an initial public offering of 2,300,000 ADSs in the United States of America representing 46,000,000 new shares, completed on December 20, 2016;
- A capital increase of EUR 1,165,177.80 further to a private placement of 11,651,778 new shares completed on December 29, 2016; and
- A conditional capital increase of maximum EUR 550,547.70 on February 20, 2017 in relation to the issue of 5,505,477 warrants to the benefit of the current and future employees of the Company, the current and future independent directors of the Company and its subsidiaries and the CEO of the Company.

Consequently, the available authorised capital now amounts to EUR 2,005,430.60.

5.6. DESCRIPTION OF RIGHTS AND BENEFITS ATTACHED TO SHARES

5.6.1. Voting rights

Each shareholder is entitled to one vote per share.

Voting rights can be suspended in relation to shares:

- which were not fully paid up, notwithstanding the request thereto of the Board of Directors of the Company;
- to which more than one person is entitled, except in the event a single representative is appointed for the exercise of the voting right;
- which entitle their holder to voting rights above the threshold of 3%, 5%, or any multiple of 5% of the total number of voting rights attached to the outstanding financial instruments of the Company on the date of the relevant general shareholders' meeting, except to the extent where the relevant shareholder has notified the Company and the FSMA at least 20 days prior to the date of the general shareholders' meeting on which he or she wishes to vote of its shareholding reaching or exceeding the thresholds above; and
- of which the voting right was suspended by a competent court or the FSMA.

Generally, the shareholders' meeting has sole authority with respect to:

- the approval of the annual accounts of the Company;
- the appointment and resignation of directors and the statutory auditor of the Company;
- the granting of discharge of liability to the directors and the statutory auditor;

- the determination of the remuneration of the directors and of the statutory auditor for the exercise of their mandate;
- the distribution of profits (it being understood that the Articles of Association authorise the Board of Directors to distribute interim dividends);
- the filing of a claim for liability against directors;
- the decisions relating to the dissolution, merger and certain other re-organisations of the Company; and
- the approval of amendments to the Articles of Association.

5.6.2. Right to attend and vote at shareholders' meetings

Annual shareholders' meeting

The annual shareholders' meeting is held at the registered office of the Company or at the place determined in the notice convening the shareholders' meeting. The meeting is held every year on the first Thursday of the month of June, at 14:00pm. If this date is a legal holiday, the meeting is held at the next business day. At the annual shareholders' meeting, the Board of Directors submits the audited statutory and consolidated financial statements and the reports of the Board of Directors and of the statutory auditor with respect thereto to the shareholders. The shareholders' meeting then decides on the approval of the statutory financial statements, the remuneration report, the proposed allocation of the Company's profit or loss, the discharge from liability of the directors and the statutory auditor, and, when applicable, the (re)appointment or resignation of the statutory auditor and/or of all or certain directors.

Special and extraordinary shareholders' meetings

The Board of Directors or the statutory auditor can, at any given time when the interest of the Company so requires, convene a special or extraordinary shareholders' meeting. Such shareholders' meeting must also be convened every time one or more shareholders holding at least 20% of the Company's share capital so demand. This request is sent by registered letter to the registered office of the Company to the attention of the Board of Directors; it has to mention the agenda items and proposed decisions, which the shareholders' meeting should deliberate and decide upon, as well as an elaborate justification for the request. Shareholders who, individually or jointly, do not hold at least 20% of the Company's share capital do not have the right to have the shareholders' meeting convened.

Notices convening the shareholders' meeting

The notice of the shareholders' meeting must state, among others, the place, date and hour of the meeting and shall include an agenda indicating the items to be discussed as well as any motions for resolutions.

The notice must be published in the Belgian Official Gazette (*Belgisch Staatsblad / Moniteur belge*) at least 30 days prior to the shareholders' meeting. In the event a second convening notice is necessary and the date of the second meeting is mentioned in the first convening notice, that period is 17 days prior to the shareholders' meeting. The notice must also be published in a national newspaper 30 days prior to the date of the shareholders' meeting, except if the meeting concerned is an annual shareholders' meeting held at the municipality, place, day and hour mentioned in the Articles of Association and whose agenda is limited to the examination of the annual accounts, the annual report of the Board of Directors, the annual report of the statutory auditor, the vote on the discharge of the directors and the statutory auditor, and the vote on the items referred to in Article 554, par. 3 and 4 of the Companies Code (*i.e.* in relation to a remuneration report or a severance pay). Finally, the notice must also be published in media expected to have a wide diffusion. The annual accounts, the annual report of the Board of Directors and the annual report of the statutory auditor must be made available to the public as from the date on which the convening notice for the annual shareholders' meeting is published.

Convening notices must be sent 30 days prior to the shareholders' meeting to the holders of registered shares, holders of registered bonds, holders of registered warrants, holders of registered certificates issued with the cooperation of the Company and to the directors and statutory auditor of the Company. This communication is made by ordinary letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication, without having to give evidence of the fulfilment of such formality.

Formalities to attend the shareholders' meeting

The formalities to attend the shareholders' meeting are the following:

- A shareholder is only entitled to participate in and vote at the shareholders' meeting, irrespective of the number of shares he owns on the date of the shareholders' meeting, provided that his shares are recorded in his name at midnight (12pm CET) of the fourteenth (14th) day preceding the date of the shareholders' meeting (the **"record date"**):
  - in case of registered shares, in the register of registered shares of the Company; or
  - in case of dematerialised shares, through book-entry in the accounts of an authorized account holder or clearing organisation.
- In addition, the Company (or the person designated by the Company) must, at the latest on the sixth (6th) day preceding the day of the shareholders' meeting, be notified as follows of the intention of the shareholder to participate in the shareholders' meeting:
  - in case of registered shares, the shareholder must,

at the latest on the above-mentioned date, notify the Company (or the person designated by the Company) in writing of his intention to participate in the shareholders' meeting and of the number of shares he intends to participate in the shareholders' meeting with by returning a signed paper form, or, if permitted by the convening notice, by sending an electronic form (signed by means of an electronic signature in accordance with the applicable Belgian law) electronically, to the Company on the address indicated in the convening notice; or

- in case of dematerialised shares, the shareholder must, at the latest on the above-mentioned date, provide the Company (or the person designated by the Company), or arrange for the Company (or the person designated by the Company) to be provided with, a certificate issued by the authorized account holder or clearing organisation certifying the number of dematerialised shares recorded in the shareholder's accounts on the record date in respect of which the shareholder has indicated his intention to participate in the shareholders' meeting.

Owners of profit certificates, shares without voting rights, bond holders, warrant holders or holders of other securities issued by the Company, as well as the holders of certificates issued with the cooperation of the Company, can attend the shareholders' meeting, in the instances in which the law grants them this right. In this case, they will have to comply with the same formalities as the shareholders.

Proxy

Each shareholder has the right to attend a shareholders' meeting and to vote at the shareholders' meeting in person or through a proxy holder. The proxy holder does not need to be a shareholder.

A shareholder may only appoint one person as proxy holder for a particular shareholders' meeting, except in cases provided for in the law.

The Board of Directors may determine the form of the proxies. The appointment of a proxy holder must in any event take place in paper form or electronically, the proxy must be signed by the shareholder (as the case may be, by means of an electronic signature in accordance with the applicable Belgian law) and the Company must receive the proxy at the latest on the sixth (6th) day preceding the day on which the shareholders' meeting is held.

Pursuant to Article 7, §5 of the Belgian Law of May 2, 2007 on the disclosure of major shareholdings, a transparency declaration has to be made if a proxy holder, which is entitled to voting rights above the threshold of 3%, 5%, or any multiple of 5% of the total number of voting rights attached to the outstanding financial instruments of the Company on the date of the relevant shareholders' meeting, would have the right to exercise the voting rights at his discretion.

Right to request items to be added to the agenda and ask questions at the shareholders' meeting

One or more shareholders holding at least 3% of the capital of the Company may request for items to be added to the agenda of any convened meeting and submit proposed resolutions in relation to existing agenda items or new items to be added to the agenda, provided that (i) they prove ownership of such shareholding as at the date of their request and record their shares representing such shareholding on the record date and (ii) the additional items on the agenda and/or proposed resolutions have been submitted in writing by these shareholders to the Board of Directors at the latest on the twenty second (22nd) day preceding the day on which the relevant shareholders' meeting is held. The shareholding must be proven by a certificate evidencing the registration of the relevant shares in the share register of the Company or by a certificate issued by the authorized account holder or the clearing organisation certifying the book-entry of the relevant number of dematerialised shares in the name of the relevant shareholder(s). As the case may be, the Company shall publish the modified agenda of the shareholders' meeting, at the latest on the fifteenth (15th) day preceding the day on which the shareholders' meeting is held. The right to request that items be added to the agenda or that proposed resolutions in relation to existing agenda items be submitted does not apply in case of a second extraordinary shareholders' meeting that must be convened because the quorum was not obtained during the first extraordinary shareholders' meeting.

Within the limits of Article 540 of the Companies Code, the directors and auditors answer, during the shareholders' meeting, the questions raised by shareholders. Shareholders can ask questions either during the meeting or in writing provided that the Company receives the written question at the latest on the sixth (6th) day preceding the day on which the shareholders' meeting is held.

Quorum and majorities

In general, there is no quorum requirement for a shareholders' meeting and decisions are generally passed with a simple majority of the votes of the shares present and represented. Capital increases not decided by the Board of Directors within the framework of the authorized capital, decisions with respect to the Company's dissolution, mergers, de-mergers and certain other reorganisations of the Company, amendments to the Articles of Association (other than an amendment of the corporate purpose), and certain other matters referred to in the Companies Code do not only require the

presence or representation of at least 50% of the share capital of the Company but also the approval of at least 75% of the votes cast. An amendment of the Company's corporate purpose, requires the approval of at least 80% of the votes cast at a shareholders' meeting, which in principle can only validly pass such resolution if at least 50% of the share capital of the Company and at least 50% of the profit certificates, if any, are present or represented. In the event where the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second shareholders' meeting can validly deliberate and decide regardless of the number of shares and profit certificates present or represented.

5.6.3. Dividends

All shares participate in the same manner in the Company's profits (if any). Pursuant to the Companies Code, the shareholders can in principle decide on the distribution of profits with a simple majority vote at the occasion of the annual shareholders' meeting, based on the most recent statutory audited annual accounts, prepared in accordance with the generally accepted accounting principles in Belgium and based on a (non-binding) proposal of the Board of Directors. The Articles of Association also authorise the Board of Directors to declare interim dividends subject to the terms and conditions of the Companies Code.

Dividends can only be distributed if following the declaration and issuance of the dividends the amount of the Company's net assets on the date of the closing of the last financial year according to the statutory annual accounts (*i.e.*, the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities, all as prepared in accordance with Belgian accounting rules), decreased with the non-amortised costs of incorporation and expansion and the non-amortised costs for research and development, does not fall below the amount of the paid-up capital (or, if higher, the called capital), increased with the amount of non-distributable reserves. In addition, prior to distributing dividends, 5% of the net profits must be allotted to a legal reserve, until the legal reserve amounts to 10% of the share capital.

The right to payment of dividends expires five years after the Board of Directors declared the dividend payable.

5.6.4. Rights regarding dissolution and liquidation

The Company can only be dissolved by a shareholders' resolution passed with a majority of at least 75% of the votes cast at an extraordinary shareholders' meeting where at least 50% of the share capital is present or represented. In the event the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second shareholders' meeting can validly deliberate and decide regardless of the number of shares present or represented.

If as a result of losses incurred the ratio of the Company's statutory net-assets (determined in accordance with Belgian legal and accounting rules) to share capital is less than 50%, the Board of Directors must convene a special shareholders' meeting within two months as of the date the Board of Directors discovered or should have discovered this undercapitalisation. At this shareholders' meeting the Board of Directors needs to propose either the dissolution of the Company or the continuation of the Company, in which case the Board of Directors must propose measures to redress the Company's financial situation. Shareholders representing at least 75% of the votes validly cast at this meeting have the right to dissolve the Company, provided that at least 50% of the Company's share capital is present or represented at the meeting. In the event the required quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second shareholders' meeting can validly deliberate and decide regardless of the number of shares present or represented. If as a result of losses incurred the ratio of the Company's net assets to share capital is less than 25%, the same procedure must be followed, it being understood, however, that the dissolution only requires the approval of shareholders representing 25% of the votes cast at the meeting. If the amount of the Company's net assets has dropped below EUR 61,500 (the minimum amount of share capital of a public limited liability company), each interested party is entitled to request the competent court to dissolve the Company. The court can order the dissolution of the Company or grant a grace period within which the Company is to remedy the situation.

If the Company is dissolved for any reason, the liquidation must be carried out by one or more liquidators appointed by the shareholders' meeting and whose appointment has been ratified by the commercial court. In the event the Company is dissolved, the assets or the proceeds of the sale of the remaining assets, after payment of all debts, costs of liquidation and taxes, must be distributed on an equal basis to the shareholders, taking into account possible preferential rights with regard to the liquidation of Shares having such rights, if any. Currently, there are no preferential rights with regard to the liquidation.

5.6.5. Modifications of share capital

Changes to the share capital decided by the shareholders

The shareholders' meeting can at any given time decide to increase or decrease the share capital of the Company. Such resolution must satisfy the quorum and majority requirements that apply to an amendment of the Articles of Association, as described above under this section.

Capital increases by the Board of Directors

Subject to the same quorum and majority requirements, the shareholders' meeting can authorise the Board of Directors, within certain limits, to increase the Company's share capital without any further approval of the shareholders (the "authorized capital"). This authorization needs to be limited in time *(i.e.*, it can only be granted for a renewable period of maximum five years), and in scope *(i.e.,* the authorized capital may not exceed the amount of the registered capital at the time of the authorization). Please refer to section 5.5.2 for more information on the current status of the authorized capital.

5.6.6. Preferential subscription right

In the event of a capital increase in cash with issuance of new shares, or in the event of an issuance of convertible bonds or warrants, the existing shareholders have a preferential right to subscribe to the new shares, convertible bonds or warrants, pro rata of the part of the share capital represented by the shares that they already have. The shareholders' meeting can decide to limit or cancel this preferential subscription right, subject to special reporting requirements. Such decision needs to satisfy the same quorum and majority requirements as the decision to increase the Company's share capital. The above-mentioned preferential right of the shareholders to subscribe to new shares, convertible bonds or warrants has been cancelled or waived in previous transactions.

The shareholders can also decide to authorise the Board of Directors to limit or cancel the preferential subscription right within the framework of the authorized capital, subject to the terms and conditions set forth in the Companies Code. The extraordinary shareholders' meeting of September 8, 2014 granted this authorization to the Board of Directors. See also under section 5.5.2.

Normally, the authorization of the Board of Directors to increase the share capital of the Company through contributions in cash with cancellation or limitation of the preferential right of the existing shareholders is suspended as of the notification to the Company by the FSMA of a public takeover bid on the financial instruments of the Company. The shareholders' meeting can, however, authorise the Board of Directors to increase the share capital by issuing shares in an amount of not more than 10% of the existing shares at the time of such a public takeover bid. Such authorization has not been granted to the Board of Directors of the Company.

5.7. AMERICAN DEPOSITARY SHARES

Following an initial public offering of ADSs in the United States completed on December 20, 2016, the Company issued 46,000,000 new shares representing 2,300,000 ADSs that were sold in the initial public offering.

The ADSs are listed on the NASDAQ Global Select Market under the symbol "TIG".

Each ADS represents ownership of twenty ordinary shares deposited with Deutsche Bank AG, Amsterdam Branch, as custodian for the depositary. The depositary's principal office at which the ADSs will be administered is located at 60 Wall Street, New York, NY 10005, USA. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, USA.

ADSs can be held either (i) directly (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in the investor's name, or (b) by holding ADSs in DRS (Direct Registration System) or (ii) indirectly through a broker or other financial institution. ADS holders hold the ADSs directly. If the ADSs are held indirectly, the ADS holder must rely on the procedures of its broker or other financial institution to assert the rights of ADS holders described in this section.

TiGenix does not treat ADS holders as its shareholders and accordingly an ADS holder will not have shareholder rights. Belgian law governs shareholder rights. The depositary will be the holder of the ordinary shares underlying the ADSs. A holder of ADSs will have ADS holder rights. A deposit agreement among TiGenix, the depositary and the holders and beneficial owners of ADSs, sets out ADS holder rights as well as the rights and obligations of the depositary.

The Belgian Law of May 2, 2007 on the disclosure of significant shareholdings in issuers whose securities are admitted to trading on a regulated market requires each natural or legal person acquiring or transferring TiGenix shares (directly or indirectly, by ownership of ADSs or otherwise) to notify the Company and the FSMA each time their shareholding crosses (upwards or downwards) a threshold of 5% or a multiple of 5% of the total number of outstanding voting rights. The Company's articles of association provide that such notification is also required each time, as a result of an acquisition or transfer, a threshold of 3% of the total number of outstanding voting rights is crossed.

In accordance with U.S. federal securities laws, holders of TiGenix' ordinary shares and holders of ADSs will be required to comply with disclosure requirements relating to their ownership of our securities. Any person that, after acquiring beneficial ownership of its ordinary shares or ADSs, is the beneficial owner of more than

5% of TiGenix' outstanding ordinary shares or ordinary shares underlying ADSs must file with the SEC a Schedule 13D or Schedule 13G, as applicable, disclosing the information required by such schedules, including the number of ordinary shares or ordinary shares underlying ADSs that such person has acquired (whether alone or jointly with one or more other persons). In addition, if any material change occurs in the facts set forth in the report filed on Schedule 13D (including a more than 1% increase or decrease in the percentage of the total shares beneficially owned), the beneficial owner must promptly file an amendment disclosing such change.

5.8. WARRANTS

The Company has created a number of warrants. This section provides an overview of the granted and outstanding warrants as at December 31, 2016.

On February 26, 2007 (800,000), March 20, 2008 (400,000), June 19, 2009 (500,000), March 12, 2010 (500,000) July 6, 2012 (4,000,000), March 20, 2013 (777,000), December 16, 2013 (1,806,000), April 22, 2014 (1,994,302) and December 7, 2015 (2,250,000) in the aggregate 13,027,302 warrants were issued, subject to the warrants being granted to and accepted by the beneficiaries. Of these 13,027,302 warrants, (i) 764,621 warrants expired as they have not been granted, (ii) 440,933 warrants have expired as they have not been accepted by their beneficiaries, (iii) 1,197,286 warrants have lapsed due to their beneficiaries leaving the Company, and (iv) 11,530 warrants have been exercised, and (v) 664,767 warrants have been cancelled following the exercise by Kreos Capital IV (Expert Fund) of its put option with regard to these warrants. As a result, as at December 31, 2016, there are 9,948,165 warrants granted and outstanding.

The warrants are granted to employees, consultants or directors of the Company and its subsidiaries, as well as to other persons who in the scope of their professional activity have made themselves useful to the Company, including but not limited to the members of the scientific advisory board and the clinical advisors. The warrants have been granted free of charge. Each warrant entitles its holder to subscribe to one common share of the Company at a subscription price determined by the Board of Directors, within the limits decided upon at the occasion of their issuance.

The warrants issued on February 26, 2007, March 20, 2008, June 19, 2009, March 12, 2010, July 6, 2012, December 16, 2013 and December 7, 2015 have a term of 10 years. The warrants issued on March 20, 2013 and April 22, 2014 have a term of 5 years. Upon expiration of the 10 or 5 year term, the warrants become null and void.

The warrants issued on February 26, 2007, March 20, 2008, June 19, 2009, March 12, 2010 vest, in principle, in cumulative tranches of 25% per year, *i.e.*, 25% as of the first anniversary date of their granting, 50% as of the second anniversary date of their granting, 75% as of the third anniversary date of their granting, 100% as of the fourth anniversary date of their granting provided that the cooperation between the Company and the warrant holder has not yet ended, unless the Board of Directors approved a deviation from this vesting scheme. As to the warrants issued on July 6, 2012, March 20, 2013 and December 7, 2015, in principle, (i) 1/3rd of the warrants granted will vest on the first anniversary of the granting of the warrants and (ii) 1/24th of the remaining 2/3rd of the warrants granted will vest on the last day of each of the 24 months following the month of the first anniversary of the granting of the warrants[4]. As to the warrants issued on December 16, 2013, in principle, (i) 10% of the warrants granted will vest on the date of acceptance of the warrants, (ii) 25% of the warrants granted will vest on the first anniversary of the granting of the warrants and (iii) 65% of the warrants granted will only vest (1/24th on the last day of each of the months included in the period January 2015 to December 2016) if the Company effectively enters into certain business transactions. The warrants issued on April 22, 2014 have all vested upon acceptance of the warrants. The warrants can only be exercised by the warrant holder if they have effectively vested.

4 *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 vested on 1 June 2014.*

The table below gives an overview (as at December 31, 2016) of the 9,948,165 granted and outstanding warrants described above. The table should be read together with the notes referred to below.

Issue date	Term	Number of warrants issued	Number of warrants granted	Exercise price (EUR)	Number of warrants no longer exercisable	Number of warrants outstanding	Exercise periods vested warrants
February 26, 2007	From February 26, 2007 to February 25, 2017	800,000	681,500	6.75 (March 24, 2007 grant) 5.23 (September 17, 2007 grant)	290,187[1]	509,813[10]	From May 1 to 31, and from November 1 to 30
March 20, 2008	From March 20, 2008 to March 19, 2018	400,000	400,000	4.05 for employees and 4.41 for other individuals (March 20, 2008 grant) 4.84 (June 27, 2008 grant) 3.45 for employees and 3.83 for other individuals (September 15, 2008 grant)	113,500[2]	286,500	From May 1 to 31, and from November 1 to 30
June 19, 2009	From June 19, 2009 to June 18, 2019	500,000	232,200	3.95 (June 26, 2009 grant)	360,200[3]	139,800	From May 1 to 31, and from November 1 to 30
March 12, 2010	From March 12, 2010 to March 11, 2020	500,000	495,500	3.62	342,000[4]	158,000	From May 1 to 31, and from November 1 to 30
July 6, 2012	From July 6, 2012 to July 5, 2022	4,000,000	4,000,000	1.00	664,945[5]	3,335,055	From May 1 to 31, and from November 1 to 30
March 20, 2013	From March 20, 2013 to March 19, 2018	777,000	433,000	1.00	363,717[6]	413,283	From May 1 to 31, and from November 1 to 30
December 16, 2013	From December 16, 2013 to December 15, 2023	1,806,000	1,806,000	0.46 for employees and 0.50 for other individuals (December 16, 2013 grant)	107,419[7]	1,698,581	From May 1 to 31, and from November 1 to 30
April 22, 2014	From April 22, 2014 to April 21, 2019	1,994,302	1,994,302	0.75	664,767[8]	1,329,535	At any time
December 7, 2015	From December 7, 2015 to December 6, 2025	2,250,000	2,220,179	0.95 for employees and 0.97 for other individuals (December 7, 2015 grant)	172,402[9]	2,077,598	From May 1 to 31, and from November 1 to 30
TOTAL		**13,027,302**				**9,948,165**	

Notes
(1) 118,500 warrants have expired as they have not been granted; 103,750 warrants have expired as they have not been accepted by their beneficiary and 67,937 warrants have lapsed due to their beneficiary leaving the Company.
(2) 38,000 warrants have expired as they have not been accepted by their beneficiary and 73,000 warrants have lapsed due to their beneficiary leaving the Company. 2,500 warrants have been exercised and are therefore no longer outstanding.
(3) 267,800 warrants have expired as they have not been granted; 62,000 warrants have expired as they have not been accepted by their beneficiary and 30,400 warrants have lapsed due to their beneficiaries leaving the Company.
(4) 4,500 warrants have expired as they have not been granted; 123,500 warrants have expired as they have not been accepted by their beneficiary and 214,000 warrants have lapsed due to their beneficiary leaving the Company.
(5) 52,000 warrants have expired as they have not been accepted by their beneficiary and 612,945 warrants have lapsed due to their beneficiary leaving the Company.
(6) 344,000 warrants have expired as they have not been granted and 19,717 warrants have lapsed due to their beneficiary leaving the Company.
(7) 98,389 warrants have lapsed due to their beneficiary leaving the Company. 9,030 warrants have been exercised and are therefore no longer outstanding.
(8) 664,767 warrants have been cancelled following the exercise by Kreos Capital IV (Expert Fund) of its put option with regard to these warrants.
(9) 29,821 warrants have expired as they have not been granted; 61,683 warrants have expired as they have not been accepted by their beneficiaries and 80,898 warrants have lapsed due to their beneficiary leaving the Company.
(10) As the term of these warrants is expired, these warrants are no longer exercisable as per today.

On December 31, 2016, the total number of granted and outstanding warrants is 9,948,165, which represents approximately 3.34% of the total number of all issued and outstanding voting financial instruments, as shown in section 5.10.

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. The exercise price was determined as follows:

- For all employees, the exercise price was set at 0.70 euro, the closing price of our ordinary shares on February 17, 2017, the last closing price prior to the grant of the warrants on February 20, 2017, which was lower than the 30 day average price.
- For our CEO, Eduardo Bravo, who is not an employee, the exercise price was set at 0.71 euro, the average closing price of our ordinary shares during 30 calendar days prior to the issuance of the warrants on February 20, 2017.

For completeness, reference is made to section 7.6.4 in respect of the Equity Based Incentive Plans ("**EBIPs**") created by the Company's subsidiary, TiGenix SAU, prior to the contribution of all shares of TiGenix SAU to the Company in May 2011 (the "**Contribution**"). Under the EBIPs, options were granted to employees, executives and independent members of the board of directors of TiGenix SAU prior to the Contribution. Following the Contribution, when the EBIP options are exercised, a beneficiary will be entitled to receive a number of TiGenix NV shares corresponding to approximately 2.96 shares per option under any of the EBIPs. On the date of this report, all EBIP options have been expired or exercised. The EBIP 2008 options had to be exercised prior to August 6, 2015. As no beneficiary exercised its options, they have now expired and all remaining options under the EBIP 2010 were exercised in October 2016.

5.9. CONVERTIBLE BONDS

On March 6, 2015, the Company issued 250 convertible bonds for a total principal amount of EUR 25 million and with a nominal value of EUR 100,000 per convertible bond. The bonds, at their current (*i.e.* as from December 20, 2016) conversion price of EUR 0.8983, can be converted into 27,830,346 new shares in the Company in case all 250 convertible bonds are converted. All 250 convertible bonds are still outstanding.

The main terms and conditions of the convertible bonds are as follows:

Unsecured. The bonds are unsecured, meaning that the holders of the bonds will not benefit from any security interests to secure the performance of the Company's obligations under the bonds, except for the guarantee provided by TiGenix SAU, the coupon escrow and the negative pledge as further described.

Senior. The bonds will constitute senior obligations of the Company, meaning that the obligations of the Company will not be subordinated to the repayment of any other unsecured financial indebtedness of the Company. The bonds will rank at all times pari passu and rateably, without any preference among themselves, and equally with all other existing and future unsecured (subject to the coupon escrow and the negative pledge) and unsubordinated obligations of the Company.

Coupon escrow. An amount sufficient to pay the aggregate amount of interest to be paid on the bonds on the first four interest payment dates up to and including March 6, 2017 has been transferred to an escrow account for the purpose of paying those four interest payments.

Negative pledge. The Company and its subsidiaries cannot issue debt instruments on the capital market.

Issue price / Redemption price / Coupon / Maturity. The bonds are issued and will be redeemed at 100% of their principal amount and have a coupon of 9% per annum, payable semi-annually in arrear in equal instalments on March 6 and September 6 of each year. The first interest payment date was on September 6, 2015. Final maturity date is March 6, 2018.

Initial conversion price. The initial conversion price has been set at 0.9414 euros. At this initial conversion price, the bonds were convertible into 26,556,192 fully paid ordinary shares of the Company. Following the private placement by the Company of 25,000,000 new shares at an issue price of 0.95 euros per new share announced on March 10, 2016 and following the initial public offering in the United States of 2,300,000 ADSs (representing 46,000,000 new shares) at an issue price announced on December 15, 2016 of USD 15.50, the calculation agent appointed for the bonds has determined that the conversion price had to be adjusted from its initial level of 0.9414 euros to the new level of 0.8983 euros per TiGenix share. At this adjusted conversion price, the bonds will be convertible into 27,830,346 fully paid ordinary shares of the Company. The latest conversion price adjustment became effective on December 20, 2016.

Conversion period. The bonds are convertible into shares of the Company during the period from April 16, 2015 until approximately 10 dealing days prior to the final maturity date or, in the case of an earlier redemption, the date falling 10 dealing days prior to the relevant redemption date.

Conversion price reset. As from March 7, 2016, the conversion price shall be adjusted so as to equal the greater of (i) the arithmetic average of the daily volume weighted average price ("VWAP") of the Company's share on each dealing day in the "reset period", and (ii) 80% of the arithmetic average of the conversion price in effect on

each dealing day in the "reset period", whereby "reset period" means the 20 consecutive dealing days ending on the fifth dealing day prior to March 7, 2016, provided that no adjustment will be made if such adjustment would result in an increase to the conversion price. At March 7, 2016 the conversion price was maintained at its original value as an adjustment based on the conversion price reset formula would have resulted in an increase of the conversion price.

Issuer call option. If at any time after March 27, 2017, the share price on each of at least 20 dealing days within a period of 30 consecutive dealing days ending not earlier than 7 dealing days prior to the giving of a notice of redemption shall have been at least 130% of the applicable conversion price in effect on each such dealing day, by giving a notice, the Company may redeem all, but not some only, of the bonds at their principal amount (plus accrued interest) within not less than 30 and not more than 60 days of the date of the notice of redemption.

Clean-up call. The Company may redeem all, but not some only, of the outstanding bonds at their principal amount (plus accrued interest) at any time if less than 15% of the aggregate principal amount of the bonds originally issued remains outstanding, by giving not less than 30 and not more than 60 days' notice.

Anti-dilution protection. The bonds are issued subject to standard anti-dilution protection dealing with, inter alia, share consolidations, share splits, rights issues, capital distributions and bonus issues.

Dividend protection. The bonds benefit from full dividend protection through adjustment of the conversion price for any distribution in cash or shares.

Change of control protection. Upon the occurrence of a change of control (*i.e.* when one or several individuals or legal entities acting alone or in concert acquire, directly or indirectly, more than 30% of the share capital or voting shares of the Company), bondholders may require the Company to redeem their bonds at the principal amount, plus accrued interest. In addition, the conversion price of the bonds shall be temporarily adjusted downwards in accordance with a market standard formula for a period of 60 days.

Transferability. The bonds are freely transferable.

Lock-up. The Company agreed, subject to certain customary exceptions, not to issue or dispose of ordinary shares, convertible bonds, warrants or related securities during a period of 90 days after March 6, 2015.

Governing law. The bonds are governed by English law, except for the provisions relating to meetings of bondholders and any matter relating to the dematerialized form of the bonds which are governed by Belgian law.

5.10. OUTSTANDING FINANCIAL INSTRUMENTS

The table below provides an overview of the issued and outstanding voting financial instruments, whether or not representing the Company's share capital on December 31, 2016.

		Number	%
A	Issued shares	259,956,365	87.31%
B	Shares to be issued upon the exercise of all outstanding warrants	9,948,165	3.34%
C	Shares to be issued upon the conversion of all outstanding convertible bonds	27,830,346	9.35%
D	**Total (A)+(B)+(C)**	**297,734,876**	**100.00%**

6. BUSINESS OVERVIEW

Most of the information contained in this chapter is based on the Company's own estimates, believed by the Company to be reasonable. Certain market size data and certain other information contained in this chapter are based on publications by leading organizations and scientific journals. The information published by such organizations and journals has been accurately reproduced and as far as the Company is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company has not independently verified this information. Furthermore, market information is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market information. As a result, data relating to market share, ranking and other similar data in this annual report, and estimates and beliefs based on such data, may not be reliable.

In this Chapter 6, (unless specifically stated otherwise), "TiGenix", the "Company" and "we" may refer to the Company's group as a whole and/or to any or all of the individual group companies, depending on the context and the subject matter.

We refer to the glossary in Annex 1 for a definition of certain terms used in this chapter.

6.1. OUR COMPANY

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. 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. A complex perianal fistula consists of abnormal tracts between the rectum and the exterior surroundings of the anus, and is commonly associated with Crohn's disease. It is a serious clinical condition affecting the anal sphincter and is potentially associated with a perianal abscess. Cx601 has been granted orphan designation by the European Medicines Agency, or EMA, in recognition of its potential application for the treatment of anal fistulas, which affect approximately 120,000 adult patients in the United States and Europe and for which existing treatment options are inadequate. The EMA grants orphan designation to medicinal products for indications that affect no more than five out of 10,000 people in the European Union. The benefits of orphan designation include a streamlined process for obtaining relevant regulatory approvals and up to ten years of exclusivity in the European market.

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. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States.

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 twenty-four. The results also confirmed the favorable 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 two 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 their responses, which we refer to as "Day 180 List of Outstanding Issues" in February 2017. We are confident in our ability to provide adequate responses and remain on track to receive a marketing authorization decision for Cx601 in 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 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, 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. We reached an agreement with the FDA through a special protocol assessment, or SPA, procedure for our proposed protocol in August 2015. 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 the Company's study 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. In January 2017, the Company had a Type C meeting in which changes to the protocol were discussed with the FDA. The FDA agreed that the BLA could be filed based on the efficacy and safety follow-up of patients assessed at week 24, instead of week 52. Furthermore, the FDA has agreed to accept fewer patients than originally planned in the study, and has endorsed a broader target population that will ultimately facilitate the recruitment process. With these adjustments, the study will benefit from an expedited recruitment process that should lead to shorter timelines, an earlier filing, and the possibility of an earlier approval in the U.S. As a result of these modifications, the trial design is even more similar to the European ADMIRE-CD than it was before. Based on feedback from that meeting, the Company submitted a revised protocol in February 2017. 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 the treatment of severe sepsis. We have already completed a European Phase I safety trial and in January 2017, we enrolled and treated the first patient in the Phase Ib/IIc clinical trial in Europe.

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-months interim exploratory data in June 2016, and top-line one-year results were announced on March 13, 2017. The top-line one-year results from the Phase I/II trial confirm that all safety objectives of the study have been met. No mortality or major cardiac adverse events (MACE) have been found at 30 days meeting the primary end-point of the study. Moreover, no mortality and MACE have been found at 6 months or 12 months follow-up. Of particular relevance to this allogeneic approach, no immune-related adverse events have been recorded at one-year follow-up. Although not powered to establish efficacy, the study showed a larger reduction in infarct size in one pre-specified subgroup associated with poor long-term prognosis and representing more than half of the patient population of the randomization phase of the study. Evaluation of these findings is currently ongoing.

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.

Our eASC based product candidates are manufactured at our facility in Madrid which has been approved by the Spanish Medicines and Medical Devices Agency as being compliant with current Good Manufacturing Practices, or cGMP, requirements, which are the standards prescribed by regulatory agencies that control and license the manufacture and supply of pharmaceutical products, such as eASCs. Through our expansion process, we can generate up to 2,400 doses of Cx601 from cells extracted from a single healthy donor. Our CSC-based product candidates are manufactured in Spain by 3P Biopharmaceuticals, a sub contractor, which has been approved by the Spanish Medicines and Medical Devices Agency as being compliant with cGMP requirements, based on a manufacturing process developed by Coretherapix. We expect to continue producing Cx601 at our facility until Takeda assumes responsibility for manufacturing. Other than our licensing agreement with Takeda, under which Takeda has the exclusive right to commercialize Cx601 outside the United States, we currently hold the worldwide rights for all of the product candidates we have developed.

Our therapeutic approach is to focus on the use of living cells, rather than conventional drugs, for the treatment of inflammatory and autoimmune diseases, through our eASC-based platform, and heart disease, through our CSC-based platform. Cells target different pathways than conventional drugs and may be effective in patients who fail to respond to such drugs, including the biologics currently used to treat inflammatory and autoimmune conditions. Our pipeline is based on proprietary platforms of allogeneic stem cells, which are extracted from human adipose tissue from healthy adult donors or myocardial tissue that would typically be discarded during a routine valvular replacement operation. We have conducted a full spectrum of studies analyzing various routes of administration and indications to further the preclinical and clinical development of our platform. We have also had extensive discussions with the EMA regarding our eASC platform through their established procedures for scientific advice regarding chemistry, manufacturing and control (CMC) packages and preclinical packages as well as a scientific advice meeting with respect to Cx601 that has allowed us to pursue an expedited route to clinical development. In addition, we have had various meetings with the Center for Biologics Evaluation and Research within the FDA on the non clinical, clinical and CMC development of Cx601 in the United States, including a pre-IND meeting. We believe we already have the capacity to scale up the production of our eASC based products on a late stage clinical as well as commercial scale and have successfully obtained a manufacturing license from the Spanish Medicines and Medical Devices Agency for the commercial production of Cx601.

As of the date of this annual report and to the best of our knowledge, we believe that our pipeline portfolio was the most advanced cell therapy platform in Europe, with positive pivotal Phase III data for our lead product candidate and three further product candidates in Phases II and I and preclinical development.

The following chart summarizes our product candidates:

Multiple Product Candidates with Significant Upcoming Milestones

Product[1]	Indication	Preclinical	Phase I	Phase II	Phase III	MARKET
Allogeneic Adipose-Derived Stem Cells						
Cx601 (local)	Complex Perianal Fistulas in Crohn's disease			Partnered[2]; Orphan Drug Designation; EMA approval e2H2017 SPA agreed by FDA; Phase III for BLA e1 H2017		
Cx611 (intravenous)	Severe sepsis					
Cx621 (intralymphatic)	Autoimmune Disorders					
Allogeneic Cardiac stem cells						
AlloCSC-01 (intracoronary)	Acute Myocardial Infarction					
AlloCSC-02 (intramyocardial)	Chronic Cardiovascular Indication					

1 Convered by 29 patent families
2 To be distributed outside the United States by Takeda

6.2. OUR STRATEGY

Our objective is to leverage our cell-therapy experience to develop innovative and safe treatment options for a broad range of inflammatory and autoimmune diseases using our eASC-based technology platform and cardiology indications using our CSC-based technology platform. Key elements of our strategy for achieving this objective are as follows:

- **Advance the clinical development of Cx601 and secure regulatory approval in Europe and the United States.** Leveraging our experience with ChondroCelect, the first cell based product to be granted centralized marketing authorization in Europe as an advanced therapy medicinal product, we intend to secure regulatory approval for our eASC based product candidates, starting with Cx601.

  - **Europe.** Based on the results of our successful pivotal Phase III trial in Europe, we filed for marketing authorization in Europe in the first quarter of 2016. We received EMA's Day 120 List of Questions in July 2016 with certain major objections and we submitted our responses in December 2016. We received EMA's 180 Day List of Oustanding Issues in February 2017 and we are confident that we are able to provide adequate responses.

  - **United States.** We received positive feedback in our meeting with the Center for Biologics Evaluation and Research within the FDA, which has agreed to review the results of the recently completed European Phase III trial as supportive evidence for filing for regulatory approval in the United States. The FDA has agreed with the design of our proposed single pivotal trial in the United States through the SPA procedure and we intend to explore options for expedited development and review. We have started the process of technology transfer to Lonza, a U.S.-based contract manufacturing organization. We therefore have all the elements in place in preparation for an IND application for a Phase III trial to register Cx601 in the United States, which, if successful and together with positive Phase III data from the European trial, would enable us to file a BLA with the FDA. We expect to initiate the Phase III trial to register Cx601 in the United States in the first half of 2017.

- **Achieve global commercialization of Cx601.** 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 Cx601 for complex perianal fistula 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. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States. We will follow a commercial strategy to increase the probability of Cx601 ultimate success and may consider other partnerships in the United States. Complex perianal fistula in patients with Crohn's disease, for which Cx601 is being developed, is a debilitating condition with a well defined patient population managed by a limited number of medical specialists, which we believe will allow us to rely on a relatively small and effective commercialization structure to manage the relevant reference centers. Based on the positive Phase III data in Europe and a standard regulatory pathway for advanced therapy medicinal products, we anticipate generating our first royalties from Cx601 within the next two years.

- **Advance our product candidates Cx611, Cx621, AlloCSC-01 and AlloCSC-02 in the United States and the rest of the world.** As with Cx601, we are focusing on a well defined patient population with respect to Cx611 and have selected a subgroup of patients suffering from severe sepsis within the otherwise relatively large indications in inflammatory disease. We successfully concluded a Phase I safety trial in the first quarter of 2015 and we enrolled the first patient for a Phase I/II trial in January 2017. We believe that if Cx611 were approved, it would supplement existing therapies and would have the potential to reduce mortality in patients with severe sepsis. With Cx621, we have explored the intra-lymphatic administration of allogeneic eASCs and have generated positive safety and feasibility information in a Phase I trial in Europe. With AlloCSC-01, we are targeting patients who have suffered from acute myocardial infarction and we believe that it can limit the extent of tissue damage if used within a few days after the treatment of the initial infarction. AlloCSC-01 is currently in a Phase I/II trial and the top-line one-year results confirm that all safety objectives of the study have been met. 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.

- **Discover, develop and commercialize first in class novel therapeutics for areas of high unmet medical need by leveraging our proprietary allogeneic stem cell based technology platforms and our experience in bringing stem cell based products to market.** We intend to advance our position through the continuing discovery and development of new product candidates for multiple indications. We believe that our technology platforms as well as our in house expertise allow us to achieve candidate selection and proof of concept in an efficient manner. Our product candidates use novel mechanisms of action offering benefits that are expected to be superior to existing treatment options in terms of efficacy and safety in the selected indications, and we believe that they have the potential to be effective in a broad range of indications. We will continue to invest in our eASC and CSC-based platforms and identify, develop and manufacture additional product candidates from them. As our subsequent product candidates advance in their development for more prevalent indications, we aim to achieve substantial growth.

- **Strengthen our competitive position by leveraging our experienced management team and reinforcing key opinion leader support.** Our management team is comprised of highly experienced professionals with track records in the biomedical and pharmaceutical fields. The team has demonstrated its ability to create value by bringing the first cell therapy based medicinal product in Europe to market and achieving key value enhancing milestones in all other areas of pharmaceutical development, including clinical development, regulatory, manufacturing and commercialization. In doing so, our team has acquired a unique expertise in the field of cell therapy. As a cell therapy pioneer, we have developed and will continue to capitalize on our strong relationships with key opinion leaders who have collaborated and consulted with us in developing our product candidates. As a result, we have established strong scientific advisory boards that share our belief in the therapeutic potential of cell therapies. With respect to Cx601, we have advisory boards in Europe and in the United States. For Cx611, we have an advisory board in Europe for severe sepsis, and for AlloCSC-01, we have an international advisory board for cardiology.

6.3. TECHNOLOGY PLATFORMS

Our product candidates are based on our proprietary allogeneic stem cell based platforms, which offer significant market opportunities in both inflammatory and autoimmune diseases and heart disease, based on the following distinguishing factors:

- **Our use of allogeneic adult stem cells**. Our platforms use allogeneic stem cells because this approach offers clear advantages over autologous cells, *i.e.*, cells extracted from each individual patient and subsequently processed, which are summarized below:
  - **Efficient production of large batches of cells.** Economies of scale can be applied with respect to manufacturing and quality control tests, reducing the cost of manufacturing and leading to a more consistent end product, *i.e.*, individual lots of a large batch. For eASCs, up to 360 billion cells can be obtained upon expansion of cells extracted from a single donor. At current scale, this could be used to generate up to 2,400 doses of Cx601.
  - **No patient biopsy/tissue procurement needed.** The use of allogeneic cells also benefits physicians and patients, because the treatment can be administered readily in a single procedure, taking less clinical time and resources. The process avoids taking biopsies from patients and allows for the treatment of patients who do not possess sufficient healthy tissue or who for any other medical reason cannot undergo tissue procurement.
  - **Immediate and consistent availability of cells.** The use of allogeneic cells, which are extracted from healthy donors and processed in large batches and are therefore available to physicians whenever required, enables the use of stem cells for the immediate treatment of acute conditions such as severe sepsis and acute myocardial infarction, because the additional step of procuring and processing autologous cells, which need to be extracted from each individual patient, is eliminated. This could potentially increase patient throughput significantly, creating a more attractive commercial opportunity than would be possible using autologous cells.
- **Our expertise in optimizing the delivery of stem cells as required by different indications.** This expertise is evidenced by the preclinical and clinical data we have generated with respect to our product candidates.

- **Local administration**. For local diseases or tissue damage, we believe that depositing the cells as close as possible to the affected tissue or organ optimizes the effect of the cells, which are not diluted and thus achieve the highest concentration at the site of action, and have developed the appropriate expertise in administering the cells. The cells immediately encounter the affected environment leading to direct activation of the cells thereby exerting their immunomodulatory and/or repair supporting actions. Therefore, for a disease like fistulas or myocardial infarction, we locally administer the cells.
- **Systemic administration.** For systemic diseases like sepsis, where the cells need to act at several places in the body, we believe that systemic administration of the cells, through either the blood or the lymphatic system, is preferred. With this method of administration, which we use for our eASCs in certain applications, the cells are distributed across the body and are able to reach the affected tissues. We believe that the capacity of eASCs to detect inflammation and to accumulate at the site of inflammation will result in an efficient mechanism of action.

- **Our use of human derived adipose tissue for our eASC based platform.** We use eASCs extracted from the human adipose tissue of healthy volunteers. We believe that this type of cell offers significant advantages over other cell types, such as stem cells sourced from bone marrow. The key advantages of this approach are the following:
  - **Ease and amount of supply.** The cells can be collected through standard liposuction.
  - **Rich supply of stem cells.** Stem cells can represent up to 2% of the total cells of the stromal vascular fraction of the fat tissue, a potential yield of 100 to 1,000 times higher than other possible sources of stem cells.
  - **Robust phenotype.** The eASCs do not require overly elaborate growth conditions and can be grown continuously without loss of their immunomodulatory characteristics. They have also been shown to maintain cell stability during expansion.
  - **Pharmacological profile.** The eASCs have low immunogenicity as defined by the low presence or absence of human leukocyte antigens, co stimulatory molecules and ligands for neurokinin receptors and are therefore considered to be applicable for allogeneic treatment.
- **Our use of human derived cardiac tissue for our CSC based platform.** We use CSCs extracted from a small amount of myocardial tissue that would typically be discarded during a routine valvular replacement operation. We expect these stem cells to support the regeneration process in the infarcted heart upon their administration, since heart stem cells have a natural role in cardiac tissue renewal. These CSCs can also be readily expanded, and have low immunogenicity.

6.3.1. Mechanism of Action of our eASC-based Product Candidates

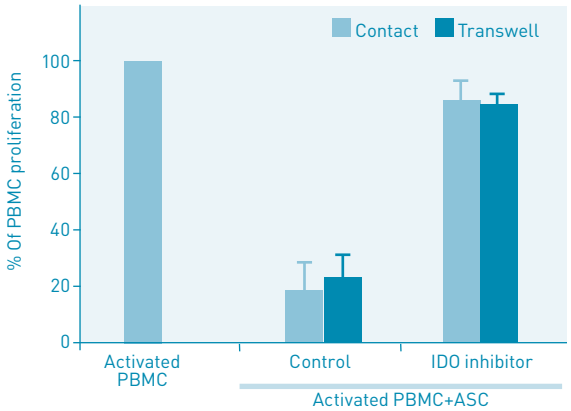
Our eASC-based product candidates are derived from a proprietary technology platform exploiting their recognized mechanism of action in immune mediated inflammatory processes. Our basic preclinical package for eASCs is based on a full spectrum of studies focusing on three indications—inflammatory bowel disease, sepsis and rheumatoid arthritis—and five possible routes of administration—local (perianal), rectovaginal, intraperitoneal, intravenous and intralymphatic. In these preclinical studies, we have found no indications of toxicity; tumorigenicity, which is the potential of the cells to cause tumors; or ectopic tissue growth, which is the growth of new tissue at a site within the body where such tissue would not occur naturally. We have extensively characterized our eASC platform to establish the potency, identity and purity of our eASC based product candidates and had discussions with the EMA via their established procedures for scientific advice regarding our chemistry, manufacturing and control package. Based on these discussions, we have validated our manufacturing process and our platform associated analytical procedures as per the EMA's guidelines, including the quality guidelines of the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use.

There are two main biological pathways that underlie the efficacy of adipose-derived stem cells, or ASCs, in disease treatment: their anti inflammatory properties and their secretion of repair and growth promoting molecules.

In particular, the immunomodulatory properties of these cells offer potential novel treatments for autoimmune and inflammatory diseases, as evidenced by promising preclinical and clinical results. The eASCs exhibit broad immunomodulatory properties, including the regulation of immune cells such as B lymphocytes, T lymphocytes, natural killer cells, monocytes or macrophages and neutrophils. These modulatory effects rely on a direct interaction between eASCs and immune cells as well as the effect of substances secreted by the eASCs on tissues and cells through a broad panel of soluble factors. In particular the degradation of the amino acid tryptophan by the enzyme indoleamine 2,3 dioxygenase is of key importance because it halts the growth of T cells, and enhances activity of suppressor cells, such as regulatory T cells and anti inflammatory macrophages.

The following charts illustrate two mechanisms of action through which eASCs regulate inflammation, inhibition of immune cell proliferation and reduction of pro-inflammatory cytokines:

INHIBITION OF IMMUNE CELL PROLIFERATION

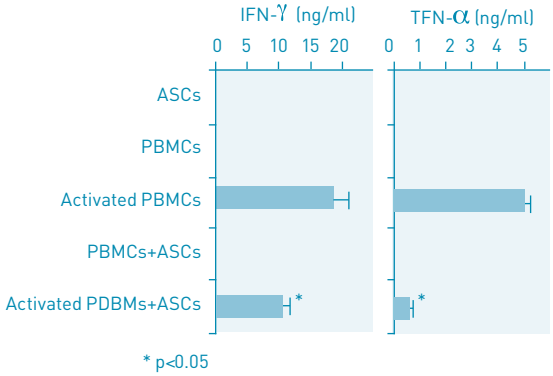


Source: De la Rosa et al. Tissue Engineering 2009

The left bar of the chart above depicts the activation of peripheral blood mononuclear cells, or PBMCs, with specific antibodies that cause the proliferation of T-cells, constituting the majority of the observed effect on the PBMC population.

When ASCs are added or co cultured with the PBMCs, the T cells are largely inhibited, as indicated in the middle bars. This effect is due to the ASCs' expression of Indoleamine 2,3 dioxygenase, or IDO enzyme, a tryptophan degrading enzyme. The addition of an IDO inhibitor largely reverses the inhibitory effect, as shown in the right bars. This inhibitory effect is mediated through the medium as demonstrated by the fact that separating the two cell types with a transwell, or semi permeable membrane, as indicated by the black bars, results in comparable inhibition as when the cells are in contact with each other, as indicated by the white bars.

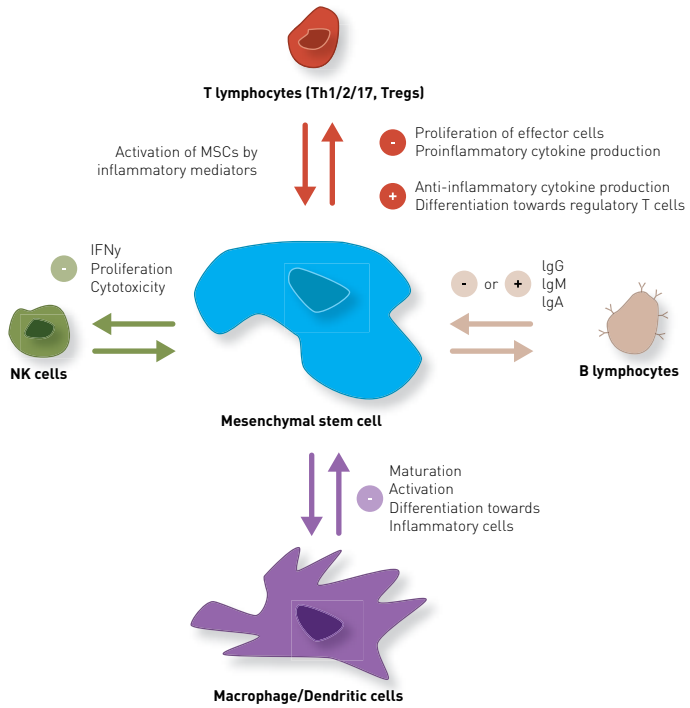
REDUCTION OF PRO-INFLAMMATORY CYTOKINES



Source: De la Rosa et al. Tissue Engineering 2009

In non stimulated conditions, as indicated by the above bars titled "PBMC," "ASC" and "PBMC+ASC," there is no secretion of the pro inflammatory cytokines, interferon Ð (IFN Ð) or Tumor Necrosis Factor Ð (TNF Ð). Upon stimulation, PBMCs secrete these cytokines, as indicated by the bar "Activated PBMC." In the presence of ASCs, as indicated by the bar "Activated PBMC + ASC," this secretion is strongly reduced. The p value is below 0.05 for this effect, indicating that it is statistically significant and unlikely to occur by chance.

More broadly, the following image depicts the mechanism of action of mesenchymal stem cells, or MSCs, a category that includes eASCs:



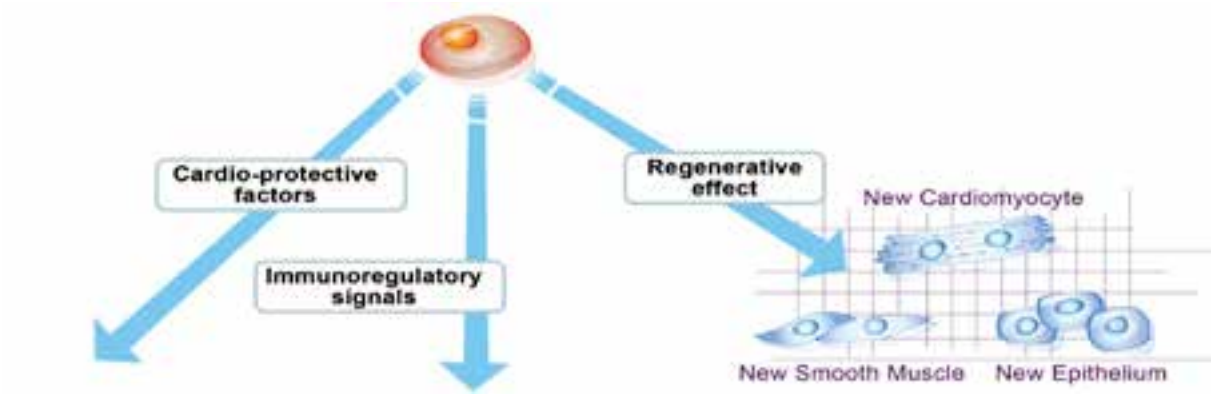
MSCs can interact with the different cells of the immune system, including T cells; B cells, which secrete the immunoglobulins IgG, IgM and IgA; NK cells; and macrophages and dendritic cells. The effects of the MSCs on such cells can be decreasing, or inhibitory ( ), or increasing, or stimulatory (+). The overall effect of these interactions aims at dampening the inflammatory intensity of the immune reaction.

Our eASC-based product candidates leverage this recognized mechanism of action of MSCs in immune mediated and inflammatory processes, which should enable us to develop rapidly and bring to market ground-breaking products that have the potential to treat safely a broad range of inflammatory and autoimmune diseases. We have had extensive discussions with the EMA regarding chemistry, manufacturing and control packages and preclinical packages in connection with our eASCs platform, which have allowed us to advance rapidly our clinical development with respect to our pipeline candidates.

6.3.2. Mechanism of Action of our CSC-based Platform

Our allogeneic CSC-based products are derived from a proprietary platform developed by Coretherapix to exploit their regenerative potential. Starting from myocardial muscle obtained from donor tissue that would typically be discarded during a routine valvular replacement operation, the CSCs are isolated and then expanded in vitro. We believe that the mechanism of action relies on three potential biological pathways: (i) cardioprotection of damaged tissue, (ii) modulation of the immune response to reduce scarring and dampen the effects of chronic inflammation and (iii) support of the inherent regeneration of myocardial tissue. Based on these expected mechanisms, the product candidates derived from this platform are likely to find application in the acute and chronic settings of heart disease. The following diagram shows the three axes of the mechanism of action of CSCs:

TRANSPLANTED ALLOGENEIC CARDIAC STEM CELL



Firstly, secretion of protective factors by the cells in the recently damaged cardiac tissue could reduce cell death caused when both blood flow is interrupted and when it is restored, thus salvaging valuable tissue. Secondly, the cells could control the inflammatory process, limiting the extent of scarring in the cardiac tissue in the infarcted region. Finally, the cells could promote regeneration of viable new tissue, improving the functional capacity of the myocardium. The efficacy of the platform has been demonstrated in a pig model in which the cells were shown to prevent remodelling of the heart after an infarction, preserving heart function and reducing the scar size, with results improving significantly when a higher dose was administered.

6.4. PRODUCT AND PRODUCT CANDIDATES

Our pipeline is derived from our proprietary platforms of allogeneic stem cells. Our stem cells are extracted and cultured from tissue sourced from consenting adult donors and for administration in our clinical studies targeting autoimmune and inflammatory diseases and heart disease.

Cx601, our lead product candidate, is being studied for the treatment of complex perianal fistulas in Crohn's disease patients and met the primary endpoint of its single pivotal European Phase III clinical trial in August 2015. We filed for marketing authorization in Europe during the first quarter of 2016, and a decision by the EMA could be expected during the second half of 2017. We received EMA's Day 120 List of Questions in July 2016 with certain major objections and we submitted our responses in December 2016. We received EMA's 180 Day List of Outstanding Issues in February 2017 and we are confident that we are able to provide adequate responses. Cx601 was also granted orphan drug designation by the EMA in 2009. The FDA has agreed to review the results of this pivotal Phase III trial as supportive evidence for filing for future regulatory approval in the United States, and agreed with our proposed design for a Phase III trial for registration in the United States through an SPA. In the first of half of 2017, we intend to initiate a pivotal Phase III trial for Cx601 for the treatment of complex perianal fistulas to register Cx601 in the United States. 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. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States.

Cx611, our next most advanced clinical stage product candidate from our eASC-based technology platform, has completed a Phase I challenge study in sepsis and a successful Phase I/IIa trial for the treatment of refractory rheumatoid arthritis, both in Europe. In January 2017, we enrolled and treated the first patient in a Phase Ib/IIa clinical trial in severe sepsis in Europe. 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.

AlloCSC-01 is in the second stage of a European Phase I/II trial in acute myocardial infarction and has demonstrated a good safety profile. We are also developing AlloCSC-02, a second product candidate from the CSC based platform, which is currently in a preclinical proof of concept stage for a chronic cardiac indication.

We also had one commercial product, ChondroCelect, that was indicated for cartilage repair in the knee and was the first cell based medicinal product to receive centralized marketing authorization from the EMA. In July 2016, we requested the withdrawal of marketing authorization for ChondroCelect for commercial reasons, which became effective as of November 30, 2016.

6.4.1. Cx601

Cx601, our lead product candidate, is a suspension of allogeneic eASCs administered locally in the perianal fistula through intra lesional injection as a single treatment. Cx601 has completed a Phase III trial in Europe and Israel, and we are planning to initiate a Phase III trial to register Cx601 in the United States for the treatment of complex perianal fistulas in patients suffering from Crohn's disease.

In the randomized, double blind Phase III study, 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 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 were consistent and robust across all statistical populations with a p-value of 0.024. 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. In the ITT population, 54.2% of patients treated with Cx601 had combined remission 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 twenty-four. 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 two years extended follow up.

We have a clear and potentially rapid pathway to the market for Cx601. 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. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States. Takeda agreed to make an upfront non-refundable payment of 25 million euros, a further payment of 15 million euros if and when Cx601 receives marketing authorization from the EMA, an equity investment of 10 million euros within one year of the effective date of the agreement (which it made on December 29, 2016), additional sales and reimbursement milestone payments up to a total of 340 million euros and royalty payments ranging from 10% to 18% on net sales by Takeda.

Based on the positive results of our single pivotal Phase III trial in Europe and Israel, we submitted the marketing authorization application to the EMA in March 2016, and a decision by the EMA is expected in the second half of 2017. We received EMA's Day 120 List of Questions in July 2016 with certain major objections and we submitted our responses in December 2016. We received EMA's 180 Day List of Outstanding Issues in February 2017 and we are confident that we are able to provide adequate responses. In 2009, the EMA granted Cx601 orphan designation

for the treatment of anal fistulas, recognizing the debilitating nature of the disease and the lack of treatment options for this indication that affects no more than five out of 10,000 people in the European Union. Cx601 enjoys significant benefits due to its designation as an orphan drug by the EMA, including the streamlined process for obtaining the relevant regulatory approvals in Europe and up to ten years of exclusivity in the European market from the date of the product's launch.

We have also had a meeting with the FDA to discuss the adequacy of our clinical and non-clinical data to support an IND application for a Phase III trial to register Cx601 in the United States. We received positive feedback regarding our 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. In the first half of 2017, we intend to initiate a pivotal Phase III trial for Cx601 for the treatment of complex perianal fistulas to register Cx601 in the United States. We filed for orphan designation for the treatment of anal fistulas in the United States and have received feedback from the FDA indicating that it believes fistulizing Crohn's disease to be a chronic disease with a potential patient population in excess of the threshold for orphan designation, which is 200,000 patients in the United States. We commissioned a study to explore in more detail the prevalence of fistulizing Crohn's disease in the United States. Given the results of the study, we are considering the resubmission of our application for orphan designation in the United States. We intend to explore our options with respect to expedited FDA programs that could facilitate and expedite development and review of Cx601.

We will follow a commercial strategy to increase the probability of Cx601's ultimate success.

Complex Perianal Fistulas in Crohn's Disease Patients

Crohn's disease is a chronic inflammatory disease of the intestine. It is characterized by focal or segmental transmural inflammation, or inflammation of the intestinal wall, which may occur in any part of the digestive tract with occasional granuloma formation. The transmural inflammation disrupts intestinal mucosal integrity, which frequently leads to the development of abscesses and fistulas. A fistula is an abnormal tract connecting two surfaces; a perianal fistula is defined as a tract between the anal canal and the epithelial surface proximal to the anus.

Although multiple schemes of fistula classification have been proposed, no scheme has been universally adopted. The American Gastroenterology Association[5] recommends classification according to complexity as either simple or complex:

- A simple perianal fistula is a superficial fistula having only a single external opening, without pain or fluctulence to suggest an abscess.
- A complex perianal fistula is a serious condition that typically involves more of the anal sphincters, can have multiple tracts, is associated with a perianal abscess and may be recurrent. Patients with complex fistulas are at an increased risk for incontinence following aggressive surgical intervention and have a smaller chance of healing. The American Society of Colorectal Surgeons considers "complex" any fistula in Crohn's disease patients.

Individuals who suffer from the condition are often unable to carry out ordinary daily activities and have significant decrease in their quality of life due to the recurring nature of the condition. They generally experience severe discomfort, pain and embarrassment and, in many cases, have significant psychological problems, requiring additional treatment and often causing substantial burdens for the health care systems that cover the associated treatment costs. Current treatment options, which include antibiotics, immunosuppressants, biologics and surgical treatment, do not offer a long term solution and the risk of recurrence is high.

Market Opportunity

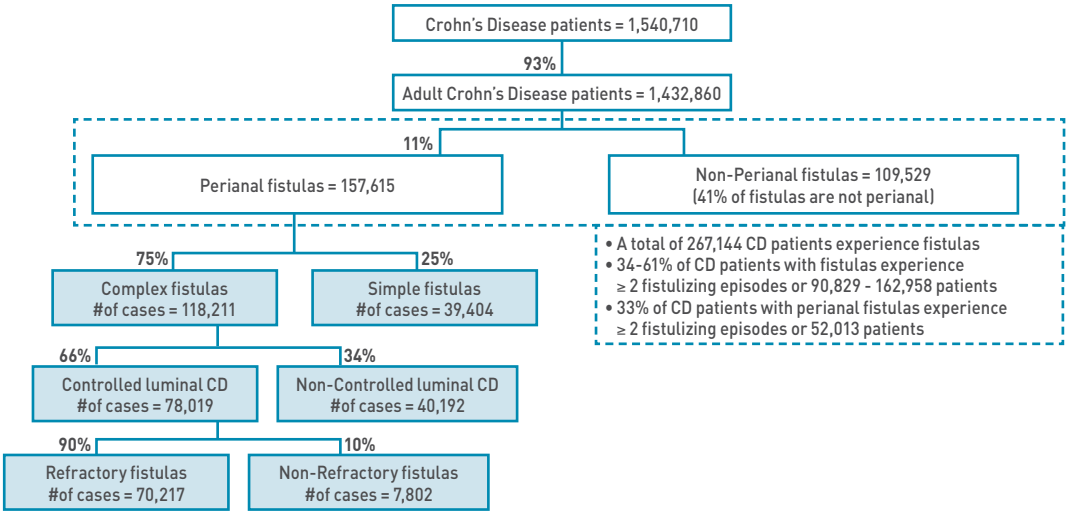
Complex perianal fistulas in patients suffering from Crohn's disease tend to occur in individuals between the ages of twenty and forty, though 10-15% of patients are diagnosed before adulthood. We have estimated the worldwide incidence of Crohn's disease in Europe and the United States on the basis of collated scientific publications on the following basis:

- Known Crohn's disease epidemiology.
- Approximately 11% of adult patients suffering from Crohn's disease suffer a perianal fistula.
- Of these fistulas, 75% will be classified as complex.

5 *Sandborn WJ, Fazio VW, Feagan BG, et al. American Gastroenterological Association Clinical Practice C. AGA technical review on perianal Crohn's disease. Gastroenterology 2003;125:1508–30.*

The following chart provides an overview of the estimated population of Crohn's disease patients suffering from complex perianal fistulas in Europe and the United States based on the assumptions stated above:

CX601: ESTIMATED PATIENT POPULATION (EUROPEAN UNION AND UNITED STATES)



The burden of perianal fistulas in Crohn's disease is high, both to the individual patient and to the health care provider. In 2010, we commissioned a study by IMS Health, an independent provider of market research, that concluded that the total median cost of treatment of a patient with complex perianal fistula due to Crohn's disease was approximately EUR 34,000 per patient, of which approximately EUR 20,000 was spent on pharmaceutical treatment alone. A systemic literature review conducted for us in 2016 by Quintiles, a pharmaceutical outsourcing services company, revealed that the mean annual total direct costs of patients with perianal fistulas may reach up to $43,500 in the United States.

We have conducted market research with physicians in the five largest Western European markets, which suggests that physcicians would consider using Cx601 in 55% to 100% of patients with complex perianal fistulas who have never been treated with anti-TNFs and 100% of patients who have taken anti-TNFs but whose fistulas did not respond.

Taking into consideration a target population of approximately 118,000 patients with complex perianal fistulas (approximately 72,000 patients in Europe and approximately 46,000 patients in the United States) and assuming a cost per patient range of $30,000 to $50,000 we estimate the market size for complex perianal fistulas to be approximately $3.5 billion to $5.9 billion for Europe and the United States combined.

Patented biopharmaceuticals in most markets in the world are subject to pricing decisions from payers representing government authorities or private health insurance. In most major markets, payers base their pricing decisions on the perceived therapeutic improvement as compared to existing therapies, the unmet need in the indication and population size. We believe that Cx601 represents a significant improvement as compared to existing therapies and serves a well-defined patient population with a high unmet need.

If we receive marketing authorization in Europe in the second half of 2017, Takeda could start the first wave of launches in selected European markets thereafter and a second wave by the end of 2018.

Current Treatment Options

For Crohn's patients with complex perianal fistulas, medical treatments of choice are antibiotics and azathioprine or 6 mercaptopurine, as first line therapy, and the biologic Remicade® (Infliximab), as second line therapy. Both offer limited long term efficacy and in many instances have notable side effects, such as the reactivation of tuberculosis and increased risk of bacterial infection with Aspergillus, Listeria and Cryptococcus.

The table below gives an overview of the most common drug treatments for complex perianal fistulas in patients suffering from Crohn's disease:

Antibiotics	Immunosuppressants	Antibiotics + immunosuppressants	Biologics
First- line or adjuvant therapy to treat infections and abscesses from fistulas.	Azathioprine and 6-mercaptopurine used as first-line after antibiotics therapy.	Antibiotics and immunosuppressants often used in combination as first-line therapy.	Remicade® (Infliximab) is the only approved biologic drug for fistulizing Crohn's disease. Used as a second- line therapy in Europe. Recent U.S. guidelines recommend use as first-line therapy.

The standard second line treatment of complex perianal fistula in patients suffering from Crohn's disease involves the prescription of anti-tumor necrosis factors, or anti TNFs. As of December 31, 2016, Remicade® (Infliximab), a chimeric monoclonal antibody, is the only biologic approved for the treatment of fistulizing Crohn's by the EMA and the FDA. In a pivotal fifty four week trial, 306 patients with Crohn's disease with some sort of disease-related fistulas were administered Infliximab at weeks zero, two and six. Patients who had ongoing fistula response to the drug at week fourteen were randomized and placed on a maintenance regimen administered every eight weeks thereafter. By the end of the trial, 36% of the patients who went on to receive a maintenance therapy continued to be in complete remission; complete remission is defined here as the absence of draining fistulas. If remission for the total population who started treated treatment with Infliximab is taken into account, efficacy of Infliximab at one year is limited to only 23%.

Other biologics used in the treatment of luminal Crohn's but not specifically approved for the treatment of fistulizing Crohn's are the following:

- **Humira (adalimumab)—Abbvie.** Second generation anti TNF approved for the treatment of Crohn's disease (but not fistulizing Crohn's). Humira has the advantages of requiring only subcutaneous dosing (instead of intravenous infusion) and being a fully human antibody. Fistula healing was studied as a secondary endpoint in the Humira maintenance trial. Efficacy results were a 33% rate of complete closure at fifty six weeks.

- **Cimzia (certolizumab)—UCB.** Although not developed for the treatment of fistulizing Crohn's directly, fistula healing was a secondary endpoint in two of Cimzia's maintenance trials. In neither of the two trials did Cimzia outperform the efficacy of the placebo. The EMA refused the marketing authorization for Cimzia to treat active Crohn's disease. Nevertheless, Cimzia received FDA approval for treating adults with moderate to severe Crohn's disease who have not responded to conventional therapies.

The results of these other biologics that have been evaluated for the treatment of perianal fistula in patients suffering from Crohn's disease confirm the limited efficacy of the existing approaches.

The following chart summarizes the current treatment algorithm for complex perianal fistulas in patients suffering from Crohn's disease:

Treatment options	Benefit	Shortfall
Antibiotics	- Improve symptoms and short term healing	- High relapse on cessation - Safety concern with prolonged use
Immunosuppressants	- Moderate benefit reported - Limited clinical trial data	- High relapse on cessation - Risk of infectious complications
Anti-TNFs Infliximab - Remicade® Adalimumab - Humira®	- Moderate benefit in clinical trials	- Low remission and high relapse - Safety concern with long term use and systemic immunosuppression
Surgery	- Eliminating risk of recurrence is possible with radical, mutilating surgery	- conservative surgery risks recurrence - risk of complications (incontinence, non healing wounds, abscesses)

Phase III Clinical Results

In our Phase III pivotal trial, we have demonstrated that Cx601 can be used to treat complex perianal fistulas in patients suffering from Crohn's disease. Cx601 utilizes eASCs derived from adipose tissue, which we believe have anti inflammatory and repair and growth promoting properties and are an effective treatment for fistulas.

In mid-2012, we initiated a randomized, double blind, placebo-controlled European Phase III trial for Cx601 with 289 recruited patients in fifty centers in eight countries, which was the largest study conducted in complex perianal fistulas as of December 31, 2016. Recruitment for the trial was completed in November 2014, after initial delays due to a change in the third-party contract research organization in charge of conducting the trial.

The protocol of this Phase III program was approved by the ethics committees and regulatory agencies in all eight participating countries: Spain, Italy, Austria, Belgium, Germany, France, the Netherlands and Israel. The Committee for Medicinal Products for Human Use of the EMA indicated that the proposed single pivotal Phase III study, if successful, could suffice to demonstrate the efficacy required to support the marketing authorization application to the EMA.

The clinical trial included males and females who were allowed to maintain their current treatment of their underlying Crohn's disease as long as the dose was not modified during the course of the study and who met the following criteria:

- Older than eighteen years.
- Had been diagnosed with perianal Crohn's disease with non-active or mildly active luminal disease (with a Crohn's disease activity index score of 220 or lower) and had failed at least one previous treatment for the fistulas (antibiotics, immunosuppressants or biologics). Patients refractory to antibiotics were restricted to fewer than 25% of patients included in the study.
- Had fistulas with up to two internal orifices and up to three external orifices.
- Were diagnosed with Crohn's disease more than six months prior to their inclusion in the trial.
- Had their fistulas draining for at least six weeks prior to their inclusion in the trial.

The study was designed as a two group, double blind placebo controlled trial, in which patients were randomly assigned to either a placebo control group or an active treatment group in a 1:1 ratio. The active treatment group received a single treatment of 120 million eASCs.

The patients participating in the trial had similar demographics and perianal disease activity index scores between the two arms of the study in both the ITT population, which is comprised of all patients included and randomized, regardless of their having received the study treatment or having any post baseline measurements (212 patients) and the safety population which includes those patients who were randomized and treated (205 patients). However, a higher proportion of patients with multiple tract fistulas were in the group that received Cx601. The total dose of Cx601 administered was the same regardless of the number of tracts. The following table provides a demographic breakdown of the patients in the active treatment arm and the placebo arm in the ITT population:

	Cx601 n=107	**Placebo** n=105
Demographics (ITT Population)		
Age (years) mean (standard deviation)	39.0 (13.1)	37.6 (13.1)
Men (%)	60 (56.1)	56 (53.3)
Caucasian (%)	100 (93.5)	96 (91.4)
Weight (kg) mean (standard deviation)	73.9 (15.0)	71.3 (14.9)
Perianal disease activity index (ITT Population)		
Mean (standard deviation)	6.8 (2.5)	6.6 (2.9)

	Cx601 n=103	**Placebo** n=101
Topography of internal & external openings (%)[1]		
One tract fistula	51.4	67.7
Multiple tract fistula	44.8	29.6

(1) Topography of internal and external openings was not available for seven patients in the ITT population.

The study's endpoints were as follows:

- Primary endpoint at a follow-up visit twenty-four weeks post-treatment:
  - Combined remission of the fistulous disease, defined as 100% closure of all treated external openings draining at baseline despite gentle finger compression and the lack of collections, or fluid deposits larger than two centimeters confirmed by MRI.
- Secondary endpoints at follow-up visits twenty-four and fifty-two weeks post-treatment:
  - Clinical remission (closure of all treated external openings draining at baseline despite gentle finger compression).
  - Response (closure of at least 50% of all treated external openings draining at baseline despite gentle finger compression).
  - Relapse in patients with primary endpoint of combined remission (reopening of any of the treated external openings with active drainage as clinically assessed or the development of a collection larger than two centimeters confirmed by MRI on the treated fistula).
  - Time to clinical remission.
  - Time to response.
  - Time to relapse.
  - Perianal disease activity index and other scores.
  - Safety data.
  - Tolerability data.

The trial has produced safety and efficacy results from a first analysis of data obtained from a follow-up visit twenty-four weeks post treatment. We have also received results from a second follow-up analysis performed at fifty-two weeks post-treatment, and top-line data at 104 weeks post-treatment.

On August 24, 2015 we announced that Cx601 had met the primary endpoint in the pivotal Phase III trial based on the analysis of the data obtained twenty-four weeks post treatment. A single treatment of Cx601 was statistically superior to placebo in achieving combined remission of complex perianal fistulas in Crohn's disease patients with inadequate response to previous therapies, including anti-TNFs, after twenty-four weeks.

In the ITT population of 212 patients, Cx601 achieved statistically significant superiority, with a p-value of 0.024, with 49.5% combined remission at week twenty-four compared to 34.3% in the placebo arm. In the safety population, which includes all patients randomized and treated of 205 patients, the combined remission rates at week twenty-four were 51.5% and 35.3% for Cx601 and placebo, respectively, with a p-value of 0.019. These results translate into an observed relative risk of 1.443, meaning that patients receiving Cx601 had a 44.3% greater probability of achieving combined remission than placebo patients. Efficacy results were robust and consistent across all statistical populations.

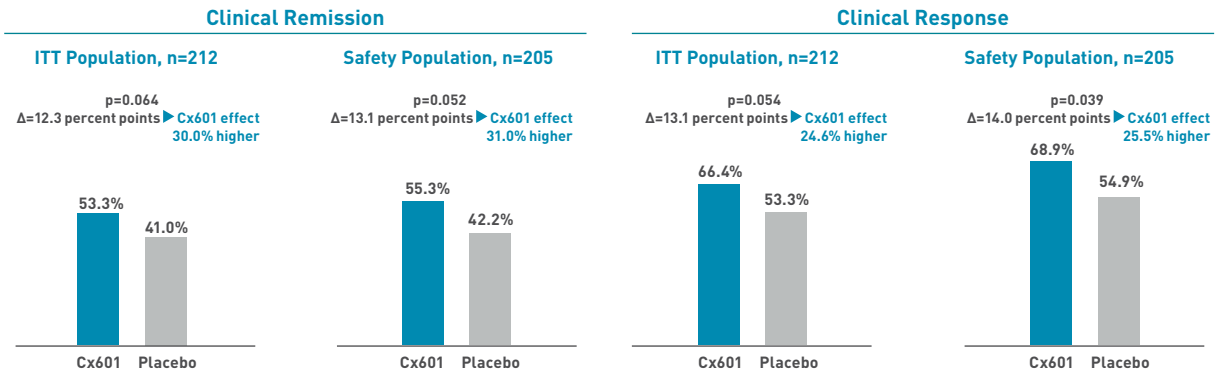
In particular, we observed that results were comparable in patients with single or multiple tracts and in patients treated with or without biologics.

The difference between the ITT population and the safety population consists of seven patients who did not receive the study treatment, as follows:

- In the active treatment arm, four patients were not treated for the following reasons:
  - Two patients withdrew due to adverse events (one due to a recurrence of Crohn's disease and one due to deep vein thrombosis).
  - One patient withdrew informed consent.
  - Data is missing with respect to one patient.
- In the placebo arm, three patients were not treated, for the following reasons:
  - Two patients withdrew informed consent.
  - One patient had to be excluded because he or she did not meet the inclusion criteria.

The secondary endpoint results were broadly consistent with the benefit observed on the primary endpoint, with borderline statistical significance. The safety population showed improvements in both response (with a p-value of 0.039) and clinical remission (with a p-value of 0.052), as demonstrated in the chart below, which compares the safety population to the ITT population.

Key Secondary Endpoints: Clinical Remission & Response (Twenty-Four Weeks)



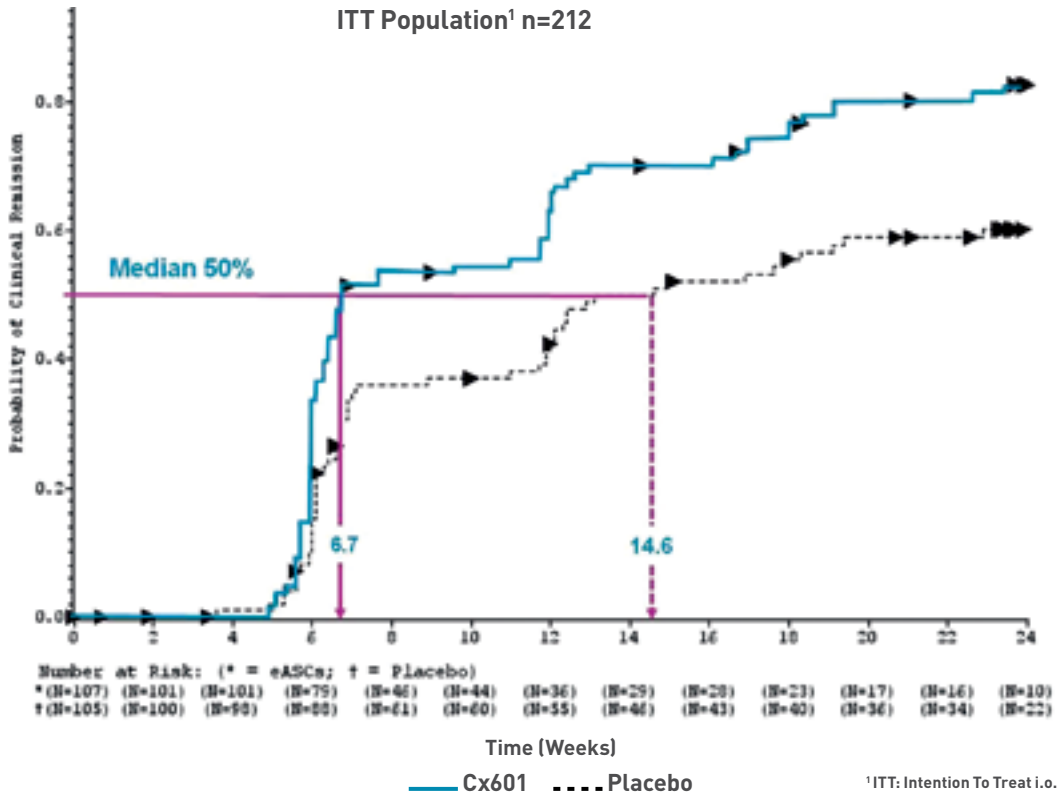
The statistical significance of the results with respect to the key secondary endpoints, clinical remission and response, is lower than that with respect to the primary endpoint of combined remission. In setting up our Phase III clinical trial, we calculated the sample size to enable us to find a statistically significant difference for the primary endpoint, for which a larger difference between the Cx601 and placebo arms was expected, compared to the differences anticipated between the two arms for the key secondary endpoints. Key secondary endpoints are defined to be less stringent efficacy indicators. For example, a patient could exhibit the closure of all treated external openings, which would indicate that he is in clinical remission, even though an MRI might still show internal abscesses larger than two centimeters, indicating that he is not in combined remission. For this reason, a fraction of patients in the placebo group, who, under the protocol for the study, continued with their ongoing treatment of their underlying Crohn's disease showed sufficient improvement to meet the requirements for these less stringent secondary endpoints.

The perianal disease activity index score, which measures the severity of the disease, fell by more than 30% in the Cx601 group and maintained a statistically significant difference over placebo at six, twelve and eighteen weeks.

In the trial, Cx601 had a safety and tolerability profile comparable to placebo. In contrast, treatment with immunosuppressants or anti-TNFs can be related to a range of serious adverse events. Use of immunosuppressants has been connected to bone marrow suppression, hypersensitivity, lymphoma, liver toxicity or pancreatitis and use of anti-TNFs has been associated with hypersensitivity, serious infections, and lymphoma among other adverse events.

The favorable safety and tolerability profile of Cx601 is likely connected to both its mechanism of action and to its local method of administration at the site of the fistula in a single treatment. This maximizes the action of the cells at the local fistula site, as compared to immunosuppressants or anti-TNFs, which are administered systemically over a long period of time.

In addition, the median time to clinical remission was 6.7 weeks with Cx601, compared to 14.6 weeks in the placebo group, as shown in the chart below:



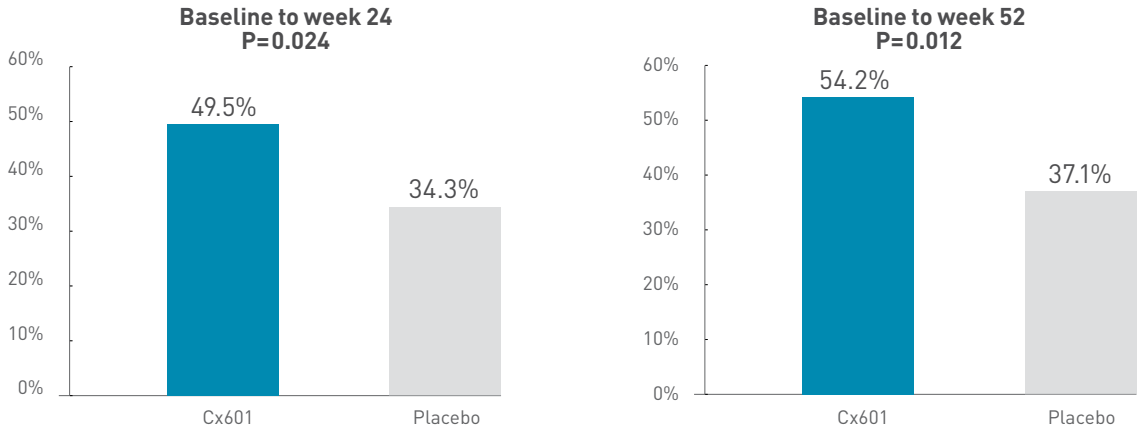
[1] ITT: Intention To Treat i.o. patients randomized

On March 7, 2016, we announced the positive results of the fifty-two week follow-up analysis for Cx601. We analyzed combined remission, defined as closure of all treated external openings draining at baseline despite gentle finger compression and lack of collections larger than two centimeters confirmed by MRI, which was the study's primary endpoint at week twenty-four, as a secondary variable after fifty-two weeks.

In the ITT population, 54.2% of patients treated with Cx601 had combined remission compared to 37.1% of patients in the placebo arm. The result had a p-value of 0.012, indicating high statistical significance.

The chart below shows the rate of combined remission in the ITT population after twenty-four and fifty-two weeks respectively.

Combined Remission
(ITT(1) population n=212)



In addition, in the ITT population, after fifty-two weeks, 75% of patients treated with Cx601 who were in combined remission at week twenty-four did not relapse, compared to 55.9% of patients in the placebo arm. In the safety population, the results also confirmed the favorable safety and tolerability profile of Cx601, with comparable number of patients with treatment-emergent adverse events, both serious and non-serious, and discontinuations due to adverse events across the two groups.

Treatment emergent adverse events (both non-serious and serious) and discontinuations due to adverse events were comparable between patients who received Cx601 and placebo both at twenty-four weeks and fifty-two weeks.

Number of patients with:	**Cx601** n=103		**Placebo** n=102	
	W24	**W52**	**W24**	**W52**
Treatment Emergent Adverse Effects	**68 (66.0%)**	**79 (76.7)**	**66 (64.7%)**	**74 (72.5)**
Related treatment emergent adverse effects	18 (17.5%)	21 (20.4)	30 (29.4%)	27 (26.5)
Withdrawn due to a treatment emergent adverse effect	5 (4.9%)	9 (8.7)	**6 (5.9%)**	**9 (8.8)**
Treatment Emergent Serious Adverse Effects	**18 (17.5%)**	**25 (24.3)**	**14 (13.7%)**	**21 (20.6)**
Related treatment emergent serious adverse effects	5 (4.9%)	7 (6.8)	7 (6.9%)	7 (6.9)
Withdrawn due to treatment emergent serious adverse effects	4 (3.9%)	6 (5.8)	4 (3.9%)	7 (6.9)

We evaluated treatment emergent adverse events both at twenty-four weeks and at fifty-two weeks. At the most complete and up-to-date assessment of adverse events at fifty-two weeks, nine patients withdrew in each of the Cx601 and placebo arm.

In the Cx601 arm, patients withdrew for the following reasons:

- One withdrew due to proctalgia.
- One withdrew due to Crohn's disease.
- One withdrew due to an anal fistula.
- One withdrew due to an intestinal obstruction.
- One withdrew due to an infected fistula.
- One withdrew due to pregnancy.
- Three withdrew due to anal abscesses.

In the placebo arm, patients withdrew for the following reasons:

- One withdrew due to proctalgia.
- One withdrew due to Crohn's disease.
- One withdrew due to a fistula.
- One withdrew due to a B-cell lymphoma.
- One withdrew due to a femal genital tract fistula.
- Four withdrew due to anal abscesses.

Phase II Clinical Results

Prior to the Phase III trial, we had conducted a single-arm-non-controlled Phase II trial in which twenty-four patients suffering from complex perianal fistulas were treated. Due to the design of the trial, in which patients were required to stop their existing treatment in order to isolate the effect of the therapy, four patients dropped out due to the exacerbation of their underlying Crohn's disease, while others dropped out due to anal abscesses and significant deviations from the study protocol. The results of the Phase II clinical trial were as follows:

- Efficacy in treating fistula tracts, defined as the complete closure and re epithelization of the fistula being

treated with absence of drainage, at twenty-four weeks was 56.3%, which is more than twice as high as the anti-TNF, the prevalent standard of care for fistulizing Crohn's disease.
- 69.2% of patients experienced a reduction in the number of initially draining tracts.
- Safety of the use of allogeneic stem cells for the treatment of perianal fistula was demonstrated.

Subjects were followed until twenty-four weeks after the initial administration of the cells. The primary objective was to assess the safety (*i.e.*, the incidence of drug related adverse events). Secondary endpoints were as follows:

- To assess the efficacy of Cx601 for the closure of complex perianal fistulas in perianal Crohn's disease patients after twelve and twenty-four weeks.
- To evaluate the changes over time in the Perianal Disease Activity Index, or PDAI, and in the Crohn's Disease Activity Index, or CDAI.
- To evaluate the changes over the time in the MRI Score of Severity, or MSS.
- To assess the reduction in the number of draining fistulas at twelve and twenty-four weeks.
- To track the percentage of subjects with MRIs indicating fistula healing at twelve and twenty four weeks (*i.e.*, the absence of collections greater than two centimeters).

Clinical and Regulatory Development in Europe

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 the Day 120 List of Questions, their initial response to our application for marketing authorization. In this response, the EMA informed us of certain major objections and, following its standard protocol for review at day 120, stated that our application was not approvable at that time. These objections would preclude a recommendation for marketing authorization unless we were able to address them adequately. The major objections identified by the EMA in the Day 120 Day List of Questions—and elaborated upon by EMA during an August 2016 clarification meeting, during which we discussed our strategy to address the major objections—relate to the following principal deficiencies:

- The EMA questioned whether the stability data available to date adequately supports the stability of the intermediate master cell stock and also questioned the relevance of the potency test for stability of the master cell stock. We have updated the stability data in our application based on data that has been generated as part of the stability protocols currently in place. In particular, in our replies to the Day 120 List of Questions we have included additional one-year stability data for older batches, and one-year stability data for more recent batches of the master cell stock. We believe that this data provides adequate information about the behavior of the master cell stock while in storage.
- The EMA noted that the information provided on the starting material with respect to details on the donor selection and testing is incomplete. We acknowledge that the information about donor testing included in our initial submission was limited and provided additional information in our responses which included other information about the tests performed on the donors, including the list of the viral markers that were tested and the names and addresses of the centers where the lipoaspirates, or the material removed through a liposuction procedure that we use to produce our eASCs, are collected along with information about the inspection status of these centers.
- The EMA deemed our viral safety risk assessment to be insufficient. Although we performed a safety risk assessment prior to submission of our application for marketing authorization, we did not believe such assessment was relevant and, therefore, did not include it in our application materials. We are updating this risk assessment following the requirements outlined in the relevant directives of the European Commission and the general text of the European Pharmacopeia on viral safety, as directed by the EMA, and we provided this updated risk assessment as part of our replies to the Day 120 List of Questions.
- The EMA questioned the clinical relevance of the observed treatment effect as defined by the primary endpoint used. Specifically, the EMA raised three key questions related to the primary endpoint definition and results:

  (i) *Question on MRI-based endpoint as representative of complete closure of fistulas:* The EMA requested justification of the imaging portion of the primary endpoint. We provided additional clarifications and two expert opinions on the justification of the primary endpoint in our replies to the Day 120 List of Questions, including justification of the greater than two centimeter cutoff and rereading of the data using different cutoffs. During the August 2016 clarification meeting, the reviewers acknowledged the clinical relevance of the selection of absence of collections for the imaging part of the primary endpoint and they also acknowledged the clinical justification provided for the selected cut-off.

  (ii) *Question on whether the primary endpoint is adequately sensitive as a measurement of change given the exclusion criterion of collections greater than two centimeters:* In light of this question, the EMA requested to see data based on absence of collections as assessed by MRI. We provided the required data as part of our replies to the Day 120 List of Questions to the EMA.

  (iii) *Question on long-term efficacy:* The EMA requested to see data on development of new fistulas at a time point later than twenty-four weeks. We be

lieve that the data from the follow-up analysis at fifty-two weeks, which was not available as part of our initial submission, and which demonstrates, among other findings, that 75% of patients treated with Cx601 who achieved combined remission at twenty-four weeks did not relapse by week fifty-two, is of clinical relevance. We submitted this data as part of our replies to the Day 120 List of Questions. During the August 2016 clarification meeting, the reviewers acknowledged the clinical relevance of this data.

Based on the August 2016 clarification meeting and the results of the follow-up analysis after fifty-two weeks, we believe we provided reasonable replies to each of the major objections identified by the EMA.

The Day 120 List of Questions also included a number of technical questions and comments that do not rise to the level of major objections. We believe that we provided adequate replies to all of these questions and comments.

We submitted our replies to the Day 120 List of Questions in December 2016, and EMA sent us their Day 180 List of Outstanding Issues in February 2017. We are confident in our ability to provide adequate responses and remain on track to receive a marketing authorization decision for Cx601 in 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 approval process, we had a Good Clinical Practice, or GCP, inspection in September 2016. The EMA indicated that this was a routine inspection and was not the result of any specific concerns identified by the reviewers during their ongoing evaluation of our application. The inspectors identified certain critical and major deviations from GCP. We submitted our initial replies to the report from this inspection, including the corresponding planned "corrective and preventive actions" on October 21, 2016. We received the inspector's report to the EMA's Committee for Human Medicinal Products, or the Integrated Inspection Report, in November 2016, which indicated that the inspectors continue to be concerned about potential critical GCP deviations, in particular a potential violation of patient privacy due to the presence of a company-sponsored healthcare professional during the administration of Cx601. This healthcare professional was trained or had previous experience in the administration of Advanced Therapy Medicinal Products. This professional was present at the time of administration of Cx601 or placebo by the surgeon in the initial administrations at each trial site to ensure proper understanding and therefore compliance with the surgical protocol. This enabled us to standardize the surgical procedure to administer Cx601 and placebo to help ensure the quality of the safety and efficacy data generated. The presence of this additional healthcare professional was not disclosed to patients prior to the procedure when they gave informed consent or included in the clinical protocol that was evaluated by an ethics committee. In their Integrated Inspection Report, the inspectors recommend that the data from the trial should be disregarded as part of the marketing authorization application. In making their recommendation, the inspectors focused on the infringement of the patient's right to consent to the presence of a company sponsored healthcare professional irrespective of mitigating factors. Due to the nature of this finding, the inspectors deemed the trial not to be conducted in accordance with ethical principles, including GCP and applicable regulatory requirements.

We believe that we provided reasonable replies to the inspectors' concerns, including an evaluation of the impact of the potential privacy violation on the patients and our proposed preventive actions, which we submitted in December 2016, as part of our replies to the Day 120 List of Questions. We believe that any potential violation of patient privacy due to the presence of an additional individual would be limited, since this individual was a healthcare professional subject to a duty of confidentiality, did not have access to any patient information and was only present during the surgical procedure, usually entering the room after the patient was anesthetized and covered. In addition, we believe that given the lack of treatment alternatives and the heavy commitment of the patients for invasive procedures under the treatment protocol, it is unlikely that the patients would not have given specific consent for the presence of an additional specifically trained healthcare professional to ensure the safety and efficacy of the intervention. Moreover, it is our view that the presence of this professional does not affect the integrity of the trial data.

Although we expect a decision from the EMA on our marketing authorization application during the second half of 2017, our replies 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.

While we believe that the data we have announced to date is sufficient for us to receive marketing authorization in Europe, the data we are continuing to collect and analyze, and the interpretation of such data by the regulatory authorities, prescribing physicians and others, including potential partners, could have a significant impact on the value of the asset and our ability to realize its full value.

Commercialization in Europe and the rest of the world

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. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States. If TiGenix develops a new indication for Cx601 and wants to license out such new indication, Takeda will also have a right of first offer to be awarded a license grant for such new indication outside the United States. Takeda agreed to make an upfront non-refundable payment of 25 million euros, a further payment of 15 million euros if and when Cx601 receives marketing authorization from the EMA, an equity investment of 10 million euros within one year of the effective date of the agreement (which it made on December 29, 2016), additional sales and reimbursement milestone payments up to a total of 340 million euros and royalty payments ranging from 10% to 18% on net sales by Takeda.

Clinical and Regulatory Development in the United States

In addition to allowing us to file for marketing authorization in Europe, the pivotal Phase III study we have just completed will serve as a key supportive study in filing for approval in many other jurisdictions, including the United States. We had a Type B meeting with the Center for Biologics Evaluation and Research within the FDA in December 2013, at which we discussed the following issues:

- The adequacy of the existing non clinical data available from previous trials to support an IND for a pivotal U.S.-based Phase III study.
- Guidance on the design of such pivotal U.S. based Phase III study.
- Confirmation of the acceptability of using the data from the ongoing European Phase III study to support a BLA filing in the United States.

A Type B meeting is a category of meetings that includes each of the following:

- Pre IND application meetings.
- Certain end-of-Phase I meetings.
- End-of-Phase II and pre Phase III meetings.
- Pre-new drug application or BLA meetings.

Based on the advice received at this Type B meeting, in December 2014 we asked the FDA to review our proposed design for a Phase III registration trial in the United States by filing a special protocol assessment, or SPA. In August 2015, we reached an agreement with the FDA on our proposed design for a Phase III trial to register Cx601 in the United States as part of an SPA.

The agreed trial will be a randomized, double blind, parallel group, placebo controlled multicenter study in complex perianal fistulas in Crohn's disease patients. We expect to randomize approximately 320 to 330 patients to assess the efficacy and safety of Cx601 twenty-four and fifty-two weeks after a single dose of the product candidate is administered. The SPA describes the primary endpoint as combined remission, defined as 100% closure of all treated external openings draining at baseline despite gentle finger compression, and the lack of abscesses greater than two centimeters confirmed by magnetic resonance imaging, or MRI, by twenty-four weeks after administration. The agreed primary endpoint is the same as the one for the European Phase III trial. In addition, the required p-value for the U.S. registration trial, the statistical measure that will be used to measure the strength of the trial's observations, is less than 0.05, compared to the more stringent threshold of less than 0.025 which Cx601 was successfully able to meet in the European trial.

In January 2017, the Company had a Type C meeting in which changes to the protocol were discussed with the FDA. The FDA agreed that the BLA could be filed based on the efficacy and safety follow-up of patients assessed at week 24, instead of week 52. Furthermore, the FDA has agreed to accept fewer patients than originally planned in the study, and has endorsed a broader target population that will ultimately facilitate the recruitment process. With these adjustments, the study will benefit from an expedited recruitment process that should lead to shorter timelines, an earlier filing, and the possibility of an earlier approval in the U.S. As a result of these modifications, the trial design is even more similar to the European ADMIRE-CD than it was before. Based on feedback from that meeting, the Company submitted a revised protocol in February 2017. We expect an answer before the end of April 2017.

We are currently exploring the options for expedited pathways that could facilitate and accelerate the development of Cx601 and the review of its future BLA. In order to further expedite clinical development in the United States, in February 2015 we entered into an agreement with Lonza to manufacture Cx601 in Lonza's Walkersville, Maryland facility. The technology transfer with Lonza is now underway in preparation for an IND application for the pivotal Phase III study to register Cx601 in the United States. We expect to initiate the Phase III trial for the registration of Cx601 in the United States in the first half of 2017 (first at trial sites in Europe and later at trial sites located in the United States and Canada).

6.4.2. Cx611

Cx611 is an allogeneic cellular suspension of eASCs that is injected intravenously. We have completed a Phase I sepsis challenge trial in which we studied the effect of Cx611 on volunteers with induced sepsis-like symptoms and initiated a Phase Ib/IIa clinical trial for Cx611 (SEPCELL) in the treatment of severe sepsis in community-acquired pneumonia. We also completed a Phase I/

IIa trial for Cx611 for the treatment of refractory rheumatoid arthritis, both in Europe. We intend to develop Cx611 for patients suffering from severe sepsis.

Severe Sepsis

Sepsis is a potentially life-threatening condition that arises when the body's response to infection injures its own tissues and organs by releasing inflammatory molecules. This inflammation can lead to a cascade of detrimental changes that damage multiple organ systems, causing them to fail. Sepsis first produces a pro-inflammatory response and then an anti-inflammatory response. The pro-inflammatory responses lead to organ failure and coagulation, leading to tissue hypo perfusion and tissue injury; the anti-inflammatory responses produce a susceptibility to infection. When sepsis is complicated by organ failure, which may include respiratory compromise, cardiovascular compromise, central nervous system dysfunction or acute kidney injury, it is considered severe. Patients with severe sepsis require close monitoring and treatment in a hospital intensive care unit. If sepsis progresses to septic shock, the patient's blood pressure drops dramatically, potentially leading to death. Mortality increases as the condition progresses, with estimates ranging from 10-20% in sepsis to 20-50% in severe sepsis to 40-80% in patients who progress to septic shock.

Drug therapy is likely to include broad-spectrum antibiotics, corticosteroids or vasopressor drugs to increase blood pressure, along with oxygen and large amounts of intravenous fluids. Supportive therapy may be needed to stabilize breathing and heart function and to replace kidney function.

Market Opportunity

An estimated 15 million to 19 million cases of sepsis occur worldwide every year, according to an article published in The Lancet, in 2012. The incidence rate has dramatically increased over the last decade due to an aging population, the increasing use of high risk interventions in all age groups, and the development of drug resistant and more virulent varieties of microbes. The sepsis mortality rate was estimated at 36% in a recent major European study[6] and is the most common cause of death in non coronary intensive care units. In the case of septic shock, mortality can reach up to 80%, with 28 to 50% of patients dying within the first month of diagnosis.

Approximately 70% of patients with sepsis require treatment in critical care units (incorporating intensive care and high dependency care), with treatment of sepsis accounting for approximately 40% of total expenditure in intensive care units.

In 2016, GlobalData projects the sepsis market to be valued at $25.7 million across the six main markets, the United States, Spain, Germany, the United Kingdom, Italy and France. The United States is expected to account for 80% of the 2016 market share, with sales of $20.3 million. In the five EU countries, sales are expected to reach $5.4 million. By 2021, GlobalData expects sales to reach a total of $354.0 million across these six markets, at a compound annual growth rate of 69% over the period. GlobalData believes that this growth will be driven by the increased uptake of novel therapies in select patients as the critical care community regains confidence in sepsis specific products and as more data is generated on their overall efficacy and safety.

Current Treatment Options

Severe sepsis represents a high unmet medical need. Current treatments are insufficient and mainly symptomatic, and aim at controlling the infection with antibiotics, improving some of the symptoms, as with vasopressor treatment, or providing supportive treatment such as haemodialysis or mechanical ventilation. Biologics are also used but generally have limited effect. There is a clear need for a product that could impact both the pro-inflammatory and the anti-inflammatory pathways.

Clinical Development

In the fourth quarter of 2014, we began a randomized placebo-controlled Phase I trial to test the safety and study the mechanism of action of Cx611 in healthy volunteers challenged with a low dose of bacterial endotoxin (lipopolysaccharide), a potent pro-inflammatory constituent of the outer membrane of gram-negative bacteria, which elicits a strong inflammatory response inducing sepsis-like symptoms. A total of thirty-two volunteers were recruited for the study, and divided into four groups of eight patients each. Patients in the first three groups received Cx611 in different doses and patients in the final group received placebo.

The endpoints of the study included the following:

- Vital signs including blood pressure, pulse rate, temperature and heart rate.
- Laboratory measures and functional assays of innate immunity.

In May 2015, we reported positive results from this trial. Cx611 demonstrated a favorable safety and tolerability profile. However, the volunteers' lipopolysaccharide induced symptoms were short-lived and no significant effect of Cx611 could be detected prior to the dissipation of symptoms.

Based on the results of this study, we have designed a follow-on trial in severe sepsis patients with the help of our Advisory Board. In January 2017, we enrolled and treated the first patient in a phase Ib/IIa trial in Europe for Cx611 in the treatment of severe sepsis.

6 *Martin GS Expert Rev Anti Infect Ther. 2012 June; 10(6): 701–706.*

The Phase I/II trial is designed to be a randomized double-blind placebo controlled multicenter study with two parallel arms. We expect to recruit 180 patients in at least fifty centers in at least four countries, with ninety patients in each group. We will recruit patients with severe community-acquired bacterial pneumonia, or pneumonia acquired outside a hospital setting, who are admitted into intensive care units requiring either or both of mechanical ventilation and vasopressors. Patients will receive 160 million cells of eASCs or doses of placebo on each of the first and third days of the treatment in addition to the standard of care therapy. We will follow-up with the patients for two years, with visits at three, six and twelve months, and telephone calls to the patients and their general practitioners only for safety purposes and to record any serious adverse events at eighteen and twenty-four months after the first dose is administered.

The endpoints of the study will be as follows:

- Primary endpoint: Safety profile—any adverse event and potential immunological host responses against the administered cells.
- Secondary endpoints:
  - Reduction in the duration of either or both of mechanical ventilation or vasopressors needed.
  - Improved survival.
  - Clinical cure of the community acquired bacterial pneumonia.
  - Other infection related endpoints.

We received a grant from the European Commission Horizon 2020 program for the Phase I/II trial. Horizon 2020 is the European Union framework program for research and innovation. We will receive 1.3 million euros directly and will be responsible for managing a further 4.1 million euros. We received 3.2 million euros on October, 2015. The balance will be received from 2017 onwards.

Preclinical Development

MSCs have been shown in the literature to reduce mortality in several animal models of sepsis. Our eASCs have also been shown to reduce mortality in animal sepsis models of acute periponitis, an infection of the intestine, and endotoxemia, a bacterial infection. The effect is due to a combination of reducing pro-inflammatory and increasing anti-inflammatory mediators, the production of antimicrobial effectors and increased absorption of pathogens by specially adapted cells known as phagocytes.

Rheumatoid Arthritis

Rheumatoid arthritis is a chronic system disorder characterized by inflammation of the joint tissues, leading to degeneration of the joint bone and cartilage. It is a common autoimmune disease, and according to a report by Global Data, in 2011, approximately 4 million people in the United States, France, Germany, Italy, Spain, the United Kingdom and Japan had been diagnosed with rheumatoid arthritis. In 2011, the prevalence of rheumatoid arthritis in the adult population in the United States was estimated to be 0.6%.

The economic burden associated with the treatment of rheumatoid arthritis is huge for any healthcare system. In the United States, sales of drugs to treat rheumatoid arthritis were estimated to be approximately $9.5 billion in 2011.

The treatment of rheumatoid arthritis comprises four general classes of drugs: non-steroidal anti-inflammatory agents, or NSAIDs, corticosteroids, synthetic disease modifying anti rheumatic drugs, or DMARDs and biologics. However, rheumatoid arthritis remains an insufficiently met clinical need due to the shortcomings of existing treatment options.

Clinical Results

In January 2012, we completed a Phase I/IIa clinical trial in Europe using allogeneic eASCs for the intravenous treatment of refractory rheumatoid arthritis in twenty-three centers.

The Phase I/IIa clinical trial was a twenty-four week, single blind dose escalating study. Fifty three patients with moderate to high disease activity (disease activity score in twenty-eight joints, or DAS 28, greater than 3.2), who all were under treatment with one synthetic DMARD participated in the study. Fourty-six participants received eASCs, and seven received placebo. All patients received three intravenous infusions on days one, eight and fifteen of the trial. Patients in different cohorts received placebo, low (1 million eASCs per kg), medium (2 million eASCs per kg) and high (4 million eASCs per kg) doses of Cx611.

As follow-up, we conducted a detailed monthly workup of each patient measuring all the pre defined parameters. We aimed to evaluate the safety, tolerability and optimal dosing over the full six months of the trial, as well as to explore therapeutic activity.

The primary endpoints (safety) of the study were as follows:

- Tolerability.
- Treatment-emergent adverse events, including the following:
  - Dose limiting toxicities.
  - Serious adverse events.
  - Non-serious adverse events.

The secondary endpoints (therapeutic activity) were as follows:

- American College of Rheumatology scores (known as ACR20/50/70, which measures the percentage of patients who experience 20%, 50% and 70% improve-

ment, respectively, in tender or swollen joint counts as well as three out of five additional parameters identified by the American College of Rheumatology).
- The European League against Rheumatism, or EULAR, criteria, which are based on the improvement in the DAS 28.
- A short-form health survey measuring patients' quality of life.

We reported the final results of the Phase I/IIa study in April 2013, which included positive safety data as well as a first indication of therapeutic activity on standard outcome measures and biologic markers of inflammation, the results of which were as follows:
- Patient and disease characteristics were comparable for all three dose groups.
- There was no major safety signal from the repeated intravenous infusion of eASCs and the dose-limiting safety signal was not identified.
- Three serious adverse events were reported (lacunar infarction, peroneal palsy and fever of unknown origin) of which lacunar infarction was thought to be possibly related to the treatment and led to the discontinuation of the treatment. The patient subsequently recovered. A lacunar infarction is a small deep infarction in the subcortical regions of the brain. Peroneal palsy is a lower limb neuropathy consisting of the loss of motor function and/or sensation in the foot and leg due to the compression of the perinealnerve in its course around the head of the fibula, or the calf bone.
- The most frequent non-serious adverse effects, occurring in more than 10% of patients treated with eASCs, included the following:
  - Fever (20%).
  - Headache (13%).
  - Urinary tract infection (13%).
  - Upper respiratory tract infection (11%).
  - Nausea (11%).

With respect to the secondary endpoints, our findings were as follows:
- A clear dose-response effect was not observed.
- With respect to the American College of Rheumatology scores, after three months, 20% of patients achieved a 20% improvement versus no patient in the placebo group; 11% of patients achieved 50% improvement versus no patient in the placebo group and 4% of patients achieved 70% improvement versus no patient in the placebo group.
- With respect to the EULAR criteria based on the improvement in the DAS 28 (ESR, or erythrocyte sedimentation rate), three months after the treatment, 39% of patients had a good to moderate response compared to no patient in the placebo group.
- With respect to the disease activity score in twenty eight joints as modified to measure the C-reactive protein value, or DAS 28 (CRP), 11% of patients achieved remission after three months compared to no patient in the placebo group.

These clinical results were the first to suggest that intravenous infusion of eASCs has a favorable safety profile, is well tolerated along twenty-four weeks and could be associated with clinical benefits in the treatment of refractory rheumatoid arthritis and were published in May 2016.

The results of the study were presented at a plenary session of the American College of Rheumatology meeting in San Diego on October 29, 2013.

Given the increased competition and the arrival of oral products in the rheumatoid arthritis (RA) field, we have decided to keep the program on hold as we believe there were better opportunities for TiGenix to pursue: Cx611 in severe sepsis, AlloCSC-01 in AMI and potential new indications for Cx601 although they are still not decided. We do not anticipate coming back to RA with Cx611.

6.4.3. Cx621

Cx621 is an allogeneic cellular suspension of eASCs for the potential treatment of a variety of autoimmune diseases via a proprietary technique of intra-lymphatic administration, or the injection of eASCs into the lymphatic system rather than the blood stream or the affected tissue.

Clinical Development

Based on positive preclinical data on toxicology, biodistribution and efficacy, we conducted a Phase I protocol to assess safety, tolerability and pharmacodynamics of intranodal injected allogeneic eASCs in healthy volunteers in 2012.

We conducted a randomized, controlled, single-blind Phase I trial in Europe to assess the intra lymphatic administration of two fixed doses (2.5 and 5 million) of eASCs in two different cohorts of five healthy volunteers each. Each dose was administered twice with an interval of seven days and was injected into two inguinal lymph nodes. Two volunteers per cohort received treatment with HypoThermosol™ as a control group. The primary objective was to determine the safety, feasibility and tolerability of intra-lymphatic eASCs administration. The safety assessment was performed over twenty one days after the second administration. It included signs and symptoms, laboratory tests, chest x-ray and appearance of the injected lymph nodes by ultrasound. Pharmacodynamic parameters were included as an exploratory measure. No serious or severe adverse events occurred.

The confirmation of the safety of intra-lymphatic administration of our eASCs could have significant clinical and commercial implications. This use of a different route of administration has the potential to enable applications in other autoimmune diseases.

6.4.4. AlloCSC-01

AlloCSC-01 is a suspension of allogeneic CSCs administered into the coronary artery of the patient. AlloCSC-01 is currently in the second stage of a two-stage Phase I/II trial in acute myocardial infarction in Europe.

Acute Myocardial Infarction

Acute myocardial infarction, the medical term for a heart attack, occurs when blood circulation stops to a part of the heart, causing damage to the heart muscle. It is most commonly treated by percutaneous coronary angioplasty, a non-surgical procedure to widen the coronary artery by inserting a catheter, or a small tube with a balloon tip, into the obstructed coronary artery and inflating the balloon to open the artery. A wire mesh tube, known as a stent, is then usually placed in the artery to keep it open.

However, myocardial infarction can leave non-functional scar tissue, leading to a process of ventricular remodeling, whereby the cardiac muscle tries to compensate for the effect of the injury. Over time, the heart becomes enlarged and cannot pump blood efficiently, causing the onset of congestive heart failure, a terminal disease. Survivors of myocardial infarction are at increased risk of recurrent infarctions and have an annual mortality rate of 5%, which is six times higher than in people of the same age who do not suffer from coronary heart disease. There is no curative treatment for congestive heart failure other than a heart transplantation.

Market Opportunity

Cardiovascular disease is the most common cause of death, leading to 17.5 million deaths worldwide in 2012, of whom 7.4 million people died of ischemic heart disease, or decreased blood flow to the heart, according to the World Health Organization. Up to 1.9 million people annually are diagnosed with acute myocardial infarction in the United States, Europe and Japan, according to the *Acute Coronary Syndrome Cardium Study by Decision Resources (January 2015)*, most of whom are treated by percutaneous coronary angioplasty and the implantation of one or more stents. Congestive heart failure following myocardial infarction affects 26 million patients.

In 2016, the American Heart Association estimated that the direct and indirect cost of coronary heart disease, the main cause of myocardial infarction, was $182 billion and is expected to reach $322 billion in 2030. Similarly the cost of heart failure in the United States was estimated at $24 billion for 2015, reaching $47 billion in 2030.

Clinical Development

We believe that AlloCSC-01 can be used within a few days after the stent is inserted to limit the extent of tissue damage, through three potential modes of action:

- By secreting protective factors in the recently damaged cardiac tissue, AlloCSC-01 could reduce cell death produced both when blood flow is interrupted and when it is restored, thus salvaging valuable tissue.
- By controlling inflammation, AlloCSC-01 could limit the scarring of cardiac tissue in the infarcted region, which would lead to an improved prognosis.
- AlloCSC-01 could support the regeneration of new viable tissue from resident cardiac cells, improving the functional capacity of the cardiac muscle.

AlloCSC-01 is in a Phase I/II trial initiated in June 2014 to evaluate the safety and efficacy of intracoronary infusion in patients who have suffered from acute myocardial infarction. The study includes both males and females who meet the following criteria:

- Are between eighteen and eighty years of age.
- Suffer from a ST segment elevation myocardial infarction, or STEMI, which is the more severe type of heart attack in which the coronary artery is completely blocked by a blood clot, leading to infarction of virtually all of the cardiac muscle being supplied by the artery.
- Have a Killip classification of two or less on admission, meaning that these patients are less likely to die in the thirty days following the myocardial infarction.
- Have been successfully treated by percutaneous coronary angioplasty within twelve hours of the onset of symptoms, with a thrombolysis in myocardial infarction (TIMI) score of three, meaning that the flow of blood to the heart has been successfully restored, lowering the patient's risk of death or ischemic events.
- Have an ejection fraction, which is the percentage of blood that is pumped out of the ventricles with each contraction, less than or equal to 50% as measured by echocardiography on the second day after showing infarct symptoms (which is lower than a normal ejection fraction of 55-75%, indicating impaired function, according to the American Heart Association).
- Have an ejection fraction less than or equal to 45% as measured by magnetic resonance imaging, or MRI, three to five days following the STEMI.
- Have an infarct size greater than or equal to 25% of the left ventricle, as measured by the first MRI after the STEMI.
- Have a bare metal stent or a second generation drug eluting stent inserted in the coronary artery after the percutaneous coronary intervention.
- Have an infarct culprit coronary artery adequate for treatment administration such that the treatment is technically feasible.
- Are in stable and adequate clinical condition to undergo the procedure.

Phase I of the trial was an open label dose-escalation phase in which six patients received a single injection of 11 million, 22 million or 35 million cells of AlloCSC-01 by intracoronary infusion five to seven days after percutaneous coronary intervention. Five of the patients were followed up for six months.

Phase II, which is ongoing, is a double-blind placebo-controlled randomized trial in which the forty-nine patients will be either assigned to an active treatment group or a placebo control group in a 2:1 ratio. The active treatment group will receive one dose of 35 million cells, while patients receiving placebo will be injected with human serum albumin. The study's endpoints will be as follows:

- Primary endpoint (acute safety of treatment):
  - Mortality from any cause within thirty days.
  - Other safety events:
    - In the dose-escalation phase: all adverse events from any cause observed from inclusion, which is the moment at which the first magnetic resonance imaging, or MRI, scan is performed, until seven days after treatment administration.
    - In the randomized phase: major adverse cardiac events, or MACE, during the first thirty days.
- Secondary endpoints:
  - Follow-up on safety:
    - Adverse events during the clinical trial.
    - Major adverse cardiac events at six months and twelve months after treatment.
    - Mortality from any cause during the clinical trial.
- Evaluation of efficacy:
  - Evolution of the size of the infarcted region.
  - Evolution of the biomechanical parameters by MRI including the absolute change in the ejection fraction at six and twelve months after treatment.
  - Evolution of the edema.
  - Clinical parameters analysis: Testing for B-type natriuretic peptide or BNP, which is secreted in response to changes in pressure that occur with heart failure; testing for C-reactive protein, a marker for inflammation in the body; performing a six-minute walking test to determine the functional capacity of the heart; determining the New York Health Association scale, which classifies patients' heart failure according to the severity of their impairment; and obtaining the Minnesota Living with Heart Failure Questionnaire, which aims to determine the ways in which heart failure and treatments affect physical, emotional, social and mental dimensions of quality of life, among others.

Clinical Results

The first phase of the study was completed successfully, demonstrating a good safety profile for AlloCSC-01, with no adverse events or major adverse cardiac events observed during the six-month follow-up period. In addition, patients showed a reduction in infarct size, and an improvement in the left ventricular ejection fraction as measured by MRI over the six-month follow-up period for five of the six patients treated, with a p-value below 0.05 for both parameters, indicating that these results are statistically significant. However, given the design of this phase of the trial, in which all six patients received AlloCSC-01 along with the standard of care for the indication, it is not possible to isolate the effect of AlloCSC-01 on efficacy. These results were presented at the meeting of the European Society of Cardiology in London between August 29 and September 2, 2015.

The second phase of the study is ongoing in eight sites in Belgium and Spain. Recruitment of forty nine patients was completed in November 2015. On June 17, 2016, we announced the preliminary interim data from the trial, which was comprised of the six-month follow-up results of the forty-nine randomized patients, plus two patients from the initial dose-escalation phase who received similar target doses of 35 million cells. No mortality from any cause within one month was recorded in either the placebo group or the AlloCSC-01 group. Similarly, there was no major adverse cardiac event in either group within one month. At six months, no major adverse cardiac event was recorded in either group. Preliminary efficacy data was limited to the evolution of the size of the infarcted region, defined as a change in the percentage of the left ventricular mass measured by magnetic resonance imaging. The mean absolute change in the size of the infarcted region from the baseline to the six-month analysis was similar in the AlloCSC-01 and placebo groups. On March 13, 2017 we announced the top-line one-year results. The main findings of the study are:

- All safety objectives of the study have been met. No mortality or major cardiac adverse events (MACE) have been found at 30 days meeting the primary endpoint of the study. Moreover no mortality and MACE have been found at 6 months or 12 months follow-up;
- Of particular relevance to this allogeneic approach, no immune-related adverse events have been recorded at one-year follow-up;
- A larger reduction in infarct size was found in one pre-specified subgroup associated with poor long-term prognosis and representing more than half of the patient population of the randomization phase of the study. This finding has revealed valuable insight, and provides a specific direction for potential studies in a targeted subset of high-risk patients.

6.4.5. AlloCSC-02

We are carrying out a preclinical proof of concept to develop AlloCSC-02, the second product from our CSC-based platform, for a chronic heart disease indication, based on preclinical and clinical observation that the size of scar tissue is reduced following the administration of CSCs in the chronic setting.

Based on preliminary preclinical data in a pig model, we are exploring the design of a clinical study, and gathering additional preclinical evidence and applied for funding for this purpose in the form of a soft loan of 1.6 million euros from the RETOS program, a national collaborative research subsidy program run by the Spanish Ministry for the Economy and Competitiveness, along with a grant of 0.6 million euros to the Gregorio Marañon Hospital, the clinical partner in this project.

6.4.6. ChondroCelect

We have one discontinued product: ChondroCelect, a cell based medicinal product for cartilage repair in the knee. It was the first approved cell based product in Europe that successfully completed the entire development track from research through clinical development to European approval. ChondroCelect received marketing authorization in October 2009 as an advanced therapy medicinal product, a new medical product category regulated by the EMA that includes products based on gene therapy, cell therapy or tissue engineering.

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 marketing authorization which became effective as of November 30, 2016. We no longer generate revenues from ChondroCelect.

6.5. COMPETITION

6.5.1. Product Candidates

The biopharmaceutical industry is characterized by intense and dynamic competition to develop new technologies and proprietary therapies. Any product candidates that we successfully develop and commercialize will have to compete with existing therapies and new therapies that may become available in the future. While we believe that our eASC platform and scientific expertise in the field of cell therapy provide us with competitive advantages, we face potential competition from various sources, including larger and better funded pharmaceutical, specialty pharmaceutical and biotechnology companies, as well as from academic institutions, hospitals, governmental agencies and public and private research institutions.

Cx601 will compete against a variety of therapies in development for perianal fistulas in patients suffering from Crohn's disease, using therapeutic modalities such as biologics and cell therapy, including products under development by Delenex Therapeutics, Novartis and Celgene as well as various hospitals and research centers, as well as a product marketed in Korea by Anterogen. In addition, there are products in development for the treatment of Crohn's disease that do not focus on the treatment of fistulas.

Likewise, with respect to Cx611, for the sepsis indication, there is a limited late stage pipeline of candidates addressing the underlying immune dysfunction, with the two non-antibiotic front runners being developed by Asahi Kassey and Toray Industries. Other compounds by InflaRX GmbH, Ferring and Baxter are currently in earlier stages of development.

AlloCSC 01 will compete against a variety of cell therapy treatments in development for acute myocardial infarction, including products under development by Pharmicell, Caladrius, Athersys, Mesoblast and Capricor, as well as treatments using other therapeutic modalities such as tissue engineering and gene therapy approaches.

Many of our competitors, either alone or with their strategic partners, have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery and development of product candidates, obtaining EMA, FDA and other regulatory approvals of treatments and commercializing those treatments.

Accordingly, our competitors may be more successful in obtaining approval for treatments and achieving widespread market acceptance. Our competitors' treatments may be more effective, or more effectively marketed and sold, than any treatment we may commercialize and may render our treatments obsolete or non-competitive before we can recover the expenses of developing and commercializing any of our treatments.

Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated among a smaller number of our competitors. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical study sites and in recruiting patients for clinical studies. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

We anticipate that we will face intense and increasing competition as new drugs enter the market and advanced technologies become available. We expect any treatments that we develop and commercialize to compete on the basis of, among other things, efficacy, safety, convenience of administration and delivery, price, the level of competition and the availability of reimbursement from government and other third-party payers.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Although we believe that our cell therapy pipeline is the most advanced in Europe as of the date of this annual report, our competitors also may obtain EMA, FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

6.6. INTELLECTUAL PROPERTY

Our commercial success depends in part on our ability to obtain and maintain proprietary or intellectual property protection in key markets for certain aspects of our cell therapy products, processes and related technologies to operate without infringing on the proprietary rights of others and to prevent others from infringing our proprietary or intellectual property rights. Our policy is to seek to protect our proprietary and intellectual property position by, among other methods, filing European, U.S., and other international patent applications related to multiple aspects of our proprietary products, processes and technologies.

As of December 31, 2016, we owned or co-owned twenty-nine patent families and had more than one hundred granted patents in more than twenty jurisdictions, including key markets such as Europe and the United States, with expiration dates from 2020 onwards. Of these patents, twenty are related to our eASC based technology platform, with expiration dates from 2024 onwards. Some of our pending patent applications are filed under the Patent Cooperation Treaty, or PCT, an international patent law treaty that provides a unified procedure for filing a single initial patent application to seek patent protection for an invention simultaneously in each of the 151 jurisdictions, followed by the process of entering into national phases in each of the jurisdictions, which requires a separate application in each of the jurisdictions when continued protection is sought.

A number of our patent families are the result of collaborations with academic parties, and are jointly owned. Co-ownership agreements are in place with respect to all but one of such patent families, and certain types of exploitation of such patents may be subject to the co owner's approval. We exclusively own the patents and patent applications that form the remainder of our patent portfolio.

Our patent portfolio includes the following:

- Certain key foreign base patents and U.S. and foreign patent applications related to our eASC platform.
- U.S. and foreign patents and patent applications for other cell therapy applications.
- U.S. and foreign patents and patent applications with respect to chondrocyte markers.
- A U.S. patent and U.S. and foreign patent applications for cell therapy delivery mechanisms.
- U.S. and foreign patent applications for technology improvements with respect to our eASC platform.

The following patent families are materially relevant to our eASC pipeline:

- "*Identification and isolation of multipotent cells from non osteochondral mesenchymal tissue.*" (PCT Publication WO2006037649; TiGenix Reference PCX006): a patent family claiming a non-osteochondral derived multipotent adult stem cell population characterized by a set of biological markers. Additionally the patent family claims methods for identifying and isolating such cells, as well as pharmaceutical compositions and therapeutic uses in healing and tissue regeneration. This patent family is of relevance to our eASC platform. The patent family is comprised of seven granted patents (in Spain, Australia, Europe, Japan, Canada, China and Israel), and pending patent applications in Singapore, the United States, Europe (the European Patent Office, or EPO) and India derived from the PCT application or its priority documents. Oppositions have been filed against the patents issued in Europe. The anticipated expiration date of the granted Spanish patent ES2313805 is October 4, 2024, and the anticipated expiration date of the remaining granted patents (AU2011253985, EP2292736, JP5732011, CA2583151, CN101056974 and 1L182441) is October 4, 2025. This is also the anticipated expiration date of all pending patent applications. We jointly own this patent family with the Universidad Autónoma de Madrid, with which we have a co ownership agreement that provides us with an exclusive license.
- "*Use of adipose tissue derived stromal stem cells in treating fistula.*" (PCT Application Publication WO2006136244; TiGenix Reference PCX007): a patent family claiming an adipose derived stem cell for use composition characterized by a panel of cell surface markers, methods of preparation of such a composition and adipose tissue-derived stromal stem cells in treating fistula and wounds. This patent family is relevant to Cx601. The patent family is comprised of granted patents in Australia, Israel, Mexico, New Zealand, Russia, Singapore, the United States, Canada and Europe, and pending patent applications in China, Japan, the United States, Brazil, Europe (the EPO), Russia and Hong Kong, derived from the PCT application. An opposition to this patent has been filed in Europe. The anticipated expiration date of these patents and patent applications is May 16, 2026 for patents filed by means of the PCT application, and February 14, 2025 or June 24, 2025, without taking into account any patent term adjustment, for U.S. patents derived from US 11/167,061 without the benefit of the PCT application filing. We jointly own this patent family with the Universidad Autónoma de Madrid, and it is subject to the co-ownership agreement mentioned above with respect to PCX006, which provides us with an exclusive license.
- "*Cell populations having immunoregulatory activity, method for isolation and uses.*" (PCT Application Publication number WO2007039150; TiGenix Reference PCX008): a patent family claiming a stem cell population, methods for the isolation of such stem cells, their use in the preparation of regulatory T cells and cell therapy of immune and inflammatory diseases. This patent family is relevant to Cx611 and Cx601. The patent family is comprised of four granted patent in Mexico, South Korea, Japan and Europe (the EPO) (MX342474, KR10 1536239, JP5925408

and EP1926813) and pending patent applications in Canada, China, Europe, Singapore, Hong Kong, Israel, Japan, the United States and Australia derived from the PCT. An opposition to this patent has been filed in Europe. The anticipated expiration date of the granted patent and all these patent applications is September 22, 2026. We jointly own this patent family with the Consejo Superior de Investigaciones Cientificas, the Spanish National Research Council, with which we have a co-ownership agreement providing us with an exclusive license.

- *"Uses of mesenchymal stem cells."* (PCT Application Publication number WO/2010/015929; TiGenix Reference PCX011): a patent family claiming the use of mesenchymal stem cells in the treatment of systemic inflammatory response syndrome. This patent family is relevant to the use of Cx611 for the treatment of sepsis. The patent family is comprised of granted patents in Australia and Europe (the EPO) and pending patent applications in Australia, Canada, Europe, Japan, the United States and South Korea derived from the PCT application. The anticipated expiration date of all these patent applications is August 3, 2029. We jointly own this patent family with the Consejo Superior de Investigaciones Cientificas, the Spanish National Research Council, and the University of Seville, with which we have a co-ownership agreement providing us with an exclusive license.
- *"Methods and compositions for use in cellular therapies."* (PCT Application Publication number WO 2011/004264; TiGenix Ref. PCX019): a patent family claiming therapeutic uses of cells by administration to lymphatic organs. This patent family is relevant to Cx621. The patent family is comprised of granted patents in the United States, New Zealand, Australia, Europe and Japan and pending patent applications in Brazil, Canada, Mexico, Singapore, China, Hong Kong, Israel, South Korea, India and Russia derived from the PCT application. The anticipated expiration date of these patents and patent applications is July 9, 2030. We are the sole owners of this patent family.
- *"Adipose derived mesenchymal stem cells for intralymphatic administration in autoimmune and inflammatory diseases."* (PCT Application Publication number WO/2012/095743; TiGenix Ref. PCX022): a patent family claiming therapeutic uses of cells by administration to lymphatic organs. This patent family is relevant to Cx621. The patent family is comprised of a granted patent in Japan and pending patent applications in the United States, South Korea and Europe (the EPO) derived from the PCT application. The anticipated expiration date of these patent applications is January 12, 2032. We are the sole owners of this patent family.

The patent family related to the cardiac stem cell platform and AlloCSC-01 consists of one application filed under the Patent Cooperation Treaty, or PCT, and a parallel application filed directly with the US Patent and Trademark Office. Overall the application has entered national prosecution in eight jurisdictions. A more detailed description of the patent family is as follows:

- *"Adult cardiac stem cell population"* (PCT Application publication no. WO 2014/141220; TiGenix Reference Ctx-3): a patent family claiming an isolated multipotent adult cardiac stem cell characterized by the presence and absence of particular biological markers, and the ability of the cell to differentiate into at least adipocytes, osteocytes, endothelial cells and smooth muscle cells. The PCT application claims are also directed to a substantially pure population of the claimed cells, methods for preparing such a population of cells, as well as pharmaceutical compositions and methods of treating cardiovascular disease, ischemic injury and autoimmune diseases and preventing allogeneic organ transplant rejection. The international application has recently entered into the national phase in Australia, Canada, China, Israel, Japan, Europe, South Korea and the United States. The PCT application was filed on March 17, 2014 and the anticipated expiration date of any patents stemming from the international application is therefore March 17, 2034.
- *"Adult cardiac stem cell population"* (U.S. application Number 14/213868; publication no. US 2014 0271575; TiGenix Reference Ctx-3): a separate U.S. application claiming a substantially pure population of adult cardiac stem cells characterized by the presence and absence of a set of biological markers, and pharmaceutical compositions comprising the claimed population of cells. Claims directed to methods of preparing the population of cells and to methods of treating cardiovascular disease, ischemic injury, autoimmune disease, inflammatory processes and chronic ulcers and preventing allogeneic organ transplant rejection can be pursued in a divisional application if required. The U.S. application was filed on March 14, 2014 and the anticipated expiration date (without taking into account any patent term adjustment) is March 14, 2034.

In addition, we have over fifty registered trademarks and trademark applications.

Finally, several elements of our cell therapy program involve unpatented proprietary technology, processes, know-how or data, including cell isolation, production and release processes, which we consider to be part of our intellectual property. With respect to proprietary technology, know-how and data that are not patentable or potentially patentable, or processes other than production processes for which patents are difficult to enforce, we have chosen to protect our interests by relying on trade secret protection and confidentiality agreements with our employees, consultants and certain contractors and collaborators. All our employees are parties to employment agreements that include such confidentiality provisions.

6.7. PARTNERSHIPS, LICENSING AND COLLABORATION

We have entered into partnerships and collaborations in the past and will consider such opportunities in the future.

6.7.1. ChondroCelect

During the first six months of 2014, we completed the discontinuation of our operations in connection with ChondroCelect, our commercialized product, through the combination of the sale of TiGenix B.V., our Dutch subsidiary, that held our production facility for ChondroCelect, to PharmaCell, a leading European contract manufacturing organization active in the area of cell therapy, 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 a final payment of 0.8 million euros in December 2016.

In connection with the sale of TiGenix B.V, we also entered into a long-term manufacturing agreement to continue to manufacture ChondroCelect in its facility. Under the agreement, our former subsidiary continued to manufacture ChondroCelect at the facility, which we purchased, with the price being determined based on the volume of ChondroCelect purchased. We also received cost relief in the form of aggregate pricing discounts of up to 1.5 million euros on our purchases of ChondroCelect over an initial three-year period. Our former subsidiary was responsible for ensuring that the facility and their services comply with cGMP requirements. Under the agreement, our former subsidiary was our exclusive supplier of ChondroCelect within the European Union, and a potential supplier for any sales in certain additional territories in the Middle East and North Africa; however, we retain the right to appoint additional suppliers within those territories. The agreement also included standard provisions regarding the protection of each party's intellectual property and confidential information. The agreement had an initial term of ten years, after which it had the option to be automatically renewed for consecutive one year terms, unless either party gave written notice of termination at least three years prior to the expiration of the initial term or any renewal period. Either party had the option to terminate the agreement with immediate effect in the event of a material breach that was not remedied within thirty calendar days by the other party or the insolvency of the other party. We also had the right to terminate the agreement in the case of a change of control of our former subsidiary, if it was acquired by one of our direct competitors or if there is any condition that makes it reasonably likely that our former subsidiary or its successor entity would fail to meet its obligations under the agreement. In addition, we had the right to terminate the agreement with twelve months' notice if we decided to terminate the ChondroCelect business, either due to a change in European regulatory conditions or a decision by the EMA that rendered ChondroCelect commercially unviable and, after the second anniversary of the agreement, we also had the right to terminate the agreement if we determined that the ChondroCelect business was not commercially viable.

Effective June 1, 2014, we entered into a distribution agreement with Sobi for the exclusive marketing and distribution rights with respect to ChondroCelect. Sobi marketed and distributed the product within the European Union (excluding Finland), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. The agreement was for a ten-year term during which we received royalties of 22% on the net sales during the first year of the agreement and 20% on the net sales of ChondroCelect thereafter. Sobi reimbursed nearly all of our costs in connection with the product. We passed on the cost relief of 1.5 million euros received from our former subsidiary under the terms of the long-term manufacturing agreement on a like-for-like basis to Sobi, which purchased ChondroCelect from us at cost. Under the distribution agreement with Sobi, we continued to hold the marketing authorization for ChondroCelect in the European Union and retained the discretion to decide whether to obtain regulatory approval for ChondroCelect in other jurisdictions, including the territories covered under the distribution agreement. Sobi assumed responsibility for certain other regulatory procedures and entering into contracts with hospitals to distribute ChondroCelect, managing orders and invoicing, training hospital staff in the use of ChondroCelect (after we provided initial training to certain key personnel at Sobi) and providing customer support to such hospitals, with the exception of hospitals in Belgium and the Netherlands, where we continued to provide local customer support on behalf of Sobi.

The agreement with Sobi included commitments for minimum quantities of ChondroCelect that Sobi was required to purchase from us. If Sobi's actual purchases were lower than the required minimum, we would nevertheless be entitled to receive payment from Sobi up to a maximum amount of 8.8 million euros, which we were required to pass on to PharmaCell under the long-term manufacturing agreement with our former subsidiary. If Sobi's purchases were lower than the required minimum amount for two consecutive years, we would be entitled to terminate unilaterally the agreement or render it non-exclusive towards Sobi, which would permit us to enter into additional distribution agreements for the territories covered under the agreement.

After the initial ten-year term of the distribution agreement, the distribution agreement with Sobi automatically renewed for successive two-year terms. Either party had the right to request a renegotiation of terms in connec-

tion with a renewal of the agreement, and if we failed to reach an agreement on terms, the agreement would be terminated. Either party also had the right to terminate the agreement immediately under certain limited circumstances including the insolvency of the other party or a material breach of the provisions of the agreement, and in addition, after the fifth year of the agreement, either party had the right to terminate the agreement with six months' notice if the agreement became commercially non viable, meaning that one party, despite its best efforts had made or could demonstrate that it would make a loss over a consecutive two year period, and the situation is not just temporary.

In addition to the Sobi agreement, we had a distribution agreement in place with Finnish Red Cross Blood Service to conduct and facilitate the ChondroCelect business in the Finnish territory. The revenues from this agreement are not material to our operations as a whole; only five patients in Finland were treated with ChondroCelect in 2014, resulting in revenues of 84,305 euros.

In July 2016 for commercial reasons, we decided to terminate our contracts with Sobi and Finnish Red Cross Blood Service and our manufacturing agreement with our former subsidiary purchased by PharmaCell and we requested the withdrawal of marketing authorization for ChondroCelect, which became effective as of November 30, 2016. We no longer generate revenues from ChondroCelect.

After the ChondroCelect marketing authorisation was granted by the EMA, the Company had been discussing with the EMA certain post-authorisation follow-up measures and the need for carrying out a non-interventional study. In December 2015, the EMA requested TiGenix to conduct a single-arm clinical trial to assess, as the primary outcome, the efficacy of ChondroCelect in patients with large lesions. As a result of the withdrawal of the marketing authorization for ChondroCelect, the post-authorization follow-up measures and requested clinical trial are no longer necessary.

6.7.2. Lonza manufacturing agreement

In February 2015, we entered into an agreement with Lonza, a U.S.-based contract manufacturing organization and started the process for technology transfer in connection with a proposed Phase III study to register Cx601 in the United States. Under the agreement, Lonza will manufacture some of the material for the Phase III trial to register Cx601 in the United States at Lonza's cell therapy production facility in Walkersville, Maryland. The agreement will continue until February 9, 2020 unless earlier terminated or extended by the parties. Pursuant to the agreement, the parties will develop certain statements of work, which describe the process or product to be developed and the related activities to be performed by both parties or the technology to be transferred to Lonza for the manufacturing of the product. Lonza will be responsible for complying with cGMP requirements and will maintain any licenses, permits and approvals necessary.

We will make payments to Lonza in the amounts and dates set forth in the statements of work, and we will also pay a security deposit equal to the lesser of 20% of the budgeted costs of the statement of work or $100,000.

The agreement includes standard provisions regarding the protection of each party's intellectual property and confidential information.

Either party may terminate the agreement for any material breach that is not cured within thirty days (or one hundred eighty days in case of payment default). We also have the right to terminate the agreement with a written notice of no less than twelve months; Lonza may terminate the agreement with a written notice of twenty-four months. In case of suspension or termination of production by a regulatory authority, we may terminate the agreement with a written notice of no less than two months. Finally, either party may terminate the agreement upon written notice in case of insolvency.

We submitted the first statement of work on May 18, 2015. This provides a description of the activities, timelines and budgets for the initial set up and one year maintenance for the provision of clinical/GMP grade human adipose tissue to be used for manufacturing allogenic mesenchymal adult stem cells. The estimated program set up fees amount to $22,400. Other fees (including contingency fees) amount to $6,500.

On October 14, 2015 we executed the second statement of work. This describes the activities, timelines and budgets for the development/optimization of the GMP manufacturing process of Cx601.

In 2016, we submitted five additional statements of work. The aggregate estimated total fees payable by TiGenix for these statements of work amount to $6,303,025.

6.7.3. Takeda licensing agreement

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 21, 2016. As a result, Takeda now has the exclusive right to commercialize and develop Cx601 for complex perianal fistulas in all countries outside the United States. Under the agreement, Takeda paid an upfront non-refundable licensing fee of 25 million euros and will make an additional payment of 15 million euros if and when Cx601 receives marketing authorization from the EMA.

The agreement currently excludes clinical development and commercialization rights in the United States, where we will continue to develop Cx601 for complex perianal fistulas. We also retain the right to develop Cx601 in any indications outside the indication of complex perianal fistulas. Furthermore, if Takeda has not presented us with a plan accepted by the regulatory authorities of either Canada or Japan to access the market in those countries by the second anniversary of the receipt of marketing authorization from the EMA, we have the option of unilaterally excluding those territories from the scope of the agreement. Takeda will pay us 1.5 million euros upon receipt of regulatory approval for the sale of Cx601 to patients in each of Canada and Japan. In addition, if Cx601 is approved for reimbursement in either or both of Canada or Japan at a price equivalent to 30,000 euros per patient or more, Takeda will pay us a further 1 million euros per country.

In Europe, we will transfer the marketing authorization to Takeda once it is granted by the EMA. Takeda will also make milestone payments for positive pricing and market access decisions from payers in France, Germany, Italy, Spain and the United Kingdom of 2 million euros per country, if Cx601 is approved at a price of 30,000 euros or equivalent per patient or more, or 1 million euros per country, if Cx601 is approved at a price between 26,000 euros and 30,000 euros or equivalent per patient.

Under the agreement, we will receive tiered quarterly royalty payments on net sales of Cx601 on a country-by-country basis, ranging from 10% to 18%, and calculated based on the price of Cx601 in each country during that quarter. We will also receive one-time sales milestone payments ranging from 15 million euros, if net sales in the territory reach 150 million euros, to 100 million euros, if net sales reach 1 billion euros. The potential sales and reimbursement milestones could total up to 340 million euros, and are in addition to any royalty payments we receive under the agreement.

Takeda also agreed to invest 10 million euros in equity within one year of the effective date of the agreement. Takeda made its 10 million euros investment on December 29, 2016. The shares will be subject to a one-year lock-up, subject to certain exceptions.

Under the agreement, we will cooperate closely with Takeda and will set up a number of joint committees to oversee the overall commercialization process; operational matters including product development, intellectual property and regulatory matters; and manufacturing. We will initially continue to manufacture Cx601 at our facility in Madrid, and we and Takeda will share equally the cost of expanding the facility to increase the manufacturing capacity up to 1,200 doses of Cx601 per year at an estimated cost of 3 million to 3.5 million euros. We intend to transfer manufacturing responsibilities to Takeda once the technology transfer process is complete, which is expected to be by January 1, 2021 at the latest.

The agreement will expire on a country-by-country basis at the occurrence of the latest any of the following:

- The twentieth anniversary of the date of the first commercial sale of Cx601 in such country.
- The expiration of the last valid patent claim covering Cx601 or its use in such country.
- The expiration of market exclusivity in such country granted under the marketing authorization of the product as an orphan drug.
- The expiration of any data exclusivity with respect to Cx601.

Either party may terminate the agreement with thirty days' written notice in case of insolvency of the other party. Either party may terminate the agreement upon a change of control of the other party with sixty days' written notice. Either party may terminate the agreement in case of a material breach or non-performance by the other party with immediate effect or, in case of a curable material breach, if such breach should not be cured within sixty days after receipt of such notice.

We also have a right to terminate the agreement on a region-by-region basis with thirty days' written notice if expected royalties from a key market within the region are at least 25% lower than expected based on the commercialization plan provided by Takeda for at least three consecutive years and we reasonably determine that Takeda did not use commercially reasonable efforts to meet the established sales target. If we cannot mutually resolve any dispute related to such a claim either within he established committees or through negotiations between senior management or the board of directors within thirty days, the dispute shall be referred to a third party expert for adjudication. In addition, we can terminate the agreement with thirty days' notice if Takeda or one of its affiliates challenges or takes any material steps to assist a third party in challenging the validity of our intellectual property rights.

Takeda has a right to terminate the agreement with thirty days' written notice if we do not obtain marketing authorization from the EMA within four years of the entry into the agreement. Takeda can also terminate the agreement with thirty days' written notice on a country-by-country basis if there is a third party claim of infringement of intellectual property rights provided that external counsel confirms that there is a greater than 50% probability of a finding of infringement, or in the case of a final court decision confirming such infringement.

In addition, we remain solely responsible for certain third party obligations arising from sales of the product, including with respect to the rights licensed from the Universidad Autónoma de Madrid or the Consejo Superior de Investigaciones Científicas. In case we decide to terminate any such existing license and Takeda

disagrees with our decision, they may request that we assign them the license or terminate the agreement on a country-by-country basis. Finally, Takeda has the right to terminate the agreement with thirty days' written notice in case any changes to the production or quality control process required by regulatory authorities lead to the production costs increasing by more than 15%.

6.7.4. Other agreements

We also rely on third-party contract research organizations to conduct our clinical trials.

In addition, a number of our patent families are the result of collaborations with academic parties, including with Universidad Autónoma de Madrid and Consejo Superior de Investigaciones Científicas, and are jointly owned. Co-ownership agreements are in place with respect to all but one of such patent families, and certain types of exploitation of such patents may be subject to the co-owner's approval.

The patent families referred to as PCX006 and PCX007 are the subject of a co-ownership agreement dated November 3, 2004, between our subsidiary TiGenix SAU (formerly Cellerix), and the Universidad Autónoma de Madrid. Under the terms of this agreement, the Universidad Autónoma de Madrid assigned all exploitation rights to TiGenix SAU, including the right to license or sub-license to third parties. We are obligated to provide fifteen days' notice to the Universidad Autónoma de Madrid prior to the execution of any such license or sub-license. The agreement will remain in force throughout the legal life of the patents covered by this agreement, unless it is terminated by mutual agreement. Under the terms of an amendment dated April 24, 2008, we are obliged to make the following royalty payments to the Universidad Autónoma de Madrid as consideration for the exclusive assignment:

- 1.0% on net sales less than 50 million euros.
- 1.5% on net sales between 50 million euros and 100 million euros.
- 2.0% on net sales over 100 million euros.

The annual royalty rights we owe with respect to net sales generated in any country where a patent has not been granted will be halved until a patent is granted in such country.

The anticipated expiration date of the patents and patent applications of the patent family referred to as PCX006 is of October 4, 2024 for the granted Spanish patent ES2313805 and of October 4, 2025 for the patent applications.

The anticipated expiration date of patents and patent applications of the patent family referred to as PCX007 is May 16, 2026, with the exception of U.S. patents derived from US 11/167,061 without the benefit of the PCT filing, for which the anticipated expiration date is February 14, 2025 or June 24, 2025, without taking into account any patent term adjustment.

The patent family referred to as PCX008 is the subject of a co-ownership agreement dated June 1, 2009 between TiGenix SAU (formerly Cellerix) and the Consejo Superior de Investigaciones Científicas, under which ownership interests were allocated between TiGenix SAU and the Consejo Superior de Investigaciones Científicas in a ratio of two-thirds to one-third. We have an exclusive worldwide license, with the right to sub-license all the exploitation rights. The agreement will remain in force until the end of the life of the patent, unless it is terminated by mutual consent. If we wish to assign our interest in the patent family to a third-party the Consejo Superior de Investigaciones Científicas shall have a first right of refusal. Our payment obligations under the agreement are as follows:

- An initial payment of 30,000 euros on signing the agreement.
- A payment of 120,000 euros on the date on which any product that incorporates any of the patent's claims is brought onto the market.
- Royalty payments to be determined on the following basis:
  - 0.1% of net sales equal to or less than 50 million euros.
  - 0.2% of net sales between 50 million euros and 100 million euros.
  - 0.3% of net sales greater than 100 million euros

If we sub-license the rights to exploit the patent in Europe, the Consejo Superior de Investigaciones Científicas must receive consideration not less than it would receive if we exploited the patent rights ourselves. If we sub-license the rights to exploit the patent outside Europe, the Consejo Superior de Investigaciones Científicas must receive consideration equal to 1.5% of the amount of the royalties based on net sales. If we enter into a cross-license agreement with a third party whereby we authorize the third party to exploit the patent in exchange for the right to exploit any rights of that third party, net sales shall be deemed to be our sales from the exploitation of the rights acquired under the cross-license agreement, after first deducting any amount we may owe under the cross-license agreement. In addition, we will pay the Consejo Superior de Investigaciones Científicas 1.5% of any of the non-percentage-based fixed amounts, whether payable once or at regular intervals, that we may receive from sub-licensees for the sub-licensing of the rights to exploit the patent, on the same terms as agreed by us with such sub-licensees. Consequently, if our payment for the sub-license is wholly or partly conditional on market introduction, the Consejo Superior de Investigaciones Científicas will also be paid all or a pro rata amount of such percentage after the conditions are met.

The anticipated expiration date of all patent applications of the patent family referred to as PCX008 is September

22, 2026.

PCX011 is subject to a co-ownership agreement dated January 17, 2011, between TiGenix SAU (formerly Cellerix), the Consejo Superior de Investigaciones Científicas and the University of Seville determining ownership of the patent family, with 50% belonging to TiGenix SAU, 45% to the Consejo Superior de Investigaciones Científicas and 5% to the University of Seville. Under this agreement, we have an exclusive worldwide licence to the rights, without the right to sub-license. The agreement shall remain in force until the end of the life of the patent, unless it is terminated by mutual consent. Our payment obligations under the agreement are as follows:

- An initial payment of 5,000 euros on signing the agreement.
- A payment of 35,000 euros on the first visit by the first patient in a clinical trial for a product we promote that incorporates the patent rights.
- A payment of 35,000 euros on the first visit by the first patient in a pivotal Phase III clinical trial of a product we promote that incorporates the patent rights.
- A payment of 35,000 euros upon submission of a marketing authorization request dossier to a regulatory authority for a product that incorporates the patent rights.
- A payment of 100,000 euros upon approval of the product by the first regulatory agency.
- A royalty to be determined on the following basis on worldwide sales:
  - 0.2% of net sales equal to or less than 50 million euros.
  - 0.3% of net sales between 50 million euros and 100 million euros.
  - 0.4% of net sales more than 100 million euros.

All payments shall be distributed between the Consejo Superior de Investigaciones Científicas, which will receive 90% and the University of Seville, which will receive 10%. If we sub-license exploitation rights to the patent rights to which we provide added value, our counterparties will receive 15% of the total consideration. If such rights are sub-licensed to a third party outside Europe, our counterparties will receive 10% of the total consideration. In the event that we sublicense exploitation rights to the patent rights to which we have not provided any added value our counterparties will receive consideration no less than what they would have received had we directly exploited the patent. All parties have the right to terminate the agreement in case of a breach. We are permitted to terminate the agreement with ninety days' notice if we terminate development or commercialization of a product falling under the scope of the agreement.

The anticipated expiration date of all patent applications of the patent family referred to as PCX011 is August 3, 2029.

We will consider partnerships in the United States and other markets to rapidly bring Cx601, Cx611 or any of our other future products to market and maximize our value.

6.7.5. The Acquisition of Coretherapix

On July 29, 2015, we entered into a contribution agreement with Genetrix, to acquire 100% of the shares of Coretherapix, as well as certain receivables of Genetrix on Coretherapix, for 1.2 million euros in cash and 7.7 million new ordinary shares.

Under the contribution agreement, Genetrix is also entitled to receive contingent payments subject to the achievement of certain milestones, as follows:

- Up to 15 million euros, payable in new ordinary shares, subject to the results of the ongoing clinical trial of Coretherapix[7].
- Up to 245 million euros, subject to obtaining marketing authorization from the European Medicines Agency (EMA) or the U.S. Food and Drug Administration (FDA) for the first product or indication based on AlloCSCs in acute myocardial infarction, and further subject to obtaining certain future sales milestones, with the first sales milestone being reached when annual net sales reach 150 million euros and the last sales milestone being reached when annual net sales are above 750 million euros.
- Tiered royalties ranging from 6% to 16% of the direct net sales of the first product or indication based on AlloCSCs in acute myocardial infarction, if we commercialize the product ourselves, with similar sales milestones as the sales milestones mentioned immediately above, or certain percentages ranging from 10% to 35% of any third party royalties and sales milestones that we receive from a third party, if we license the rights to commercialize the first product or indication to a third party licensee.
- If Coretherapix obtains marketing authorization from the EMA or the FDA for any additional product or indication resulting from its portfolio as at June 29, 2015, Genetrix shall be entitled to a payment of 25.0 million euros upon receipt of marketing authorization for each such product.

6.8. MANUFACTURING AND LOGISTICS

6.8.1. Our eASC based Product Candidates

Our eASC-based product candidates are considered medicinal products pursuant to the European regulation governing advanced therapy medicinal products and Spanish Order SCO/3461/2003 and therefore must be manufactured in compliance with cGMP requirements in an authorized pharmaceutical establishment. This

7 *After the results of the clinical trial in March 2017, this amount has been reduced to 5 million euros in new ordinary shares.*

also applies to the medicinal products manufactured for use in clinical trials. We have successfully obtained a manufacturing license from the Spanish Medicines and Medical Devices Agency for the commercial production of Cx601.

Our product candidates are allogeneic eASCs that are originally derived from the subcutaneous fat tissue of a healthy donor. The fat biopsy tissue is first enzymatically digested and stem cells are recovered from it through a series of cell culture steps. In this first series of expansion steps, we create a master cell stock and extensively test the quality and safety of these first large cell stock. Once the master cell bank is qualified, it can be used to generate sequentially a large number of so called final drug substances cell stock. These final drug substances are obtained by expanding the cells of the master cell stock with a new series of cell expansions in cell culture. The final drug substances are then cryopreserved, or frozen at very low temperatures, until final use. When a final product needs to be provided to the physician, the required amount of frozen cells are thawed and recovered in cell culture. These cells are then subsequently collected for final formulation in excipient, or inert, medium. The amounts of cells and excipient volume depend on the particular product and their use in the clinics.

During the entire manufacturing process, there are specific quality controls to guarantee that the product complies with the adequate specifications for use. The controls applied during the process on raw materials and on the finished product before and after it is packaged are particularly important. We also conduct microbiological and environmental controls and process controls to ensure that the manufacturing conditions are compliant for the manufacturing and distribution of the finished product as required by cGMP requirements.

The EMA has established the characterization of eASCs in terms of identity, purity, potency, morphology, viability and cell growth kinetic according to the *Guideline on Cell-Based Medicinal Products* (EMA/CHMP/410869/2006) and the *Reflection Paper on Stem Cells* (EMA/CAT/571134/2009, adopted on January 14, 2011) in order to set the routine controls that will be applied at final product release as well as those to be performed at different stages of the manufacturing process to guarantee the batch consistency. We obtained scientific advice from the EMA to ensure that our manufacturing process is aligned with their requirements.

Our facilities for the manufacture of eASCs are located in Madrid, Spain, and consist of two separate clean rooms and adjacent support rooms. The facilities have been approved by the Spanish Medicines and Medical Devices Agency as being compliant with cGMP requirements for the manufacture of cellular medicinal products for investigational use (*i.e.*, clinical trials) and commercial use of approximately 400 patient lots, or finished products, per year. We expect to complete the expansion of the facility to increase production capacity to approximately 1,200 finished products per year by the end of 2017. The estimated costs of this expansion is 3 million to 3.5 million euros which we expect to share equally with Takeda. A modest additional investment would enable us to further expand our capacity to serve the European market on a commercial basis for Cx601.

The logistics for our eASC based products include the transport of the finished product in a special temperature controlled shipping container. The shipping process has been validated with specialist courier services. Based on our experience with these companies and the proximity of our manufacturing facility to the Madrid international airport of Barajas, we have demonstrated that we can reliably deliver the finished product to treatment sites anywhere in Europe and Israel within twenty-four hours.

6.8.2. Our CSC-based Product Candidates

Our CSC-based product candidates are also considered medicinal products pursuant to the European regulation governing advanced therapy medicinal products and Spanish Order SCO/3461/2003 and therefore must be manufactured in compliance with cGMP requirements in an authorized pharmaceutical establishment.

AlloCSC-01 and AlloCSC-02 are allogeneic CSC-based product candidates that are originally derived from a small amount of myocardial tissue that would typically be discarded during a routine valvular replacement operation. Coretherapix developed a manufacturing process compliant with cGMP that can produce hundreds of doses from a single biopsy to provide clinicians with an off the shelf product. The final product is cryopreserved in liquid nitrogen tanks to keep the cellular material in optimal condition until it is administered to patients.

We use 3P Biopharmaceuticals in Pamplona, Navarra, Spain, as a sub-contractor for manufacturing our CSC-based product candidates.

6.9. FACILITIES

Our registered office is in Leuven, Belgium. We have facilities in Madrid, Spain, where we lease two adjacent buildings. The first building houses our administrative offices, while the other building hosts our pharmaceutical development laboratories and a facility compliant with cGMP requirements for the manufacturing of clinical eASC products. The facility contains two separate clean rooms and adjacent support rooms. They have been approved by the Spanish Medicines and Medical Devices Agency as complying with cGMP requirements for the manufacture of cellular medicinal products for investigational use, *i.e.*, clinical trials.

Our subsidiary Coretherapix also has leased office space and laboratory facilities in Madrid, Spain and hosts our

research and development facilities. The laboratory facilities are equipped with scientific equipment appropriate for molecular and cell biology research.

6.10. ENVIRONMENTAL MATTERS

We use various chemical and biological products to conduct our research and to manufacture our products and are subject to specific environmental and occupational health and safety laws and regulations in the jurisdictions in which we operate. These laws and regulations govern, among other things the generation, storage, handling, use, transportation and disposal of hazardous materials and wastes and the health and safety of our employees. If we violate or fail to comply with these laws and regulations, we could be subject to third-party or administrative claims or fines or other sanctions by regulators. We could also be held responsible for costs and damages arising from any contamination at our past or present facilities or at third-party waste disposal sites.

We have established procedures to ensure our compliance with environmental laws and regulations, and such compliance has not had a material impact on our capital expenditures, earnings or competitive position.

6.11. LITIGATION

From time to time, we may be party to litigation that arises in the ordinary course of our business. As of the date of this annual report, we and our subsidiaries are not involved in any material litigation or legal proceedings, except as disclosed below:

6.11.1. Invalidation of U.S. patent US6777231

On April 1, 2011, Cellerix (the predecessor entity of our subsidiary TiGenix SAU) filed an inter partes re-examination request with the US Patent and Trademark Office regarding the patent US6777231, owned by the University of Pittsburgh. The US Patent and Trademark Office examiner issued a decision concluding that all ten originally issued and all eighteen newly submitted claims of the patent granted to the University of Pittsburgh were invalid. The University of Pittsburgh then appealed the examiner's decision, but only with respect to two of the newly submitted claims. We cross-appealed the examiner's refusal to reject those two newly submitted claims as anticipated by the prior art. The Patent Trial and Appeal Board issued a decision simultaneously granting both appeals, thus confirming that all claims of the patent were invalid, but with respect to the newly submitted claims, on different grounds than those cited in the decision by the initial examiner. On this basis, the University of Pittsburgh filed a request to reopen prosecution and submitted claim amendments to those newly submitted claims to the US Patent and Trademark Office for further consideration in an attempt to overcome the Patent Trial and Appeal Board's institution of a new ground for rejection as anticipated by the prior art. We submitted comments to the US Patent and Trademark Office arguing that these claim amendments did not overcome the anticipated rejection. On March 16, 2015, the examiner issued her determination that the claim amendments did not overcome the anticipated rejection and further adopted our proposed anticipated rejections over two additional prior art references and two proposed indefiniteness rejections. We and the University of Pittsburgh have submitted comments on the examiner's determination and replied to each other's comments. The comments and replies have been entered into the record and the proceedings were forwarded to the Patent Trial and Appeal Board on December 18, 2015. The proceedings were docketed at the PTAB as of September 13, 2016; accordingly a decision could be rendered by the PTAB at any time. We do not know exactly when a final decision will be rendered, and at this stage, we are not in a position to assess the probable outcome of these proceedings.

If the re-examination is not successful, the Company may be required to obtain a license on unfavorable terms, or may not be able to obtain a license at all in order to commercialize its adipose-derived stem cell products in the United States. The Company would potentially be susceptible to patent infringement or litigation regarding patent infringement while commercializing its eASC products in the United States. The Company may, therefore, choose to delay the launch of its adipose-derived stem cell products in the U.S. market until the expiration of the patent US6777231 on March 10, 2020.

6.11.2. Repayment of subsidies

On January 5, 2012, our subsidiary TiGenix SAU lodged an ordinary appeal before the Contentious-Administrative Chamber of the National Appellate Court of Spain (*Audiencia Nacional*) challenging two decisions taken by the Director General of Technology Transfer and Business Development at the Spanish Ministry of Science and Innovation (the "Administration") on November 16, 2011, which partially revoked and claimed the repayment of two subsidies, granted in 2006 and 2007, respectively.

Both contested subsidies were granted to a consortium of beneficiaries, one of which was TiGenix SAU. TiGenix SAU also acted as representative of the beneficiaries in the consortium.

The Administration claimed that (i) the contested subsidies, together with other subsidies granted to TiGenix SAU during the same time period (*i.e.*, 2006 and 2007), exceeded the maximum permitted by law, and therefore, requested the reimbursement of the excess amount granted, and that (ii) some of the expenses attributed to the project financed by the contested subsidies had already been financed by other subsidies.

TiGenix SAU contended, among other arguments, that the Administration is not entitled to aggregate all of the subsidies granted to TiGenix SAU (*i.e.*, the contested subsidies and other subsidies granted) for purposes of applying the maximum (*i.e.*, in the particular case of TiGenix SAU, 60% of the eligible cost of the project), because the various subsidies were granted for financing different projects with different purposes and scopes.

The total claim of the Administration, with respect to the full consortium and both contested subsidies, including late payment interest, amounted to 0.9 million euros, and the Administration claimed the full amount from TiGenix SAU, as the representative of the consortium.

As an intermediate measure, TiGenix SAU obtained an injunctive decision that the amounts claimed by the Administration do not have to be repaid until a final judgment is received. Instead, TiGenix SAU requested two financial institutions to issue separate guarantees in favor of the Administration guaranteeing the full amount claimed.

On May 20, 2014, TiGenix SAU received the judgment of the Chamber for Contentious Administrative Proceedings of the National High Court of April, 30, 2014. In this judgment, the court partially upheld the claims made by TiGenix SAU throughout the administrative appeal, and declared null the two resolutions on the partial repayment of the two subsidies that were granted in 2006 and 2007, respectively. However, the court also found that there were grounds for a partial repayment of the contested subsidies but ordered the Administration to recalculate the amount of such repayment. It concluded that some of the items included in the Administration's calculations are either wrong or duplicative.

On September 22, 2015 TiGenix SAU received a notification of the decision of the Administration of September 15, 2015, whereby a new assessment was issued in respect of the amounts to be repaid under the contested subsidies. According to the new assessment, the total amount to be reimbursed by TiGenix SAU with respect to the full consortium and both contested subsidies, including late payment interest, was reduced to 0.6 million euros. The claim against TiGenix SAU remained at 0.3 million euros.

TiGenix SAU has decided not to make any further appeal against the new assessment, and has paid the total amount of 0.6 million euros that had to be reimbursed according to the new assessment. Because TiGenix SAU obtained reimbursement from its main consortium partner for an amount of 0.3 million euros, TiGenix SAU effectively reimbursed 0.3 million euros.

6.12. INSURANCE

We maintain business liability insurance of 20 million euros. In addition, we have obtained liability insurance with respect to our directors and officers, which covers expenses, capped at a certain amount, that our board members and our senior management may incur in connection with their conduct as members of our board of directors or senior management or in connection with the initial public offering of ADSs in the United States. We also maintain insurance policies with respect to our manufacturing facilities, insurance policies with respect to the clinical trials we conduct as sponsor, group insurance policies for our employees in connection with occupational accidents and a legal expenses insurance policy. We consider our insurance coverage to be adequate in light of the risks we face.

7. CORPORATE GOVERNANCE

7.1. GENERAL PROVISIONS

This chapter 7 summarises the rules and principles by which the corporate governance of the Company has been organised pursuant to Belgian Company law, the Company's Articles of Association and the Company's corporate governance charter. It is based on the Articles of Association as last amended on December 29, 2016 and on the Company's corporate governance charter as last updated by the Board of Directors on December 3, 2014.

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. Corporate governance has been defined in the Code as a set of rules and behaviours according to which companies are managed and controlled. The Code is based on a "comply or explain" system: Belgian listed companies should follow the Code, but can deviate from its provisions and guidelines (though not the principles) provided they disclose the justifications for such deviation.

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.

The Board of Directors reviews its corporate governance charter from time to time and makes such changes as it deems necessary and appropriate. The charter has been made available on the Company's website (www.tigenix.com; under Investors > Corporate Governance) and can be obtained free of charge at the registered office of the Company.

7.2. BOARD OF DIRECTORS

7.2.1. General provisions

The Board of Directors has the broadest powers to manage and represent the Company, except to the extent provided otherwise by applicable law or the Articles of Association. The Board of Directors acts as a collegiate body but can delegate its competencies for special and specific matters to an authorized representative, even if this person is not a shareholder or a director.

Pursuant to the Articles of Association, the Board of Directors is to be composed of at least three (3) directors and a maximum of thirteen (13) members, whereby (i) any shareholder owning 20% or more of the shares of the Company shall be entitled to propose candidates for the appointment of two (2) directors and (ii) any shareholder owning at least 10% but less than 20% of the shares of the company shall be entitled to propose candidates for the appointment of one (1) director. Pursuant to the Company's corporate governance charter, at least half of the directors must be non-executive directors and at least three (3) of them must be independent.

The directors of the Company are appointed by the general shareholders' meeting. However, in accordance with the Companies Code, if the mandate of a director becomes vacant due to his death or resignation, the remaining directors have the right to appoint temporarily a new director to fill the vacancy until the first general shareholders' meeting after the mandate became vacant. The new director completes the term of the director whose mandate became vacant. The corporate governance charter provides that directors can be appointed for a maximum (renewable) term of four years.

A meeting of the Board of Directors is validly constituted if there is a quorum, consisting of at least half of the members present in person or represented at the meeting. If this quorum is not present, a new board meeting may be convened to deliberate and decide on the matters on the agenda of the board meeting for which a quorum was not present. In any event, the Board of Directors may only validly proceed if at least two directors are present. Meetings of the Board of Directors are convened by the chairman of the board or by at least two directors whenever the interests of the Company so require. In principle, the board will meet at least six (6) times per year.

The chairman of the Board of Directors has a casting vote on matters submitted to the Board of Directors.

7.2.2. Chairman

The Company's corporate governance charter provides that the Board of Directors appoints a chairman amongst the independent directors. The CEO cannot be the chairman.

The chairman of the Board of Directors is responsible for the leadership of the Board of Directors. The chairman takes the necessary measures to develop a climate of trust within the Board of Directors, contributing to open discussion, constructive dissent and support for the decisions of the Board of Directors. The chairman promotes effective interaction between the board and the executive management. The chairman establishes a close relationship with the CEO, providing support and advice, while fully respecting the executive responsibilities of the CEO.

The chairman has additional specific tasks. These are further described in the terms of reference of the Board of Directors as set out in the Company's corporate governance charter.

7.2.3. Independent directors

As to independent directors, a director can only be considered an independent director if he or she meets at least the criteria set out in Article 526*ter* of the Companies Code, which can be summarised as follows:

a. Not being an executive member of the board, or exercising a function as member of the legal management committee or as a person entrusted with daily management of the Company or a related company or person (as defined in Article 11 of the Companies Code), and not having been in such a position for the previous five years before his nomination.

b. Not having served for more than three terms as a non-executive director of the board, without exceeding a total term of more than twelve years.

c. Not being an employee of the senior management (as defined in Article 19, 2° of the Belgian Law of September 20, 1948 regarding the organisation of the business industry), of the Company or a related company or person (as defined in Article 11 of the Companies Code) and not having been in such a position for the previous three years before his nomination.

d. Not receiving, or having received, any significant remuneration or other significant advantage of a patrimonial nature from the Company, or a related company or person (as defined in Article 11 of the Companies Code) apart from any bonus or fee he received as a non-executive member of the board.

e. (i) Not holding any shareholder rights representing one tenth or more of the Company's capital, the Company's social funds or of a class of shares of the Company;

(ii) If the independent director holds shareholder rights representing less than one tenth:

- not holding shareholder rights representing, together with the shareholder rights owned in the same company by companies controlled by the independent director, one tenth or more of the Company's capital, the Company's social funds or of a class of shares of the Company; or

- the disposal of those shares or the exercise of the related rights not being subject to contractual stipulations or unilateral undertakings given by the independent director.

(iii) Not representing, in any circumstances, a shareholder fulfilling the conditions covered under this point (e).

f. Not having, or having had within the financial reported year, a significant business relationship with the Company or a related company or person (as defined in Article 11 of the Companies Code), either directly or as a partner, shareholder, member of the board, member of the senior management (as defined in Article 19, 2° of the Belgian Law of September 20, 1948 regarding the organisation of the business industry) of a company or person who maintains such a relationship.

g. Not being or having been within the last three years, a partner or employee of the current or former statutory auditor of the Company or a related company or person (Article 11 of the Companies Code).

h. Not being an executive director of another company in which an executive director of the Company is a non-executive member of the board, and not having other significant links with executive directors of the Company, through involvement in other companies or bodies.

i. Not being a spouse, legal partner or close family member to the second degree of a director of member of the legal management committee or person entrusted with the daily management or employee of the senior management (as defined in Article 19, 2° of the Belgian Law of September 20, 1948 regarding the organisation of the business industry) in the Company or a related company or person (as defined in Article 11 of the Companies Code) or of the persons referred to under (a) to (h) above.

The decision relating to the election of an independent director has to state the criteria on the basis of which he is considered independent.

In considering a director's independence, also the criteria set out in the Company's corporate governance charter will be taken into account. The Board of Directors discloses in its annual report which directors it considers independent directors.

The independent directors of the Company are Innosté SA (represented by Jean Stéphenne), Willy Duron, Greig Biotechnology Global Consulting, Inc. (represented by Russell Greig) and June Almenoff.

7.2.4. 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.
(2) First appointed on a provisional basis by the meeting of the Board of Directors on September 19, 2012, in order to replace Ms. Mounia Chaoui-Roulleau (who had been appointed director herself on January 18, 2012 in replacement of Ventech S.A.) and Mr. Koenraad Debackere, both having resigned effective as of September 19, 2012. The shareholders' meeting of February 26, 2013 has confirmed their appointment. Reappointed by the shareholders' meeting of June 2, 2016.
(3) First appointed on April 26, 2011 with effect as of May 3, 2011; reappointed on April 20, 2015.
(4) 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.
(5) 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.

The following paragraphs contain brief biographies of each of the directors or in case of legal entities being director, their permanent representatives, with an indication of other mandates as member of administrative, management or supervisory bodies in other companies during the previous five years (with the exception of the subsidiaries of the Company):

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.

Eduardo Bravo: CEO and Managing Director (executive)

Mr. Eduardo Bravo has more than twenty-five years of experience in the biopharmaceutical industry. He has been CEO of TiGenix since May 2011. Prior to joining TiGenix in 2005, he held several senior management positions at Sanofi-Aventis, including Vice President for Latin America, a division with 2000 employees and sales of more than EUR 1 billion. At Sanofi-Aventis he also held senior positions in marketing and sales for Europe and he was general manager for Belgium. Prior to his tenure at Sanofi-Aventis, Mr. Bravo spent seven years at SmithKline Beecham in commercial positions both nationally and internationally. Mr. Bravo holds a degree in Business Administration and an MBA (INSEAD). He is President of EBE (European Biopharmaceutical Enterprises) and member of the Executive Committee of ARM (Alliance for Regenerative Medicine).

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.

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), Syntaxin in the UK (acquired by Ipsen, France) and Bionor in Norway, as well as board member of Oryzon in Spain.

June Almenoff: Independent Director

Dr. June S. Almenoff is an accomplished executive with twenty years of experience in the pharmaceutical industry. Dr. Almenoff is executive chair of RDD Pharma and independent director of BrainStorm Cell Therapeutics and Ohr Pharmaceuticals. She is also in the scientific advisory board of Redhill Biopharma and in the advisory boards of several private life-sciences companies. Dr. Almenoff recently served as President and CMO of Furiex Pharmaceuticals and prior to that she held positions of increasing responsibility at GlaxoSmithKline from 1997 to 2010. Dr. Almenoff received her B.A. from Smith College and graduated from the M.D.-Ph.D. program at the Icahn (Mt. Sinai) school of Medicine. She completed post-graduate medical training at Stanford University Medical Center and served on the faculty of Duke University School of Medicine. Dr. June Almenoff is currently a Consulting Professor at Duke and a Fellow of the American College of Physicians.

Functioning 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

Litigation statement concerning the directors or their permanent representatives

At the date of this annual report and except as set out below, none of the directors or members of the executive management of the Company or, in case of corporate entities being director or executive manager, none of their permanent representatives, of the Company has, for at least the previous five years:

- any convictions in relation to fraudulent offences;
- held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation (except for Jean Stéphenne who was a member of the board of directors of Auguria Residential Real Estate Fund, which has been declared bankrupt in 2015 and except for Wilfried Dalemans who was a supervisory director of Arcarios B.V., which was liquidated in 2016 and ceased to exist as of December 30, 2016, and a director of Arcarios NV, which was dissolved and liquidated as of December 28, 2015);
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or,
- ever been disqualified by a court from acting as

member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

7.3. COMMITTEES OF THE BOARD OF DIRECTORS

7.3.1. General

The Board of Directors can set up specialised committees to analyse specific issues and advise the Board of Directors on those issues. The committees are advisory bodies only and the decision-making remains within the collegial responsibility of the Board of Directors. The Board of Directors determines the terms of reference of each committee with respect to the organisation, procedures, policies and activities of the committee.

7.3.2. Executive committee

The Board of Directors has not appointed an executive committee (directiecomité / comité de direction) within the meaning of Article 524bis of the Companies Code.

7.3.3. Audit committee

The Board of Directors has appointed an audit committee. The committee must be composed of at least three members. The committee must be composed exclusively of non-executive directors, a majority of which should be independent directors. At least one of the members who are independent directors must have the necessary expertise in the field of accounting and audit. Subject to the legal requirements set out in Article 526bis of the Companies Code, the composition of the committee may deviate from the above if, in the reasonable opinion of the Board of Directors, a different composition can bring more relevant experience and expertise to the committee. The committee appoints a chairman amongst its members. The chairman of the Board of Directors should not chair the committee.

The role of the audit committee is to monitor the financial reporting process, the effectiveness of the Company's internal control and risk management systems, the internal audit (if there is any) and its effectiveness and the statutory audit of the annual and consolidated accounts, and to review and monitor the independence of the external auditor, in particular regarding the provision of additional services to the Company. The committee should report regularly to the Board of Directors on the exercise of its functions. It should inform the Board of Directors about all areas in which action or improvement is necessary in the opinion of the audit committee. The audit committee should produce recommendations concerning the necessary steps that need to be taken. The audit review and the reporting on that review should cover the Company and its subsidiaries as a whole.

The committee has specific tasks, which include the Company's financial reporting, internal controls and risk management, and the internal and external audit process. These are further described in the terms of reference of the audit committee, as set out in the Company's corporate governance charter and in Article 526bis of the Companies Code. In principle, the committee will meet at least four (4) times per year.

The members of the committee shall at all times have full and free access to the Chief Financial Officer (CFO) and to any other employee to whom they may require access in order to carry out their responsibilities.

The Company Secretary is also the Secretary of the Audit Committee. The Secretary of the Audit Committee prepares a report on the findings and recommendations of the meetings of the Audit Committee. The Secretary sends the report to all the members of the Board of Directors as soon as possible after a meeting.

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. The meetings were attended by the CFO, Claudia D'Augusta, and the external auditor, BDO Bedrijfsrevisoren.

The audit committee took note of the risks of the Company's group as presented by the CEO and of the management letter prepared by the external auditor and has reviewed the bi-annual and annual accounts over 2016.

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° and Article 119, 6° of the Companies Code, we refer to the biographies of the members of the audit committee as listed in section 7.2.4.

7.3.4. Nomination and remuneration committee

The Board of Directors has appointed a nomination and remuneration committee. The committee must be composed of at least three members, which are all non-executive directors, the majority of which shall be independent directors. Subject to the legal requirements set out in Article 526quater of the Companies Code, the composition of the committee may deviate from the above if, in the reasonable opinion of the Board of Directors, a different composition can bring more relevant experience and expertise to the committee. The committee is chaired by the chairman of the Board of Directors or by another non-executive director appointed by the committee.

The role of the nomination and remuneration committee is to make recommendations to the Board of Directors with regard to the (re-)election of directors and the appointment of the CEO and the executive managers, and to make proposals to the board on the remuneration policy for directors, the CEO and the executive managers.

The committee has specific tasks. These are further described in the terms of reference of the nomination and remuneration committee as set out in the Company's corporate governance charter and Article 526quater of the Companies Code. In principle, the committee will meet at least two (2) times per year.

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.

The nomination and remuneration committee made recommendations with respect to the annual remuneration of the members of executive management for 2016 and the bonuses to be paid to them in respect of the realised objectives for 2015.

7.3.5. Company Secretary

An Moonen has been appointed as Company Secretary.

7.4. EXECUTIVE MANAGEMENT

7.4.1. General provisions

The Board of Directors has appointed the executive management of the Company. The terms of reference of the executive management have been determined by the Board of Directors in close consultation with the CEO.

7.4.2. Composition of the executive management

On the date of publication of this annual report, the executive management consists of the following four (4) members:

Name	Position	Age (as per December 31, 2016)
Eduardo Bravo	Managing Director and Chief Executive Officer (CEO)	51
Claudia D'Augusta	Chief Financial Officer (CFO)	47
Wilfried Dalemans	Chief Technical Officer (CTO)	59
Marie Paule Richard	Chief Medical Officer (CMO)	62

All members of executive management were in office during the full year 2016. No other changes were made to the composition of the executive management in 2016.

The executive management does not constitute an executive committee (*directiecomité / comité de direction*) within the meaning of Article 524bis of the Companies Code.

The following paragraphs contain brief biographies of each of the executive management members, or in case of legal entities being an executive management member, their permanent representatives, with an indication of other mandates as member of administrative, management or supervisory bodies in other companies during the previous five years (with the exception of the subsidiaries of the Company):

Eduardo Bravo: Managing Director and Chief Executive Officer (CEO)

Mr. Eduardo Bravo has more than twenty-five years of experience in the biopharmaceutical industry. He has been CEO of TiGenix since May 2011. Prior to joining TiGenix in 2005, he held several senior management positions at Sanofi-Aventis, including Vice President for Latin America, a division with 2000 employees and sales of more than EUR 1 billion. At Sanofi-Aventis he also held senior positions in marketing and sales for Europe and he was general manager for Belgium. Prior to his tenure at Sanofi-Aventis, Mr. Bravo spent seven years at SmithKline Beecham in commercial positions both nationally and internationally. Mr. Bravo holds a degree in Business Administration and an MBA (INSEAD). He is President of EBE (European Biopharmaceutical Enterprises) and member of the Executive Committee of ARM (Alliance for Regenerative Medicine).

Claudia D'Augusta: Chief Financial Officer (CFO)

Ms. Claudia D'Augusta has more than eighteen years of experience in the field of corporate finance. After completing her degree in Economics and a Ph.D. in Business Administration at the University of Bocconi, Italy, she joined the corporate finance department of Deloitte & Touche in Milan. She later joined Apax Partners in Madrid where she participated in the origination and execution of M&A transactions. She was subsequently finance director of Aquanima (Santander Group). Ms. D'Augusta was a member of the board of directors of Sensia S.L. from April 2005 until April 2008.

Wilfried Dalemans: Chief Technical Officer (CTO)

Mr. Wilfried Dalemans holds a PhD in molecular biology from the Universities of Hasselt and Leuven. Before joining TiGenix, Mr. Dalemans held several senior management positions at GlaxoSmithKline Biologicals, Belgium. As director regulatory strategy and development, he was responsible for the worldwide registration of GlaxoSmithKline's flu franchise. With this firm, he also served as director of molecular biology and research, responsible for the development of nucleic acid and tuberculosis vaccines, as well as immunology research activities. Prior to joining GlaxoSmithKline, Mr. Dalemans worked at Transgène, France, where he was responsible for the cystic fibrosis research program. Mr. Dalemans also served as a supervisory director of Arcarios B.V. and a director of Arcarios NV.

Marie Paule Richard: Chief Medical Officer (CMO)

Dr. Marie Paule Richard has spent more than twenty-five years in senior executive positions in pharmaceutical and biotechnology companies. She has held international management positions at Bristol Myers Squibb, Sanofi, GlaxoSmithKline, Sanofi Pasteur and Crucell. Prior to joining TiGenix, Dr. Richard was Chief Medical Officer at AiCuris GmbH, Germany. She has gained global and extensive experience of clinical development strategy and operations across all phases of development, regulatory affairs and pharmacovigilance, involving numerous anti-infective and immunomodulatory drugs and biologicals, as well as the life cycle management of marketed products. She has obtained several drug approvals and international license renewals in both Europe and the United States. Dr. Richard holds a medical degree from the University of Nancy, France, and, among other qualifications, a certification in Clinical Immunology.

7.4.3. Chief executive officer

The CEO is appointed, and can be removed, by the Board of Directors.

The CEO is charged by the Board of Directors with the day-to-day management of the Company and is therefore also managing director of the Company. In this function, the CEO has the following general responsibilities:

- examining, analysing and proposing to the Board of Directors strategic business opportunities that can contribute to the further growth of the group;
- executing the decisions of the Board of Directors;
- preparing proposals to the nomination and remuneration committee concerning the appointment, remuneration and evaluation of the members of the management team;
- setting up, chairing and leading the management team;
- managing the members of the management team as they discharge of their individual responsibilities, as determined by the CEO;
- determining the objectives to be achieved by the management;
- communicating with the outside world;
- ensuring the day-to-day management of the Company and accounting to the Board of Directors for such management at regular intervals;
- maintaining a continuous dialogue and interaction with the members of the Board of Directors in an at-

mosphere of openness and a climate of trust;
- maintaining excellent relationships with important customers, suppliers and the authorities.

The CEO has certain specific tasks. These are further described in the terms of reference of the CEO, as set out in the Company's corporate governance charter.

7.4.4. Other members of the executive management

The other members of the executive management are the CFO, the CTO and the CMO.

Each of the CFO, the CTO and the CMO are appointed and removed by the Board of Directors or by the CEO in close consultation with the Board of Directors. They report to the CEO.

The CFO has responsibility for the following areas:
- finance;
- legal;
- investor relations.

The CTO has responsibility for the following areas:
- R&D;
- industrialization;
- manufacturing;
- intellectual property;
- competitive projects.

The CMO has responsibility for the following areas:
- medical affairs;
- pharmacovigilance;
- clinical development.

7.5. REMUNERATION AND BENEFITS

Please refer to section 13.8.7.

7.6. SHARES AND WARRANTS HELD BY DIRECTORS AND EXECUTIVE MANAGEMENT

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

Please refer to section 13.8.7.2.

7.6.2. Shares and warrants held by executive management

Please refer to section 13.8.7.3.

7.6.3. TiGenix Stock option plan

TiGenix created several warrants within the context of stock option plans for employees, consultants or directors of the Company, as well as to persons who in the scope of their professional activity have made themselves useful to the Company.

For a description of the different stock option plans of TiGenix, see section 5.8.

7.6.4. TiGenix SAU Equity Based Incentive Plans

7.6.4.1. Summary of the Equity Based Incentive Plans

Prior to the contribution of all shares of TiGenix SAU (previously: Cellerix SA) to the Company on May 3, 2011 (the "Contribution"), TiGenix SAU had created two Equity Based Incentive Plans ("**EBIPs**"). The completion of the Contribution on May 3, 2011 triggered certain consequences outlined below which affect both EBIPs (section 7.6.4.2). A summary overview of some of the conditions of both EBIPs is given below. As of December 31, 2016, no more options were outstanding under the EBIPs.

EBIP 2008

An EBIP for the directors, managers and employees of TiGenix SAU was approved at the shareholders' annual general meeting of TiGenix SAU held on November 22, 2007, the conditions of which were definitively approved on May 20, 2008 (the "**EBIP 2008**") and subsequently modified by the shareholders' annual general meeting of TiGenix SAU held on October 15, 2010.

Options under the EBIP 2008 were granted to employees, executives and independent members of the board of directors of TiGenix SAU prior to the Contribution.

The EBIP 2008 options 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.

EBIP 2010

An EBIP for senior management of TiGenix SAU was approved at the shareholders' annual general meeting of TiGenix SAU held on October 15, 2010 (the "**EBIP 2010**").

Options under this EBIP 2010 were only granted to senior management of TiGenix SAU. The EBIP provided that the normal exercise price of the options is set at EUR 5.291. However, as a result of the Contribution the exercise price for all EBIP 2010 options had been reduced to EUR 0.013.

TiGenix SAU granted 221,508 options under the EBIP 2010. As a result of the Contribution, all EBIP 2010 options vested.

Pursuant to the terms of the EBIP 2010 the board of directors of TiGenix SAU opted to exchange all existing options for new options over existing TiGenix shares. As the options kept the same exchange rate of the Contribution (*i.e.* 2.96 TiGenix shares per TiGenix SAU share contributed to TiGenix), each EBIP 2010 option gave the EBIP 2010 beneficiaries the right to receive 2.96 TiGenix shares at the time of exercise.

Pursuant to the initial terms of the EBIP 2010, beneficiaries had to exercise their options 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.

Upon exercise of the options, the corresponding TiGenix shares were delivered by CX EBIP Agreement, SLU, which was the holder of the TiGenix shares to be delivered under the EBIP 2010, to the beneficiaries following payment by the beneficiaries of the applicable exercise price (referred to above) to CX EBIP Agreement, SLU.

Common characteristics of both TiGenix SAU EBIPs

All options had been granted free of charge.

Under both EBIPs, prior to the Contribution the options related to existing shares in TiGenix SAU that were held by CX EBIP Agreement, SLU, a Spanish limited liability company.

All such TiGenix SAU shares were exchanged for TiGenix shares as set out in section 7.6.4.2 below.

TiGenix SAU and its shareholders entered into a management agreement with CX EBIP Agreement, SLU (the "**EBIP Agreement**") in May 2008. The EBIP Agreement was amended and restated in November 2009 and has been further amended on May 3, 2011 simultaneously with the completion of the Contribution to establish the procedure for exercise of the EBIP options as indicated above in this section 7.6.4.1.

7.6.4.2. Impact of the Contribution

In the framework of the Contribution and in accordance with the terms of the EBIP Agreement, CX EBIP Agreement, SLU contributed its 642,226 TiGenix SAU shares into TiGenix and received 1,905,144 TiGenix 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 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 shares received by CX EBIP Agreement, SLU. Therefore, upon the exercise of its options under EBIP 2010, a beneficiary received a number of TiGenix shares corresponding to approximately 2.96 shares per option (rounded down to the nearest integer).

7.6.4.3. EBIP options outstanding as per December 31, 2016

In 2016, 190,497 EBIP 2010 Options, corresponding to 565,102 TiGenix shares were exercised.

As per December 31, 2016, no more EBIP 2010 options were outstanding.

7.7. PRIVATE INVESTMENT TRANSACTIONS AND TRADING IN COMPANY'S SHARES

The Board of Directors has approved a Dealing Code on private investment transactions to prevent insider trading offences and market abuse, particularly during the periods preceding the publication of results or information which could considerably influence the TiGenix share price.

The Dealing Code establishes rules for all employees (directors, management and other employees) and mandate contractors prohibiting dealing in the Company's shares or other financial instruments of the Company during certain periods, including a designated period preceding the announcement of its financial results (closed periods). It also establishes rules to set limitations in transactions by certain persons, including employees.

Trading in TiGenix shares by any employee for their own account needs to be approved by the Compliance Officer.

The Board of Directors has designated Claudia D´Augusta, CFO, as Compliance Officer whose duties and responsibilities are defined in the Dealing Code.

7.8. TRANSACTIONS WITH AFFILIATED COMPANIES

7.8.1. General

Each director and executive manager is encouraged to arrange his personal and business affairs so as to avoid direct and indirect conflicts of interest with the Company. The Company's corporate governance charter contains specific procedures to deal with potential conflicts.

7.8.2. Conflicts of interest of directors

Article 523 of the Companies Code provides for a special procedure within the Board of Directors in the event of a possible conflict of interest of one or more directors with one or more decisions or transactions by the Board of Directors.

In the event of a conflict of interest, the director concerned has to inform his fellow directors of his conflict of interest before the Board of Directors deliberates and takes a decision in the matter concerned. Furthermore,

the conflicted director cannot participate in the deliberation and voting by the board on the matter that gives rise to the potential conflict of interest. The minutes of the meeting of the Board of Directors must contain the relevant statements by the conflicted director, and a description by the board of the conflicting interests and the nature of the decision or transaction concerned.

The minutes must also contain a justification by the board for the decision or transaction, and a description of the financial consequences thereof for the Company. The relevant minutes must be included in the (statutory) annual report of the Board of Directors. The conflicted director must also notify the statutory auditor of the conflict. The statutory auditor must describe in his annual (statutory) audit report the financial consequences of the decision or transaction that gave rise to the potential conflict.

In case of non-compliance with the foregoing, the Company may request the annulment of the decision or the transactions which have taken place in breach of these provisions if the counterparty to the decision or the transaction was, or should have been, aware of such breach.

The procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions. It also does not apply to transactions or decisions between companies of which one holds (directly or indirectly) at least 95% of the voting financial instruments of the other, and transactions or decisions between companies whereby at least 95% of the voting financial instruments of both companies are (directly or indirectly) held by another company.

Article 524ter of the Companies Code provides for a similar procedure in the event of conflicts of interest of executive committee members. In the event of such conflict, only the Board of Directors will be authorized to take the decision that has led to the conflict of interest. The Company's executive management team does not qualify as an executive committee in the sense of Article 524bis of the Companies Code.

Section 13.10 describes the Board meetings where decisions were taken that required the application of the conflict of interests procedure pursuant to Article 523 of the Companies Code.

7.8.3. Related party transactions

Article 524 of the Companies Code provides for a special procedure that applies to intra-group or related party transactions with affiliates. The procedure applies to decisions or transactions between the Company and affiliates of the Company that are not a subsidiary of the Company. It also applies to decisions or transactions between any of the Company's subsidiaries and such subsidiaries' affiliates that are not a subsidiary of the Company. Prior to any such decision or transaction, the Board of Directors must appoint a special committee consisting of three independent directors, assisted by one or more independent experts. This committee must assess the business advantages and disadvantages of the decision or transaction for the Company. It must quantify the financial consequences thereof and must determine whether or not the decision or transaction causes a disadvantage to the Company that is manifestly illegitimate in view of the Company's policy. If the committee determines that the decision or transaction is not manifestly illegitimate, but is of the opinion that it will prejudice the Company, it must clarify which advantages are taken into account in the decision or transaction to compensate the disadvantages. All these elements must be set out in the committee's advice. The Board of Directors must then take a decision, taking into account the opinion of the committee.

Any deviation from the committee's advice must be motivated. Directors who have a conflict of interest are not entitled to participate in the deliberation and vote (as set out in section 7.8.2 above). The committee's advice and the decision of the Board of Directors must be notified to the Company's statutory auditor, who must render a separate opinion. The conclusion of the committee, an excerpt from the minutes of the Board of Directors and the opinion by the statutory auditor must be included in the (statutory) annual report of the Board of Directors.

The procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions, and transactions or decisions with a value of less than 1% of the consolidated net assets of the Company.

8. EMPLOYEES

TiGenix relies on a team of experienced professionals in all areas required to meet its strategic objectives including research and development, medical and regulatory, manufacturing, business development, product development, infrastructure, intellectual property and finance.

On December 31, 2016, the TiGenix group had a total of 80 permanent employees (full-time equivalents). About 70% work in research and development activities (including clinical development and manufacturing), the remainder in corporate functions. Corporate functions include finance, human resources, legal, ICT, business development, investor relations, and intellectual property.

9. MAJOR SHAREHOLDERS

9.1. OVERVIEW

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 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. See also section 9.4.2.
(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.

9.2. VOTING RIGHTS

As further described under section 5.6.1, each shareholder is entitled to one vote per share.

In an agreement entered into on May 3, 2011, simultaneously with the completion of the contribution of the TiGenix SAU (previously: Cellerix SA) shares to the Company, between TiGenix SAU and CX EBIP Agreement, SLU, CX EBIP Agreement, SLU has unilaterally undertaken to abstain from: (i) exercising its voting rights on any shares in the Company owned by CX EBIP Agreement, SLU and (ii) attending any shareholders' meetings of the Company until the Equity Based Incentive Plans of TiGenix SAU, described in section 7.6.4, have expired.

9.3. SHAREHOLDERS' AGREEMENTS

The Company has no knowledge of any outstanding agreements between its shareholders.

9.4. RELATIONS WITH MAJOR SHAREHOLDERS

9.4.1. CX EBIP Agreement, SLU

TiGenix SAU has an agreement with CX EBIP Agreement, SLU, a wholly-owned subsidiary of Genetrix Life Sciences A.B., in relations to the EBIPs. This is set out in more detail in section 7.6.4.1 ("Summary of the Equity Based Incentive Plans").

9.4.2. Gri-Cel SA

On November 19, 2013, simultaneously with the entering into of the subscription agreement pursuant to which Gri-Cel SA subscribed to 34,188,034 new TiGenix shares for a total amount of EUR 12 million (including issuance premium), TiGenix entered into an agreement with Gri-Cel SA pursuant to which it will in the future offer to Gri-Cel SA the possibility to evaluate and negotiate potential partnering opportunities in relation to the development and the commercialization of TiGenix products other than ChondroCelect.

Following the closing of the transaction and as agreed in the subscription agreement, on December 4, 2013, the Board of Directors appointed Dirk Büscher and José Terencio, two directors proposed by Gri-Cel SA, on a provisional basis to the board (in replacement of two directors who resigned). The shareholders' meeting of April 2, 2014 confirmed the appointments. Effective July 31, 2015, Dirk Büscher and José Terencio resigned from the Board of Directors.

Pursuant to the subscription agreement, the Company proposed to the shareholders' meeting to amend the Articles of Association in relation to the composition of

the Board of Directors. Following the September 8, 2014 extraordinary shareholders' meeting, the Articles of Association provide that the Board of Directors shall be composed of at least three (3) directors and a maximum of thirteen (13) members, whereby (i) any shareholder owning 20% or more of the shares of the Company shall be entitled to propose candidates for the appointment of two (2) directors and (ii) any shareholder owning at least 10% but less than 20% of the shares of the company shall be entitled to propose candidates for the appointment of one (1) director.

Based on the most recent transparency declaration received by the Company from related companies Grifols S.A. / Gri-Cel S.A. dated December 3, 2015[8]:

- Gri-Cel S.A. owns 34,188,034 shares (representing 19.84% of the Company's shares at the time of the transparency notification)[9] and
- Grifols Worldwide Operations Limited holds 250 convertible bonds with expiration date March 6, 2018 and conversion period from April 16, 2015 until February 20, 2018.[10]

9.4.3. Subscription of new shares by Takeda

Under the terms of the licensing agreement with Takeda described elsewhere in this annual report, Takeda agreed to make a 10 million euro equity contribution in the Company within 12 months of the date of the licensing agreement. Pursuant to that commitment, on December 29, 2016 Takeda subscribed to 11,651,778 new ordinary shares of TiGenix at an issue price of 0.858 euro (rounded) per share. Pursuant to the terms of the licensing agreement, the issue price was equal to the average closing price of TiGenix' shares on Euronext Brussels over the 30 day period preceding the date on which the issuance of the new shares commenced (December 20, 2016) and represented a 23% premium over the closing price on Euronext Brussels on that date. Following the acquisition of the new shares, Takeda held 4.48% of the voting rights in TiGenix.

8 *Note that as a result of transactions that do not need to be disclosed to TiGenix, the percentages mentioned might not be the actual percentages of securities held 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).*

9 *Please note that the information set out in the most recent transparency declaration excludes 7,741,920 shares purchased in the form of ADSs in the US IPO.*

10 *Please note that the 250 bonds, at their current (i.e. as from December 20, 2016) conversion price of EUR 0.8983, can be converted into 27,830,346 new shares in the Company in case all 250 convertible bonds are converted.*

10. FINANCIAL STATEMENTS: GENERAL

10.1. GENERAL INFORMATION

On April 5, 2017, the Board of Directors made up the consolidated financial statements and the statutory financial statements of the Company with respect to the financial year ended on December 31, 2016, as well as the annual report on these consolidated and statutory financial statements.

The consolidated financial statements can be found in sections 11.1, 11.2, 11.3, 11.4 and 11.5; an extract of the statutory financial statements can be found in sections 12.1 and 12.2.

The annual report on the consolidated financial statements and on the statutory financial statements can be found in section 13.

The consolidated financial statements of the Company with respect to the financial years ended December 31, 2014, December 31, 2015 and December 31, 2016 were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union ("IFRS"). They have all been audited by BDO Bedrijfsrevisoren - BDO Réviseurs d'Entreprises CVBA/SCRL, represented by Veerle Catry in 2016 and by Gert Claes in 2015 and 2014, who delivered an unqualified audit opinion with an emphasis of matter paragraph for 2014 and 2015 and an unqualified audit opinion for 2016. These audit opinions can be found in sections 11.7, 11.8 and 11.9 respectively.

BDO Bedrijfsrevisoren – BDO Réviseurs d'Entreprises CVBA/SCRL, represented by Gert Claes (for the financial years ended December 31, 2015 and 2014) and Veerle Catry (for the financial year ended December 31, 2016), also issued an unqualified audit opinion on the statutory financial statements of the Company with respect to the financial year ended December 31, 2016 and unqualified audit opinions with an emphasis of matter paragraph on the statutory financial statements of the Company for the years 2015 and 2014.

This annual report, together with the complete version of the statutory financial statements of the Company with respect to the financial year ended December 31, 2016, the annual report of the Board of Directors on the consolidated financial statements and the statutory financial statements, and the auditor's report on the statutory financial statements are made available on the website of TiGenix (www.tigenix.com) as from April 6, 2017 at the latest and can be obtained free of charge.

Certain financial information in this annual report has been subject to rounding adjustments and currency conversion adjustments. Accordingly, the sum of certain data may not be equal to the expressed total.

The Company has incorporated the 2014 consolidated financial statements by reference.

10.2. STATEMENT BY THE CEO

In accordance with Article 12 § 2 3°, a) and b) of the Royal Decree of 14 November 2007 on the obligations of issuers of financial instruments admitted to trading on a regulated market, Eduardo Bravo, CEO of TiGenix NV, states on behalf of TiGenix NV that, to the best of his knowledge,

a) the annual financial statements prepared in accordance with the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of TiGenix NV and the undertakings included in the consolidation taken as a whole; and

b) the annual report of the Board of Directors provides for a true and fair overview of the development and results of the business and the position of TiGenix NV and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Leuven, April 5, 2017

Eduardo Bravo, CEO of TiGenix NV

11. CONSOLIDATED FINANCIAL STATEMENTS

11.1. CONSOLIDATED INCOME STATEMENTS

Thousands of euros except per share data	Notes	Years ended December 31, 2016	2015	2014
CONTINUING OPERATIONS				
Revenues				
Royalties	6	395	537	338
License revenues	6	25,000	-	-
Grants and other operating income	6	1,395	1,703	5,948
Total revenues		**26,790**	**2,240**	**6,286**
Research and development expenses	7	(21,454)	(19,633)	(11,443)
General and administrative expenses	7	(8,363)	(6,683)	(7,406)
Total operating charges		**(29,817)**	**(26,316)**	**(18,849)**
Operating Loss		**(3,027)**	**(24,076)**	**(12,563)**
Financial income	8	156	148	115
Interest on borrowings and other finance costs	8	(7,288)	(6,651)	(1,026)
Fair value gains	8	11,593	—	60
Fair value losses	8	—	(6,654)	—
Impairment and gains/(losses) on disposal of financial instruments	8	—	(161)	—
Foreign exchange differences, net	8	232	1,000	1,101
Profit (Loss) before taxes		**1,666**	**(36,394)**	**(12,313)**
Income tax benefits	9	2,136	1,325	927
Profit (Loss) for the year from continuing operations		**3,802**	**(35,069)**	**(11,386)**
DISCONTINUED OPERATIONS				
Loss for the year from discontinued operations	10	—	—	(1,605)
Profit (Loss) for the year		**3,802**	**(35,069)**	**(12,990)**
Attributable to equity holders of TiGenix		*3,802*	*(35,069)*	*(12,990)*
Basic income (loss) per share (euro) from continuing operations	11	**0.02**	**(0.21)**	**(0.08)**
Diluted income (loss) per share (euro) from continuing operations	11	**0.02**	**(0.21)**	**(0.07)**
Basic and diluted loss per share from discontinued operations (euro)	11	**—**	**—**	**(0.01)**

The accompanying notes form an integral part of these consolidated financial statements.

11.2. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Thousands of euros	Years ended December 31, 2016	2015	2014
Profit (Loss) for the year	**3,802**	**(35,069)**	**(12,990)**
Items of other comprehensive income that may be reclassified subsequently to the income statement			
Currency translation differences	(327)	(1,006)	(925)
Other comprehensive Income (loss)	**(327)**	**(1,006)**	**(925)**
Total comprehensive Income (Loss)	**3,475**	**(36,075)**	**(13,915)**
Attributable to equity holders of TiGenix	*3,475*	*(36,075)*	*(13,915)*

The accompanying notes form an integral part of these consolidated financial statements.

11.3. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Thousands of euros	Notes	As at December 31, 2016	2015	2014
ASSETS				
Intangible assets	12	46,584	48,993	34,172
Property, plant and equipment	13	1,642	484	601
Available-for-sale investments	14	—	—	161
Other non-current assets	15	3,855	4,764	1,874
Non-current assets		**52,081**	**54,241**	**36,808**
Inventories	16	244	365	102
Trade and other receivables	17	2,737	3,033	1,734
Current tax assets	9	1,588	1,147	927
Other current financial assets	18	1,582	2,403	878
Cash and cash equivalents		77,969	17,982	13,471
Current assets		**84,120**	**24,930**	**17,113**
TOTAL ASSETS		**136,201**	**79,171**	**53,921**
EQUITY AND LIABILITIES				
Share capital	19	25,996	17,730	16,048
Share premium	19	166,630	112,750	100,118
Accumulated deficit		(116,201)	(120,002)	(87,041)
Other reserves		3,254	2,667	5,632
Equity attributable to equity holders		**79,679**	**13,145**	**34,757**
Total equity	19	**79,679**	**13,145**	**34,757**
Financial loans and other payables	20	29,084	40,084	10,652
Deferred tax liability	21	—	24	29
Other non current liabilities – Contingent consideration	22	7,311	12,029	—
Non current liabilities		**36,395**	**52,137**	**10,681**
Current portion of financial loans	20	5,412	4,611	2,256
Other financial liabilities	20	350	985	671
Trade and other payables	23	5,147	3,349	2,352
Other current liabilities	24	3,671	4,944	3,204
Other current liabilities – Contingent consideration	24	5,547	—	—
Current liabilities		**20,127**	**13,889**	**8,483**
TOTAL EQUITY AND LIABILITIES		**136,201**	**79,171**	**53,921**

The accompanying notes form an integral part of these consolidated financial statements.

11.4. CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years ended December 31,		
Thousands of euros	Notes	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating loss		**(3,027)**	**(24,076)**	**(12,563)**
Adjustments for:				
Depreciation, amortisation and impairment expenses		3,201	4,393	3,113
Share based compensation		914	149	459
Grants revenues	6	(725)	(855)	(5,522)
Contingent consideration	22	829	—	—
Other		89	62	(923)
		1,281	(20,327)	(15,436)
Movements in working capital:				
(Increase)/decrease in inventories		120	(263)	(25)
(Increase)/decrease in trade and other receivables		498	(852)	(1,092)
(Increase)/decrease in other financial assets		—	—	(58)
Increase in trade and other payables		1,798	996	96
Increase/(decrease) in other current liabilities		(1,299)	872	3,301
Cash (used in)/provided by operations		*2,400*	*(19,574)*	*(13,214)*
Income taxes received		1,147	—	—
Cash flow from discontinued operations	10	—	—	(153)
Net cash (used in) / provided by operating activities		**3,548**	**(19,574)**	**(13,367)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Interests received		—	—	57
Acquisition of property, plant and equipment	13	(1,499)	(33)	(40)
Acquisition of intangible assets	12	(631)	(587)	(315)
Proceeds from disposal of property, plant and equipment		32	—	4
(Increase)/decrease of other non current assets		1,787	(1,090)	112
(Increase)/decrease of other current financial assets		821	(1,570)	—
Acquisition of subsidiaries, net of cash acquired	4	—	(1,154)	—
Cash flow from discontinued operations	10	—	—	3,490
Net cash (used in) / provided by investing activities		**510**	**(4,434)**	**3,307**
CASH FLOWS FROM FINANCING ACTIVITIES				
Gross proceeds from issuance of equity instruments of the Company	19	67,862	8,658	(415)
Issuance costs equity increase	19	(5,716)	(441)	—
Net proceeds from financial loans		948	—	9,583
Repayments of financial loans		(3,833)	(2,729)	(246)
Repayments of other financial liabilities		—	(163)	(874)
Proceeds from government grants		138	1,532	880
Proceeds from issuance of convertible notes	20	—	25,000	—
Issuance costs convertible notes	20	—	(1,127)	—
Interests paid		(3,470)	(2,207)	(960)
Net cash provided by financing activities		**55,929**	**28,523**	**7,969**
Net increase/(decrease) in cash and cash equivalents		**59,987**	**4,515**	**(2,091)**
Cash and cash equivalents at beginning of the period		17,982	13,471	15,565
Effect of currency translation on cash and cash equivalents		—	(4)	(3)
Cash and cash equivalents at end of period		**77,969**	**17,982**	**13,471**

The accompanying notes form an integral part of these consolidated financial statements.

11.5. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Thousands of euros except share data	Numbers of shares	Share capital	Share premium	Accumulated deficits	Other reserves: Equity-settled employee benefits reserve	Other reserves: Translation reserves	Total Equity
At January 1, 2014	**160,476,620**	**16,048**	**100,125**	**(74,049)**	**6,284**	**(186)**	**48,222**
Loss for the period	—	—	—	(12,990)	—	—	(12,990)
Other comprehensive loss	—	—	—	—	—	(925)	(925)
Total comprehensive loss	—	—	—	(12,990)	—	(925)	(13,915)
Other	—	—	11	—	—	—	11
Transaction costs	—	—	(19)	—	—	—	(19)
Share based compensation	—	—	—	—	459	—	459
At December 31, 2014	**160,476,620**	**16,048**	**100,118**	**(87,041)**	**6,744**	**(1,110)**	**34,757**
Loss for the period	—	—	—	(35,069)	—	—	(35,069)
Other comprehensive loss	—	—	—	—	—	(1,006)	(1,006)
Total comprehensive loss	—	—	—	(35,069)	—	(1,006)	(36,075)
Issuance of shares	16,827,967	1,682	13,073	—	—	—	14,755
Transaction costs	—	—	(441)	—	—	—	(441)
Share based compensation	—	—	—	2,108	(1,959)	—	149
Other	—	—	—	—	(1)	1	—
At December 31, 2015	**177,304,587**	**17,730**	**112,750**	**(120,002)**	**4,784**	**(2,117)**	**13,145**
Profit for the period	—	—	—	3,801	—	—	3,801
Other comprehensive loss (Note19.3)	—	—	—	—	—	(327)	(327)
Total comprehensive income	—	—	—	3,801	—	(327)	3,474
Issuance of shares (Note 19.1)	82,651,778	8,265	59,596	—	—	—	67,862
Transaction costs (Note 19.1)	—	—	(5,716)	—	—	—	(5,716)
Share based compensation (Notes 19.2, 25)	—	—	—	—	914	—	914
At December 31, 2016	**259,956,365**	**25,996**	**166,630**	**(116,201)**	**5,698**	**(2,444)**	**79,679**

The accompanying notes form an integral part of these consolidated financial statements.

11.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

TiGenix (the "Company", and together with its subsidiaries, the "Group", "we" or "us") is a leading European cell therapy company with an advanced clinical stage pipeline of adult stem cell programs. The stem cell programs are based on proprietary validated platforms of allogeneic expanded stem cells targeting autoimmune, inflammatory and heart diseases. Built on solid pre-clinical and CMC packages, they are being developed in close consultation with the European Medicines Agency.

As a result of this activity, the Group has developed some different products which are in different stages of approval and/or potential sale.

TiGenix most advanced product is Cx601 which finalized its Phase III. This product has been developed to treat complex perianal fistulas in patients with Crohn's disease. The product has met the primary endpoint of this trial at Week 24 of treatment which has allowed TiGenix to file for European marketing authorization in 2016.

On July 4, 2016 TiGenix entered into a licensing agreement with Takeda, a pharmaceutical company leader in gastroenterology, whereby Takeda acquired an exclusive right to commercialize Cx601 for complex perianal fistulas in Crohn's patients outside of the U.S.

Another developed product is Cx611 which has successfully concluded a Phase IIa trial in rheumatoid arthritis, and is now in development for a Phase Ib/IIa study in severe sepsis secondary to severe community-acquired pneumonia.

Effective as of July 31, 2015, TiGenix acquired Coretherapix, whose lead cellular product, AlloCSC-01, is currently in a Phase II clinical trial in acute myocardial infarction (AMI). In addition, the second product candidate from the cardiac stem cell-based platform acquired from Coretherapix, AlloCSC-02, is being developed in a chronic indication.

ChondroCelect®, for cartilage repair in the knee, was the first cell-based product approved in Europe. Due to the regulatory environment TiGenix has withdrawn the Marketing authorization for ChondroCelect and came to an agreement with Sobi, Finnish Red Cross and Pharmacell for the early termination of their existing commercial relationships.

TiGenix is a limited liability company incorporated and domiciled in Belgium. The registered office is located at Romeinse straat 12, bus 2, 3001 Leuven, Belgium.

The consolidated financial statements of the Group for the years ended December 31, 2016, 2015 and 2014 were drawn up by the Company's board of directors on April 5, 2017.

2. Summary of significant accounting policies

2.1. Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or IFRS, as endorsed by the European Union ('IFRS').

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

These consolidated financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the IFRS conceptual framework, insofar as the Group's consolidated financial statements, taken as a whole, are concerned. All amounts are presented in thousands of euros, unless otherwise indicated, rounded to the nearest 1,000 euro.

The financial statements have been prepared on the basis of the historical cost method. Any exceptions to the historical cost method are disclosed in the valuation rules described hereafter.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

Alternative measures not defined in IFRS

TiGenix uses the operating loss measure in its decision-making, because it provides information useful to assess the Group's performance, solvency and liquidity. This measure should not be viewed in isolation or as an alternative to the measures presented according to the IFRS.

Operating loss is calculated by excluding from the profit/loss for the year before taxes exclusively the financial results, that is, all results derived from interest income and expenses, impairment and reversal of impairment of financial instruments, foreign exchange differences, changes in fair values and variation of the contingent consideration of the business combinations.

Liquidity

The Group is subject to a number of risks similar to those of other pre commercial stage companies, including uncertainty of product development and generation of revenues, dependence on outside sources of capital, risks associated with research, development, testing, and obtaining related regulatory approvals of its pipeline products, dependence on price reimbursement decisions from national authorities or insurance providers, dependence on third party manufacturers, suppliers and collaborators, successful protection of intellectual property, competition with larger, better capitalized companies, successful completion of the Group's development programs. Ultimately, the attainment of profitable operations is dependent on future events, including obtaining adequate financing to fulfill its development activities and generating a level of revenues adequate to support the Group's cost structure.

The Group has experienced net losses and significant cash outflows from cash used in operating activities over the past, and as at December 31, 2016 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.

The Group has sufficient funds to continue operating for the next 12 months, but will require significant additional cash resources to initiate new clinical trials related to its pipeline and to continue seeking regulatory approval of its pipeline. The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. This basis of accounting contemplates the recovery of the Group's 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 the Group's cost structure.

To support the Group's financial performance, management has undertaken several initiatives.

On March 14, 2016, the Company raised 23.8 million euros in gross proceeds through a private placement of 25,000,000 new shares at a subscription price of 0.95 euros per share. The New Shares were placed through an accelerated book building with institutional investors in Belgium and abroad at a price of EUR 0.95 per share. (See note 19).

On July 4, 2016, Takeda and TiGenix entered into an exclusive worldwide ex-U.S. license, 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.

Following Marketing Authorization in the European Union, Takeda will become the marketing authorization holder and will be responsible for all commercialization and regulatory activities. Takeda will also be responsible for additional development activities of Cx601 for the indication of complex perianal fistulas in Crohn's disease. TiGenix will retain the rights to develop Cx601 in new indications.

During July 2016, TiGenix received a non-refundable upfront cash payment of 25.0 million euros in execution of this agreement as consideration for a license of the intellectual property, which amount has been recognized as License revenue in the Income Statement as per December 31, 2016. In addition, the Company is eligible to receive regulatory and sales milestone payments for up to a potential total of 355 million euros and double digit royalties on net sales by Takeda.

On December 15, 2016, TiGenix raised 34.1 million euros gross proceeds from its initial public offering in the United States from the sale of 2,300,000 American Depositary Shares ("ADSs"), representing 46,000,000 ordinary shares, at a price to the public of USD 15.5 per ADS. (See note 19).

In addition, on December 20, 2016, TiGenix exercised the option under the License Agreement enabling it to require Takeda to make a 10.0 million euros equity investment. Takeda subscribed 11,651,778 new ordinary shares at an issuance price of 0.86 euros per share.

The Group will continue to consider additional business opportunities to allow us to develop our pipeline and generate additional revenues. We expect to use any capital obtained from such fund raisings or other arrangements to further develop our product candidates.

As at December 31, 2016, the Group had cash and cash equivalents of 78.0 million euros.

The future viability of the Group is dependent on its ability to generate cash from operating activities, to raise additional capital to finance its operations or to successfully obtain regulatory approval to allow marketing of the Group's products. The Group's failure to raise capital as and when needed could have a negative impact on its financial condition and ability to pursue its business strategies.

The consolidated financial statements do not include any adjustments due to this uncertainty relating to the recoverability and classification of recorded asset amounts and classification of liabilities.

a) Changes to IFRS during the period

The standards and interpretations listed below have been approved by the EU and become effective for annual periods beginning on 1 January 2016. While the list of new standards is provided as follows, not of all them are applicable to the Company and those applica-

ble have had no significant impact on TiGenix financial statements as at 31 December 2016:

- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IAS 16 and IAS 41- Agriculture: Bearer Plants
- Amendments to IAS 27- Equity Method in Separate Financial Statements
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities : Applying the Consolidation Exception
- Amendments to IFRS 11- Accounting for Acquisition of Interests in Joint Operations

b) Standards issued by the IASB but not yet effective in the EU

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers (including its clarifications)
- IFRS 16 Leases
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 7 - Disclosure Initiative
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses –
- Amendments to IAS 40 – Transfers of investments properties
- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

For relevant standards listed above we expect the following impacts:

- **IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

The Company plans to adopt the new standard on the required effective date. The Company expects no significant impact on its balance sheet and equity.

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

- **IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard on the required effective date. The Company has performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Once the analysis is performed the transition method will be chosen. Based on the current sales contracts, both methods are feasible from implementation perspective and we do not expect a significant impact in the implementation. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

The Company is in the business of providing licenses to produce stem cell programs and their relating manufacturing process, when applicable.

(a) Licenses sales

License is expected to be sold when developed, so it will be a right to use the entity's intellectual property as it exists at the point in time in which the license is granted, which results in revenue that is recognized at a point in time. This accounting treatment will not differ from current accounting practices.

Contracts with customers are expected to have royalties-based sales. IFRS 15 requires that royalties received in exchange for licenses of intellectual property are recognized at the later of when the subsequent sale or usage occurs and the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (or partially satisfied). We do not expect that this accounting treatment will differ from current practices.

(b) Performance obligations

In some circumstances the Group sells the license and the related manufacturing process. Based on the analysis performed by the entity both, license and manufacturing process are separate performance obligations as the manufacturing process of the product is sold separately at customer requests, and for a determined period of time until the customer is self-sufficient in the production.

(c) Variable consideration

Some contracts with customers provide variable considerations depending on some country's approvals for the sale of the product. As revenue cannot be reliably measured, the Company defers revenue recognition until the uncertainty is resolved.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Even though variable consideration is subject to be estimated, under IFRS 15 it will be constrained as it does not depend on TiGenix to obtain such approval and there are no past experience based on the fact that products are being commercialized in such countries for the first time.

The Company continues to assess individual contracts to determine the estimated variable consideration and related constraint. The Group does not expect that application of the constraint may result in more revenue being recognized than is under current IFRS.

(d) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS.

The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Company's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Company developed and started testing appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

- **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (*i.e.*, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (*i.e.*, the lease liability) and an asset representing the right to use the underlying asset during the lease term (*i.e.*, the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, subject to endorsement by the European Union. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

During 2017 the Company plans to assess the potential effect of IFRS 16 on its consolidated financial statements. To see the volume of operating leases please refer to note 28.

2.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non controlling interests even if this results in the non controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (*i.e.* reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.3. Foreign currency translation

In preparing the financial statements of each group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise.

IAS 21.15 states that an entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. Financial statements that include the foreign operation and the reporting entity, such exchange differences shall be recognized initially in other comprehensive income instead of profit or loss in financial results.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into euros using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (translation reserves).

On the disposal of a foreign operation (*i.e.*, a disposal of the Group's entire interest in a foreign operation), or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2.4. Segment information

The Group's activities are in one segment: biopharmaceuticals. The Group is managed and operated as one business unit, which is reflected in the organizational structure and internal reporting. No separate line of business or separate business entity has been identified with respect to any of the product candidates or geographical markets.

Geographical information is further disclosed in note 27.

2.5. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognized in profit or loss as incurred, except for costs to issue debt or equity securities, which are recognized in accordance with IAS 32 and IAS 39.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except for deferred tax assets and liabilities arising from the assets acquired and liabilities assumed (which are recognized and measured in accordance with IAS 12), assets and liabilities relating to employee benefit arrangements (which are recognized and measured in accordance with IAS 19), liabilities or equity instruments related to the replacement of the acquiree's share based payment arrangements (which are recognized and measured in accordance with IFRS 2) and assets that are classified as held for sale (which are recognized and measured in accordance with IFRS 5).

Goodwill is measured as the excess of the sum of the consideration transferred (including the fair value of the contingent consideration), the amount of any non controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition. These fair values are generally based on risk-adjusted future cash flows discounted using appropriate interest rates. The fair values are reviewed on a regular basis, at least annually, and any changes are reflected in the income statement.

2.6. Revenue and other income recognition

Revenue from sale of products is recognized when:

- the ownership of the products is transferred to the buyer;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the royalties related to the sale of the ChondroCelect is recognized when implantation has occurred. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related royalties are recorded.

Government grants and government loans

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

- Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss (under "other operating income") on a systematic and rational basis over the useful lives of the related assets.
- Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss (under "grants and other operating income") in the period in which they become receivable.

The benefit of a government loan at a below market rate of interest is treated as a government grant, (measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates). Only when there is sufficient assurance that the Group will comply with the conditions attached to it, the grants will be recognized in profit or loss (under "other operating income"). Determination of the appropriate amount of grant income to recognize involves judgments and estimates that the Company believes are reasonable, but it is possible that actual results may differ from the Company's estimates. When the Company receives the final written reports, identifying satisfaction of the requirements of the grantor, to the extent not received within a reasonable time frame following the end of the period, the Company records any differences between estimated grant income and actual grant income in the next reporting period once the Company determines the final amounts. During the period that these benefits cannot be considered as grants due to the insufficient assurance that all the conditions have been met, these grants will be included in the liabilities as financial loans and other payables.

Revenue recognition in respect of license arrangements

The Company recognizes revenue from licensing arrangements which may include multiple elements. Revenue arrangements with multiple elements are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting, if certain criteria are met. If separable, the consideration receivable is allocated amongst the separate units of accounting based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units. If not separable, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

The Company may enter into licensing and collaboration agreements for supply and distribution for its product. The terms of the agreements may include non-refundable signing and licensing fees, milestone payments and royalties on any product sales derived from licensing arrangements. These multiple element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. License fees are recognized as revenue when persuasive evidence of an arrangement exists, the Company has transferred to the licensee the risks and rewards of the product, the Company retains neither continuing managerial involvement nor effective control over the product sold, the fee is fixed or determinable, delivery or performance has substantially completed and collection is reasonably assured. The delivery of a license is to be deemed substantially completed when the licensee can use, license, exploit, develop and obtain a profit from it without further licensor's involvement.

The Company analyses and separates the different performance obligations and how they will be remunerated. If substantive contractual obligations are satisfied over time or over the life of the contract, revenue will be recognized over their performance. Milestone payments are immediately recognized as revenue when the condition is met, when performance obligations related to that milestone are fulfilled and if the milestone is not a condition to future deliverables and collectability is reasonably assured. Otherwise, they are recognized over the remaining term of the agreement or the performance period.

2.7. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Repair and maintenance costs are charged to the income statement as incurred. Gains and losses on the disposal of property, plant and equipment are included in other income or expense. Depreciation is charged so as to write off the cost or valuation of assets over their useful lives, using the straight line method pro rata in the year of purchase, on the following basis:

- (laboratory) equipment: five years
- IT hardware: three years
- furniture: five years
- leasehold improvements: lower of lease term and useful life
- leases: lower of lease term and useful life.

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, capitalized borrowing costs. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2.8. Intangible assets

Internally generated intangible assets—research & development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development is recognized to the extent that all of the factors for capitalization have been satisfied as specified in IAS 38:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the various expenses needed to generate the related intangible assets. Amortization starts from the date when the intangible asset first meets the recognition criteria listed above. These intangible assets are amortized on a straight line basis over their estimated useful life (ten years). Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired through a business combination

Intangible assets, including in process research & development projects, acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets (except for in process research & development projects) acquired in a business combination are reported at cost less accumulated amortization and impairment losses. Such intangible assets are amortized over their useful economic lives, which will depend on their related patent life (up to fifteen years). Goodwill arising from business combinations is not amortized but reviewed annually for impairment.

Subsequent to initial recognition, in process research & development projects acquired in a business combination are reported at cost and are subject to annual impairment tests until the date the projects are available for use, at this moment the in process research & development projects will be amortized over their remaining useful economic lives, which will depend on their related remaining patent life.

Patents, licenses and other similar intangible assets acquired separately

Costs related to the register of internally generated intangible assets (patents) are recognized as intangible assets.

These patents and licenses are amortized over their useful lives on a straight line basis as from the moment they are available for use. Estimated useful life is based on the lower of the contract life or the economic useful life (five years).

Computer software

Software licenses and software development costs are measured at purchase cost and are amortized on a straight line basis over the economic useful life (three years).

2.9. Impairment of tangible and definite-lived intangible assets (other than goodwill)

At each balance sheet date and at each interim reporting date, the Group analyses whether there is any indication that any of its assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and also whenever there is an indication that the asset might be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash generating unit is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income. (See note 12)

2.10. Leases

Leases are considered finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized at the start of the lease term as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. The financial costs need to be allocated to each term of the lease period so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also charged to income on a straight line basis over the lease term.

2.11. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available for sale' (AFS) financial assets and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company currently has receivables and AFS financial assets.

Available for sale financial assets are non derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, receivables from reverse repurchase agreements, bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand and deposits held on call with banks. In the balance sheet, bank overdrafts, if any, are included in other current financial liabilities.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.12. Inventories

Raw materials, consumables and goods purchased for resale are valued at the lower of their cost determined according to the FIFO method (first in first out) or their net realizable value.

The cost of finished goods comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

2.13. Non current assets (disposal groups) held for sale and discontinued operations

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non controlling interest in its former subsidiary after the sale.

Non current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

The results of operations disposed during the period are included in the consolidated statement of comprehensive income up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post tax profit or loss of the discontinued operation along with the post tax gain or loss recognized on the re measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

2.14. Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable result differs from "profit/(loss) before tax" as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2016 TiGenix SAU applied the patent box legislation in relation to revenues obtained through the license deal with Takeda. Under this regime, qualified incomes are exempt from income taxes.

Deferred taxes are recognized using the "balance sheet liability method" for temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured based on the expected manner of realization or settlement of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

In the course of 2013, to be applied retrospectively as from January 1, 2013, a new Spanish tax law became applicable resulting in the possibility that eligible companies could claim certain research and development investment tax credits instead of deducting them from their taxable base and carrying them forward until the expiration date. The same law provides that the applicant must obtain an audit report from an independent 3rd party certifying that R&D activities were performed and were reported as eligible for this purpose and certifying to the accuracy of the cost incurred and reported as elegible for this purpose. The Company recognizes this income at the time in which it receives these reports in connection with this activity.

2.15. Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives with a negative fair value (see "Financial assets" for derivatives with a positive fair value) and financial liabilities designated at fair value through profit or loss.

They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated income statement. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss. The Group currently has no non

derivative financial liabilities that are accounted for at fair value through profit or loss.

On March 6, 2015 the Company issued senior, unsecured convertible bonds.

As a result of the possible modifications that may result from the application of the conversion features, the undetermined conversion price at launch (and thus the undetermined value of the Ordinary Note at launch) fails to meet the fixed-for-fixed requirement for the recognition of the conversion features as equity and thus the convertible bonds are recorded as a liability. At the issuance date it was not possible to determine a fixed number of ordinary shares of TiGenix in case the bondholders convert their bonds into shares. This is due to the fact that the conversion price is not fixed. As a consequence, the embedded derivative cannot be considered as equity. Therefore the bonds meet the definition of a hybrid instrument under IAS 39, so the bonds are accounted for as two instruments, the host contract (the "Ordinary Note") and an embedded derivative (the "Warrant").

The Ordinary Note is measured at amortized cost in accordance with IAS 39 using its effective interest rate and the warrant is considered as a financial derivative liability measured at fair value with changes in fair value recognized immediately in profit or loss. (See note 3 *Derivative financial instruments*)

The Group issued in 2014 warrants related to one of the Group loans which meet the definition of a derivative financial liability. These warrants were issued in connection with the loan facility agreement with Kreos Capital IV (UK), and contain an option for the holders to put the warrants back to the Company for cash. The warrants are options over the shares of the Company, but are derivatives that must be measured at fair value through profit or loss, and not own equity instruments of the Company, because of the cash settlement alternative. The Group determined the initial fair value of the warrants using a Black Scholes valuation model. A portion of the issue amount of the loan corresponding to this initial fair value of the warrants was allocated to the warrants and the remaining balance of the proceeds received were allocated to the loan, which is then measured at amortized cost. The effective interest rate method was applied to determine the effective interest rate on the loan on the basis of the initial carrying amount and the contractual cash flows of the loan (interest payments and repayment of principal). This effective interest rate is 20% compared to the contractual interest rate of 12.5%. The effective interest rate is used to accrue interest in the loan, and to amortize the difference between the initial carrying amounts of the loan to its repayment amount.

Other financial liabilities

Financial liabilities measured at amortized cost, including borrowings and ordinary notes, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group's financial liabilities measured at amortized cost comprise financial loans, other current financial liabilities and trade payables.

2.16. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.17. Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are presented in equity as a deduction, net of tax, from the proceeds.

2.18. Share based payments

The Group has offered equity settled share based payments to employees, directors and business associates. These share based payments are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity settled share based payments is expensed on a straight

line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

The estimate of the number of compensation plans which will be vested is revised at each reporting date. The change in estimates will be recorded as expense with a corresponding correction in equity. At the moment of exercise of the compensation plans no adjustments will be made into the share based compensation reserve.

If a modification of a share based payment transaction occurs and this modification increases the fair value of the equity instruments granted, measured immediately before and after the modification, the incremental fair value granted shall be included in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

If the terms or conditions of the equity instruments granted are modified in a manner that reduces the total fair value of the share based payment arrangement, or is not otherwise beneficial to the employee, the services received shall continue to be accounted for as consideration for the equity instruments granted as if that modification had not occurred.

3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to use certain critical accounting estimates, assumptions and judgment about the carrying amounts of certain assets and liabilities. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are the following:

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, the Group 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 incure net losses and 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 future milestone payments related 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.

For more information related to the expected cash flows see Section 2.1. Liquidity.

Business combinations and goodwill

The Group accounts for business combinations using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the fair value of consideration given over the fair values of the identifiable assets and liabilities acquired is recorded as goodwill. The determination of estimated fair values of acquired intangible assets and contingent considerations, as well as the useful economic life ascribed to finite lived intangible assets, requires the use of significant judgment. The use of different estimates and assumptions to those used by the Group could result in a materially different valuation of acquired intangible assets, which could have a material effect on the Group's results of operations.

Several methods may be used to determine the estimated fair value of intangible assets acquired in a business combination, all of which require multiple assumptions.

The Group used the relief from royalty method, which is a variant of the income valuation approach to determine the fair value of the intangibles related to the acquisition of TiGenix SAU. It is based on the principle that ownership of the intangible asset relieves the owner of the need to pay a royalty to another party in exchange for rights to use the asset.

The fair value of assets related to the acquisition of Coretherapix, S.L.U. has been determined taking into account the sum of the survival probability discounted present values of Coretherapix's projected cash flows in each year of its key product's development and commercialization life. See note 4.

Goodwill is capitalized. Any impairment in carrying amount is charged to the consolidated income statement. Where the fair value of identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is credited in full to the consolidated income statement on acquisition date.

The fair value of any contingent consideration at the date of acquisition is computed as the sum of the probability weighted values of the fair values of the purchase prices associated with each of the potential product development routes. The fair value of each route is in turn computed as the sum of the survival probability discounted present values of the contingent payments in each such route including the Milestone and Commercialisation Payments.

The nine routes considered in the development process of Coretherapix are the result of combining multiple variables. The structure of these routes and the probability assigned to each route are reassesed by management at every reporting period and every time the development process reaches a milestone.

Any contingent consideration included in the consideration payable for a business combination is recorded at fair value at the date of acquisition. The fair values are reviewed on a regular basis, at each reporting date, and any changes are reflected in the income statement.

Acquisition costs incurred are expensed and included in general and administrative expenses.

Recognition of government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below market rate of interest is treated as a government grant, (measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates). Only when there is sufficient assurance that the Group will comply with the conditions attached to it, the grants will be recognized in profit or loss (under "other operating income"). Determination of the appropriate amount of grant income to recognize involves judgments and estimates that the Company believes are reasonable, but it is possible that actual results may differ from the Company's estimates. When the Company receives the final written reports, identifying satisfaction of the requirements of the grantor, to the extent not received within a reasonable time frame following the end of the period, the Company records any differences between estimated grant income and actual grant income in the next reporting period once the Company determines the final amounts. During the period that these benefits cannot be considered as grants due to the insufficient assurance that all the conditions have been meet, these grants will be included in the liabilities as financial loans and other payables.

Revenue recognition in respect of license arrangements

Management's assessment related to the recognition of revenues for arrangements containing multiple elements are based on estimates and assumptions. Judgement is necessary to identify separate units of accounting and to allocate related consideration to each separate unit of accounting. Where deferral of upfront payments or license fee is deemed appropriate, subsequent revenue recognition is often determined based on certain assumptions and estimates, the Company's continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. To the extent that any of the key assumptions or estimates change, future operating results could be affected.

The Company analyses, at each Reporting date, any executory contract that could be onerous to account for the corresponding provision. This estimation is based on the unavoidable expected costs and expected incomes derived from the executory contract, its remaining duration and the potential exit compensation that could be included in those contracts. The above mentioned calculation also considers past performance evidences and future expected developments based on the most reliable information existing at each reporting period.

Discontinued operations

The results of operations disposed during the year are included in our consolidated statement of comprehensive income up to the date of disposal.

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in our consolidated statement of comprehensive income as a single line item that is comprised of the post tax profit or loss of the discontinued operation along with the post tax gain or loss recognized on the re measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

At the end of 2013, the board of directors of the Company decided to withdraw from the ChondroCelect business and to focus on the development of its platform and pipeline of allogeneic treatments, using expanded adipose-derived stem cells (eASC´s) for the benefit of patients suffering from a range of inflammatory and immunological conditions.

Consequently, TiGenix developed a single, co-ordinated plan under which discussions were entered into with one potential purchaser for the manufacturing facility and with another for the sales and marketing activities. Both of these transactions were being discussed in parallel with Pharmacell (for the manufacturing facility) and Sobi (for the sales and marketing activities). The arrangement with Pharmacell initially progressed faster, but ultimately both transactions were completed at almost the same time (30 May and 1 June 2014).

The transaction with Pharmacell included a supply contract for TiGenix to purchase the ChondroCelect product; a mirror image sales contract was entered into with Sobi. The purchase agreement with Pharmacell included a discounted price for the first three years of supply, and exactly the same prices, were included in the sales contract with Sobi.

Both the distribution agreement with Sobi and the manufacturing agreement with Pharmacell included commitments for minimum binding quantities of ChondroCelect that are required to be purchased by us and from us under the respective agreements.

The agreement with Sobi for the sales and marketing activities had a term of ten years and included the European Union (excluding Finland, where we have a pre-existing distribution agreement with Finnish Red Cross Blood Service), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. The agreement included the transfer of staff previously employed by TiGenix to carry out those activities to Sobi, involved the payment of a licence fee (royalties) by Sobi which is calculated as a percentage of the net sales generated by Sobi of the ChondroCelect product.

Consequently, during 2014, all activities relating to the manufacture, marketing and sale of ChondroCelect were transferred to Pharmacell and Sobi through contractual arrangements which were entered into at almost the same time and were made in contemplation of each other. The effect of the arrangements is that TiGenix will received a licence fee from Sobi but, other than acting as a 'pass through' intermediary for the ChondroCelect product (which is purchased from Pharmacell and sold to Sobi through back to back, identical contractual arrangements), TiGenix had no involvement in activities relating to that product. From the moment the agreements came into force, the royalties paid by Sobi were registered as revenue.

The ChondroCelect operations were presented as discontinued in the income statement for 2014, the year when they were disposed of, and the preceding year.

During 2016, TiGenix reconfirms its strategic focus on its allogenic stem cell platforms.

Due to the regulatory environment around autologous chondrocyte-based cell therapy products in Europe leading to a difficult competitive landscape for ChondroCelect, together with the lack of reimbursement in key European countries, TiGenix has been prompted to initiate the withdrawal process of the Marketing Authorization for ChondroCelect® for commercial reasons.

Consequently, on July 4, 2016, TiGenix came to an agreement with Sobi for the early termination of their existing commercial relationship that was effective from June 1, 2014.

In addition to the Sobi termination, TiGenix has also terminated the Pharmacell´s manufacturing agreement of ChondroCelect. This agreement was in place since May 30, 2014 and its termination was effective on December 2016.

Impairment of assets

We review the carrying value of intangible assets with indefinitive lives for potential impairment on a periodic basis and also whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We review the carrying value of tangible assets and intangible assets with definitive lives for potential impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We determine impairment by comparing the recoverable amount to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's carrying amount over its recoverable amount.

In the context of the business combination with TiGenix SAU in 2011, development costs related to product Cx601 were capitalized in an amount of 1.7 million euros. These costs were not amortized at December 31, 2015 because the product was not yet available for use and was, therefore, subject to an annual test for impairment. In July 2016, the product Cx601 (1.7 million euros) was considered as available for use and consequently subject to amortization. As a result of that, we have reclassified it from development to intellectual property. The estimated useful economic life has been determined to be 10 years, which is the remaining period for the patents related to it.

On July 31, 2015 the Group acquired 100% of the issued share capital of Coretherapix, SLU. The most significant part of the purchase price has been allocated to in-pro-

cess research & development (17.4 million euros) as well as certain other intangible assets (277 thousand euros). The difference between the fair values of the assets acquired and liabilities assumed and the purchase price comprises the value of expected synergies arising from the acquisition and has been recorded as goodwill (717 thousand euros). See notes 4 and 12.

For impaired assets, we recognize a loss equal to the difference between the carrying value of the asset and its recoverable amount. The recoverable amount, being the higher of the fair value less costs to sell and value in use, is based on discounted future cash flows of the asset using a discounted rate commensurate with the risk. Estimates of future cost savings, based on what we believe to be reasonable and supportable assumptions and projections, require management's judgment. Actual results could vary from these estimates. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Results of tests conducted during 2016 are described in note 12.

Recognition and measurement of internally generated intangible assets

An internally generated intangible asset is recognized if sufficient certainty can be documented that the future benefits from the development project will exceed the aggregate cost of production, development and the sale and administration of the product. A development project involves a single product candidate undergoing a high number of tests to illustrate its safety profile and the effect on human beings prior to obtaining the necessary final approval of the product from the appropriate authorities. The future economic benefits associated with the individual development projects are dependent on obtaining such approval. Considering the significant risk and duration of the development period related to the development of such products, management has concluded that the future economic benefits associated with a particular project cannot be estimated with sufficient certainty until the project has been finalized and the necessary regulatory final approval of the product has been obtained.

Accordingly, during 2010 and 2011, the Group has capitalized such intangible assets for the development costs related to ChondroCelect with a useful life of ten years. The Company subsequently impaired the asset for an amount of 1.1 million euros in 2015. (See note 12)

Research and Development Costs

Research and development costs are charged to expense as incurred and are typically made up of salaries and benefits, clinical and preclinical activities, drug development and manufacturing costs, and third party service fees, including for clinical research organizations and investigative sites. Costs for certain development activities, such as clinical trials, are periodically recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided by vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued expenses.

As an exception to this accounting treatment the Company capitalized development costs for Chrondrocelect during 2010 and 2011. (See note 12)

Foreign Exchange Differences

Foreign exchange differences are related to the intercompany loan (expressed in U.S. dollars) granted by TiGenix NV to its subsidiary, TiGenix Inc. The exchange difference arises as a result of the translation of the intercompany loan in TiGenix NV. As the dollar appreciated during the year, the receivable in TiGenix NV has increased recognizing an exchange difference.

Management is of the opinion that under the strategy of Cx601 in the United States, where we currently expect TiGenix Inc. to play a role, TiGenix Inc. will be able to settle the intercompany loan in the foreseeable future. As a consequence, the arisen exchange difference is recognized in financial results in the consolidated income statements, instead of recognizing it in the consolidated statements of comprehensive income. (See note 5.4)

Deferred taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Tax losses carried forward and other tax credits relate to the parent and subsidiaries that all have a history of losses and do not expire, except for other tax credits of 22.6 million euros related to TiGenix SAU, TiGenix NV and Coretherapix SLU (see note 21). These tax credits may not be used to offset taxable income elsewhere in the Group.

With respect to the net operating losses of the Group, no deferred tax assets have been recognized, given that there is uncertainty as to the extent to which these tax losses will be used in future years.

As explained in note 9 the Company has made application of certain research and development investment

tax incentives and recognized a receivable of 3.8 million euros in consideration of incentives applied for 2014 and 2015.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Pursuant to the terms and conditions of the loan facility agreement that we entered into with Kreos, on April 22, 2014, an extraordinary meeting of our shareholders issued and granted 1,994,302 new cash settled warrants, including a put option to Kreos Capital IV (Export Fund). These warrants have been designated at fair value through profit or loss. The Company recognizes the warrants, including the put option, as one instrument, because the Company believes that the put option is unconditionally linked to the warrant. Because the issued warrants can be settled in cash, the instrument is considered as a financial derivative liability measured at fair value with changes in fair value recognized immediately in profit or loss.

In May 2015, Kreos Capital exercised the above mentioned put option and executed one third of the warrants (EUR 163.333). As from January 2016, the remaining two thirds of the warrants put option have lapsed due to the increase in the price of the share which makes this amount no longer exercisable by Kreos Capital.

The measurement of the warrant at fair value is based on the Black Scholes option pricing model taking into account the following variables:

- The share price.
- The strike price.
- The volatility of the share has been determined based on historical stock prices of our shares.
- The dividend yield, which has been estimated as zero, as we have never paid a dividend due to the past experience of losses.
- The duration, which has been estimated as the difference between the valuation date of the warrant plans and final exercise date.
- The risk free interest rate, which has been calculated based on the discount curve composed based on liquid euro deposit rates (for periods shorter than one year) and futures (typically for maturities between one and six years).

We will continue to use judgment in evaluating the risk free interest rate, dividend yield, duration and volatility related to our cash settled warrant plan on a prospective basis and incorporating these factors into the Black Scholes option pricing model. If in the future we determine that other methods are more reasonable and provide better results, or other methods for calculating these assumptions are prescribed by authoritative guidance, we may change or refine our approach, and our share based payment expense in future periods could change significantly.

Pursuant to the terms and conditions of the convertible bonds issued on March 6, 2015, the warrant will be reflected at any reporting period at its fair value. Measurement of the fair value will be determined using methodologies such as Black-Scholes, binominal lattices or Monte Carlo simulations. In this particular case, the Conversion Features are complex and render Black-Scholes and binominal trees inapplicable. The measurement of the warrant at fair value is based on a Monte Carlo valuation model.

The Resetting and the Early Redemption clauses embedded in the Instrument result in the Conversion Price being dependent upon an unknown share price path.

- The Conversion Price depends on the evolution of the share price through the Resetting period.
- The Early Redemption Clause will, for certain share price paths compel noteholders, to accelerate conversion in order to avoid the loss on the Warrant value that would result from the Instrument being called by Issuer.

Such Conversion Features cannot be factored into a fixed Conversion Price continuous or discrete model, such as Black-Scholes or binomial lattices, respectively.

On the other hand, a Monte Carlo model can indeed incorporate not only the market parameters such as volatility, risk-free interest rates and share price, but all the contractual characteristics of the Warrant such as Present Date (31/12/2016), Conversion Date (06/03/18), Present Price (0.71), Conversion Price (0.8983), Interest rate annual (-0.24%), Reference Period Days (303), Nº of iterations (10,000), Annual Volatility (48.976%), Conversion price Reset, Early Redemption, Average Conversion Price (0.8982) and Nº of anticipated redemptions (1,472).

Introducing into the model an additional random variable to factor in the possibility of a change of control ("CoC") event was not appropriate as it would assume that such random variable can reasonably be modelled on the basis of any factual information.

The value of the Warrant in the event of CoC was determined using the same Monte Carlo model but with a deterministic and pre-defined CoC date estimated by Management.

The final value of the Warrant was then calculated as the probability-weighted values derived from the valuation of the Warrant in (i) the non-change of control and (ii) in the change of control scenarios. The probabilities assigned to the non-CoC and CoC scenarios as of December 31, 2016 were 0% and 100%, respectively. A

sensibility analysis, changing probabilities assigned to non-CoC and CoC scenarios, has been performed by the Company. There is no significant impact in the valuation of the Warrant when changing these scenarios.

Share based payment arrangements

The Group used the Black Scholes model to estimate the fair value of the share based payment transactions. Using this model requires management to make assumptions with regard to volatility and expected life of the equity instruments. The assumptions used for estimating fair value for share based payment transactions are further disclosed in note 25 and are estimated as follows:

- Volatility is estimated based on the average annualized volatility of the TiGenix share price;
- Estimated life of the warrant is estimated to be until the first exercise period;
- The dividend return is estimated by reference to the historical dividend payment of the Group. Currently, this is estimated to be zero, because no dividend has been paid since inception.

4. Business Combination - Acquisition of Coretherapix

On July, 31 2015 the Group acquired 100% of the issued share capital of Coretherapix, SLU ("Coretherapix") as well as certain Coretherapix receivables with a nominal value of 3.3 million euros from its sole shareholder, Genetrix, S.L.

Coretherapix is a Spanish privately-owned early-stage pharmaceutical company engaged in the development of myocardial regeneration therapies for the prevention of the effects of cardiovascular disease during the acute and chronic stages of the acute myocardial infarction and congestive heart failure.

The board of directors believes that the acquisition of Coretherapix allows TiGenix to expand its clinical programs and broadens the potential of both platforms of allogeneic cell therapy products, which significantly helps TiGenix towards its goal of leading the cell therapy space in the world. TiGenix expands its pipeline of clinical stage assets, enters the cardiovascular indications and gets access to a new platform of allogeneic stem cells of different origin, which significantly strengthens its competitive position in the cell therapy sector.

All of the shares of Coretherapix, SLU and part of the receivables Genetrix had with Coretherapix on July 31, 2015 were contributed in return for the issuance of 7.7 million of ordinary shares of TiGenix (6.1 million euros, being the market value of TiGenix shares as listed on Euronext on that date). Part of the receivables Genetrix had with Coretherapix on July 31, 2015 (for a nominal value of 1.2 million euros) were transferred and assigned by Genetrix to TiGenix. Pursuant to the terms of the Contribution Agreement, TiGenix made cash payment of 1.2 million euros.

The following table summarizes the fair values of the assets acquired and liabilities assumed on July 31, 2015 (in thousands of euros):

In-process research and development	17,374
Accounts receivable (received from Genetrix)	3,306
Other net asset acquired:	
Other intangible assets	277
Property, plant and equipment	109
Other current assets	1,310
Cash	3
Financial Loans	(3,870)
Trade & other payables	(635)
Total Net Asset Acquired	**17,874**
Total Consideration	18,591
Goodwill on acquisition	**717**

Total consideration of the business combination is broken down as follows (in thousand of euros):

Cash consideration payable	1,154
Issuance of ordinary shares of TiGenix, N.V. according to the Contribution Agreement	6,093
Estimated fair value of contingent consideration	11,344
Total Purchase Price	**18,591**

The value of the 7.7 million of ordinary shares issued as part of the consideration paid for 100% of Coretherapix shares and certain receivables from Genetrix was based on a share price of 0.79 euro, the Company's share price at the date of the acquisition.

Other current assets in the net asset acquired (1.3 million euros) mainly consist of contribution to be received from the European Union and the National Cardiovascular Research Centre Foundation (CNIC) to implement the 'Cardio Repair European Multidisciplinary Initiative (CARE - MI)' project for

EUR 0.6 million and pending amounts to be received from Spanish Tax authorities amounting EUR 0.5 million in relation to investments in R&D activities during 2013 and 2014.

Under the terms of the Contribution Agreement, assuming successful development of the lead product AlloCSC01, as per the initial agreement Genetrix could receive up to 15 million euros in new ordinary shares depending on the results of the ongoing clinical trial (after the results of the clinical trial in March 2017, this amount has been reduced to 5 million euros in new ordinary shares). Based on and subject to future sales milestones, Genetrix may receive in addition up to 245 million euros plus certain percentages of the direct net sales of the first product, or certain percentages of any third party royalties and sales milestones for the first product.

Sales milestones start when annual net sales reach 150 million euros and the last one will be payable once annual net sales are above 750 million euros. Also, Genetrix will receive a 25 million euro milestone payment per additional product reaching the market.

At December 31, 2016 a range of future outcomes based on net sales or third party royalties cannot be estimated due to the fact that the development process is still at a very preliminary stage. (Product is in a Phase I/II).

Under the acquisition method, acquisition related transaction costs (e.g. advisory, legal, valuation and other professional fees) are not included as consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. Total acquisition related transaction costs amounted to 0.3 million euros.

The fair value of the contingent deferred elements of the purchase price of EUR 11.3 million was computed as the sum of the probability weighted values of the fair values of the purchase prices associated with each of the nine product development routes.

Management modelled these routes as a succession of decision points at which the Company decides to pursue internal development or licensing at different times, and in different circumstances such as whether the product enters into a pivotal trial or otherwise. In addition to the license/not to license decision, the decision tree was subject to results of the ongoing phase I/IIa trial. Two different options were considered: i) a fast development process under which the current Phase I/IIa phase ends at YE 2017 with a significant success and is followed by a three-year Phase II Pivotal trial that ends at YE 2020 and a two-year market approval process that ends at YE 2022, with commercialisation commencing in 2023 and ii) slow development process in which the current Phase I/IIa phase ends at YE 2017 and is followed by a three-year Phase IIb trial that ends at YE 2020, a three-year Phase III trial that ends at YE 2023 and a two-year market approval process that ends at YE 2025, commercialisation commences in 2026. In March 2017 TiGenix announced Top-Line Phase I/II results of AlloCSC-01 clinical trial. These preliminary results increase the possibilities of a slow development process and reduce the probabilities of a fast development process option.

The fair value of each route was in turn computed as the sum of the survival probability discounted present values of the contingent payments in each such route including the Milestone and Commercialisation Payments.

Significant unobservable valuation inputs considered in the model are the market penetration, the price of the product and the discount rate (15%). For the market penetration, we have evaluated a range of 20%-40% of the reperfused AMI patients with large infarcts treatable with cell therapy and falling within the indication. The price is yet unknown since there are no products out there, and based on our research we have used figures in the range of 8 to 16 thousand euros. This range can only be a very rough estimation given the early stage of development of the project.

Factors ultimately affecting the price will include:

- the product's final efficacy and safety profile;
- the definition of the final clinical indication that is approved; and
- the evolution of several factors that may influence the willingness to pay of the health systems.

The final efficacy and safety profile will be a result of the clinical trial results in the chosen indication. Currently we have completed a Phase IIa focused on safety and a better approximation will only be available after a subsequent efficacy trial.

The final indication itself will depend on the ability to focus the clinical trials on populations representing a high-unmet clinical need for which clinical benefit is demonstrable in the aforementioned efficacy trials.

Finally, the willingness to pay will be affected first by budget impact considerations driven by the evolution of target population epidemiology (affected by factors such as the impact of non-smoking regulations, diet habits, improved primary and secondary prevention and new standards of care) and secondly by regulatory and economic drivers (e.g. different health technology assessment requirements, public funding availability etc).

Significant increase (decrease) in the market penetration and price of the product would result in higher (lower) fair value of the contingent consideration liability, while significant increase (decrease) in the discount rate would result in lower (higher) fair value of the liability.

As at December 31, 2015 and 2016, a reconciliation of fair value measurement of the contingent consideration liability is provided below (in thousand of euros):

As at July 31, 2015	**-**
Liability arising on business combination	11,344
Fair value changes recognised in profit or loss (Financial expenses)	685
As at December 31, 2015	**12,029**
Fair value changes recognised in profit or loss (Operating expenses)	829
As at December 31, 2016	**12,858**

At year-end 2016, management reassessed the fair value of the contingent consideration by updating the underlying assumptions such as increasing the probabilities of the slow track route and updating the milestone payments. Unlike the change in fair value as at December 31, 2015 which was solely driven by the time value of money and therefore presented in the financial result, we consider that the main triggers for the change in fair value of the contingent consideration for the year 2016 are due to the new information on the development process of AlloCSC001. As a result these fair value changes have been presented as research and development expenses.

Significant unobservable valuation inputs when updating fair value at year end are discount rate, market penetration and price of the product. These are those to which the fair value of the liability is most sensitive. The potential effect of changes in these inputs are the following: i) discount rate (10% increase/decrease would have an impact of -0.8/1.0 million euros); ii) market penetration (10% increase/decrease would have an impact of 1.1/-0.4 million euros); iii) price of the product (10% increase/decrease would have an impact of 1.1/-0.4 million euros).

In accordance with IFRS standards, TiGenix has allocated the purchase price, and has calculated the fair values of the assets acquired and liabilities assumed, in accordance with generally applied valuation rules in the sector.

The measurements of fair value attributed to the underlying acquired intangible assets were 17.4 million euros. The fair value of the underlying acquired intangible assets was computed as the sum of the probability weighted values of the fair values corresponding to nine possible product development routes. The fair value of each such route was in turn computed as the sum of the survival probability discounted present values of Coretherapix's projected cash flows in each year of its key product's development and commercialisation life.

The discount and probability of survival rates used were the same for the valuation of the underlying intangible assets and contingent deferred elements of the purchase price.

A deferred tax liability of 1.5 million euro was recorded as per December 31, 2015 on the fair value of the in process research and development acquired. Coretherapix had sufficient unused tax losses carried forward to absorb the impact of this deferred tax liability. (See note 21)

As per December 31, 2015, the contribution of Coretherapix to the consolidated statement of income amounted to 1.4 million euros losses and 2 thousand euros of revenues. If Coretherapix would have consolidated from January 1, 2015, the consolidated statement of income would have included revenues of 0.7 million euros and losses of 2.5 million euros.

5. Financial instruments and financial risk management

The principal financial instruments used by the Group, from which financial risk arises, are as follows:

- Available for sale financial assets
- Other non current assets
- Trade receivables
- Other current financial assets
- Derivative financial instruments
- Cash and cash equivalents
- Financial Loans and other payables. Other financial liabilities
- Trade payables

5.1. Capital risk management

The Group policy with respect to managing capital is to safeguard the Group's ability to continue as a going concern and to obtain an optimal capital structure over time.

5.2. Categories of financial instruments

Thousands of euros	Notes	As at December 31, 2016	2015	2014
Financial assets				
Loans, receivables and cash and cash equivalents		85,134	26,837	16,726
Cash and cash equivalents (including cash balances in disposal group held for sale)		*77,969*	*17,982*	*13,471*
Other non-current assets	16	*3,855*	*4,764*	*1,874*
Trade receivables	18	*1,728*	*1,687*	*627*
Other current financial assets	*19*	*1,582*	*2,404*	*754*
Available for sale financial assets	15	—	—	161
Financial liabilities				
Amortized cost		34,982	32,421	13,496
Financial loans	20	*10,268*	*11,777*	*12,308*
Convertible notes (ordinary note)	20	*21,548*	*18,840*	—
Trade payables	*23*	*3,166*	*1,804*	*1,188*
Fair value through profit or loss		15,587	26,351	671
Convertible notes (Warrant)	20	*2,379*	13,337	—
Other financial liabilities	20	*350*	985	671
Other liabilities contingent consideration	23	*12,858*	12,029	—

5.3. Fair value of financial instruments

Thousands of euros	Notes	As at December 31, 2016 Carrying amount	Fair value	Fair value hierarchy
Financial assets				
Loans and receivables		3,855	3,855	
Other non-current assets		*3,855*	*3,855*	Level 2
Financial liabilities				
Amortized cost		31,816	40,898	
Financial loans	21	*10,268*	*13,436*	Level 2
Convertible notes (ordinary note)	21	*21,548*	*27,462*	Level 2
Fair value through profit or loss		15,587	15,587	
Convertible notes (Warrant)	21	*2,379*	*2,379*	Level 3
Other financial liabilities	21	*350*	*350*	Level 2
Other liabilities contingent consideration	23	*12,858*	*12,858*	Level 3

Thousands of euros	Notes	As at December 31, 2015 Carrying amount	Fair value	Fair value hierarchy
Financial assets				
Loans and receivables		4,764	4,764	
Other non-current assets		*4,764*	*4,764*	Level 2
Financial liabilities				
Amortized cost		30,617	44,005	
Financial loans	21	*11,777*	*16,180*	Level 2
Convertible notes (ordinary note)	21	*18,840*	*27,825*	Level 2
Fair value through profit or loss		26,351	26,351	
Convertible notes (Warrant)	21	*13,337*	*13,337*	Level 3
Other financial liabilities	21	*985*	*985*	Level 2
Other liabilities contingent consideration	23	*12,029*	*12,029*	Level 3

	As at December 31, 2014		
Thousands of euros	Carrying amount	Fair value	Fair value hierarchy
Financial assets			
Loans and receivables	1,874	1,874	
Other non-current assets	*1,874*	*1,874*	Level 2
Available for sale financial assets	161	161	Level 2
Financial liabilities			
Amortized cost	12,308	11,856	
Financial loans	*12,308*	*11,856*	Level 2
Fair value through profit or loss	671	671	
Other financial liabilities	*671*	*671*	Level 2

The fair values of the financial assets and financial liabilities measured at amortized cost in the statement of financial position have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk.

At December 31, 2016 the market credit risk for a company such as TiGenix has been determined at 3.03%. This discount rate has been used to determine the fair values of the financial liabilities at amortized cost as per December 31, 2016.

At December 31, 2015 the market credit risk for a company such as TiGenix was determined at 4.97%. This discount rate has been used to determine the fair values of the financial liabilities at amortized cost as per December 31, 2015.

The fair value of the financial liabilities at amortized cost was calculated based on a discount rate of 21%, for the year ending December 31, 2014, reflecting the market credit risk for a company such as TiGenix in development stage at that time. This market credit risk was determined in 2014 by considering the effective interest from the Kreos loan, signed at the end of December 2013, but only into force since February 2014, and the market yields of similar companies.

The evolution of the market credit risk as from 2014 is the consequence of a significant improvement in TiGenix's rating in the market. At December 31, 2016, TiGenix´s rating was BB while at the end of 2014 the rating was CC which means an improvement of the rating with seven steps in the rating scale.

The fair value of other liabilities contingent consideration is explained in note 4.

The fair value of the other financial liabilities at fair value through profit or loss is measured using generally accepted pricing models (Black-Scholes valuation model for the warrants issued during 2014 as a consideration for the Kreos loan and Monte Carlo valuation model for an embedded derivative issued related to the convertible bonds issued during 2015 as disclosed in note 2.15).

As explained in note 2.15, the Convertible notes are measured at amortized cost in accordance with IAS 39 using its effective interest rate (28.06%) and the warrant is considered as a financial derivative liability measured at fair value with changes in fair value recognized immediately in profit or loss.

The current financial assets and liabilities are not included in the table above as their carrying amounts approximate their fair values.

5.4. Financial risk management objectives

The Group coordinates access to financial markets, monitors and manages the financial risks relating to the operations through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group does not use any derivative financial instruments to hedge risk exposures.

Currency risk

The Group may be subject to limited currency risk. The Group's presentation currency is the euro, in addition to which we are exposed to the U.S. dollar. The Company tries to match foreign currency cash inflows with foreign currency cash outflows. The Company has not engaged in hedging of the foreign currency risk via derivative instruments.

The Group's financial assets and financial liabilities were denominated in the following currencies:

	EUR			USD			GBP			CHF		Total		
	As at December 31													
Thousands of euros	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2016	2015	2014
Financial assets														
Cash and cash equivalents (including held for sale)	77,320	17,749	13,204	524	54	73	123	179	194	2	—	77,969	17,982	13,471
Trade receivables	1,728	1,687	603	—	—	24	—	—	—	—	—	1,728	1,687	627
Total Financial assets	**79,048**	**19,436**	**13,807**	**524**	**54**	**97**	**123**	**179**	**194**	**2**	**—**	**79,697**	**19,669**	**14,098**
Financial liabilities														
Trade payables	2,184	1,731	844	955	33	91	27	5	254	—	35	3,166	1,804	1,188
Other liabilities contingent consideration	12,858	12,029	—	—	—	—	—	—	—	—	—	12,858	12,029	—
Borrowings	34,846	45,680	13,579	—	—	—	—	—	—	—	—	34,846	45,680	13,579
Total financial liabilities	**49,888**	**59,440**	**14,423**	**955**	**33**	**91**	**27**	**5**	**254**	**—**	**35**	**50,870**	**59,513**	**14,767**

The Group's exposure is only limited to pounds sterling, U.S. dollars and Swiss-francs.

Except for the currency effect, mentioned below, in relation to the intercompany loan with TiGenix Inc, there is limited external currency exposure, and therefore no sensitivity analysis has been performed.

Despite the limited external currency exposure, the income statement presents an important amount of foreign exchange differences that is mainly related to the intercompany balance in USD between TiGenix and its subsidiary in the United States, TiGenix Inc. As TiGenix Inc is required to repay this outstanding loan within the foreseeable future such amounts are recorded in the income statement. For 2016 the exchange rate effect amounted to 0.2 million euros (2015:1.0 million euro).

Interest rate 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.

The sensitivity analysis has been determined based on the exposure to interest rates for borrowings at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A fifty basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Group has one debt with a floating rate. It concerns one roll over credit facilities (from 2007) for an original amount of 0.4 million euros used for the acquisition of manufacturing equipment in the United States. The borrowing has a remaining maturity of 6 months and carries a floating interest rate of three month Euribor + 1.40%. The outstanding amount for this borrowing per December 31, 2016 was 20 thousand euros (2015: 60 thousand euros; 2014: 0.1 million euros). (See note 20).

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasted and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Thousands of euros	Interest rate	Within 1 year	2 years	3 years	4 years	5 years	6 years	After 6 year	Total
As at December 31, 2016									
Non-interest bearing	N/A	471	471	471	471	471	405	490	3,251
Fixed interest rate borrowings	1.46%	675	675	675	675	675	675	1,688	5,739
Fixed interest rate borrowings	0.33%	—	—	49	139	139	139	506	972
Floating interest rate borrowings	Euribor 3M + 1.40%	20	—	—	—	—	—	—	20
Fixed interest rate borrowings (Kreos)	12.5%	3,973	1,324	—	—	—	—	—	5,297
Fixed interest rate borrowings (Bonds)	9%	2,250	26,125	—	—	—	—	—	28,375
Leasings	N/A	63	74	—	—	—	—	—	137
Other financial liabilities	N/A	350	—	—	—	—	—	—	350
Total		**7,803**	**28,669**	**1,196**	**1,285**	**1,285**	**1,219**	**2,684**	**44,142**
As at December 31, 2015									
Non-interest bearing	N/A	468	471	471	471	471	471	895	3,718
Fixed interest rate borrowings	1.46%	563	675	675	675	675	675	2,363	6,301
Floating interest rate borrowings	Euribor 3M + 1.40%	40	20	—	—	—	—	—	60
Fixed interest rate borrowings (Kreos)	12.5%	3,973	3,973	1,117	—	—	—	—	9,063
Fixed interest rate borrowings (Bonds)	9.0%	2,250	2,250	26,125	—	—	—	—	30,625
Other financial liabilities	N/A	985	—	—	—	—	—	—	985
Total		**8,279**	**7,389**	**28,388**	**1,146**	**1,146**	**1,146**	**3,258**	**50,753**
As at December 31, 2014									
Non-interest bearing	N/A	225	342	328	328	328	328	987	2,866
Floating interest rate borrowings	Euribor 3M + 1.40%	40	40	20	—	—	—	—	100
Fixed interest rate borrowings	1.46%	451	563	675	675	675	675	3,038	6,752
Fixed interest rate borrowings	12.5%	3,086	3,973	3,973	1,117	—	—	—	12,150
Other financial liabilities	N/A	671	—	—	—	—	—	—	671
Total		**4,473**	**4,918**	**4,996**	**2,120**	**1,003**	**1,003**	**4,025**	**22,539**

On March 6, 2015, the Company issued senior, unsecured convertible bonds due 2018 for a total principal amount of 25 million euros. The bonds are issued and will be redeemed at 100% of their principal amount and have a coupon of 9% per annum, payable semi-annually in arrear in equal instalments on March 6 and September 6 of each year. The bonds are measured at amortized cost in accordance with IAS 39. At initial recognition of the loan, the nominal amount of the loan is decreased with the transactions costs and the derivative embedded on it. The interest rate is the effective interest rate (28.06%). The first interest payment date was on September 6, 2015. Final maturity date is March 6, 2018. More information can be found in note 20.

Following the acquisition of Coretherapix, the Group has an additional interest-free loan from the Innpacto Program. It has a term of 10 years, with a grace period of three years. In January 2012, the Group received the first annual instalment of the Innpacto loan amounting to 0.5 million euros. In 2013, the Group received two annual payments of the Innpacto loan, one of 0.5 million euros and another of 0.1 million euros. Final maturity date is 2022, 2023 and 2024 per tranche.

During 2016, Coretherapix received two soft loans by the Ministry of Economy of 0.3 million euros and 0.6 million euros respectively with maturity February 2025 and 2026.

Additionally, on December 20, 2013, the Group entered into a loan facility agreement of up to 10.0 million euros with Kreos. The loan was drawn in three tranches (5.0 million euros by February 3, 2014; 2.5 million euros by May 31, 2014; and 2.5 million euros by September 30, 2014).

As part of the consideration for this debt financing agreement, in April 2014 the Group issued a warrant plan to Kreos Capital IV (Expert Fund). The warrant plan consisted of 1,994,302 warrants that were issued with an exercise price of 0.75 euros exercisable immediately and which expire in April 2019. The warrants also include a put option that authorizes Kreos Capital IV (Expert Fund) to return the warrants to the Company and to settle the warrants in cash at any time during the repayment term of the Kreos loan, provided that (i) the put option can only be exercised in three equal tranches of each one third of the total number of warrants; (ii) no more than one tranche can be exercised in a twelve month period; (iii) the put option cannot be exercised if, at the time of the proposed exercise, the price of a share of the Company is higher than 0.9957 euros; and (iv) the put option shall lapse and can no longer be exercised if the average stock price per share in the Company on each trading day included in any period of thirty (30) consecutive calendar days during the duration of the warrant plan exceeds 0.9957 euros. In May 2015, Kreos Capital IV (Expert Fund) exercised the first tranche of the put option of the Kreos Warrant Plan, equivalent to 664,767 warrants. In the

meantime, the put option has lapsed in accordance with the afore-mentioned item (iv).

The loan is measured at amortized cost in accordance with IAS 39. At initial recognition of the loan, the nominal amount of the loan is decreased with the transactions costs related to the loan which also includes the amount of the warrants allocated to the tranches. The interest rate is the effective interest rate (20.16%).

The warrants, including the put option, are accounted for as one instrument (not separating the put option from the warrants) and at issuance had a fair value of 0.7 million euros. Since Kreos Capital IV (Expert Fund) has the option to settle the warrants in cash, the instrument is considered as a financial derivative liability measured at fair value with changes in fair value recognized immediately in profit or loss. The measurement of the warrant at December 31, 2016 at fair value is based on a Black Scholes valuation model taking into account following inputs: share price (0.71 euros), strike price (0.7449 euros), volatility of the share (66.6%), duration (2.31 years) and risk free interest rate (-0.16%). At December 31, 2016, the warrants (excluding the put option that elapsed) amount to 0.4 million euros.

The measurement of the warrant (including the put option) at December 31, 2015 at fair value was based on a Black Scholes valuation model taking into account following inputs: share price (1.19 euros), strike price (0.74 euros), volatility of the share (66.7%), duration (3.31 years) and risk free interest rate (0.10%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored, and the aggregate value of transactions concluded is spread among approved counterparties.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets. The Group does not hold any collateral as security.

More information on the trade receivables can be found in note 17 to the consolidated financial statements.

Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include the derivate instruments linked to the finance agreement with Kreos and those embedded in the convertible bonds issued on March 6, 2015.

The measurement of the Kreos warrants at December 31, 2016 at fair value is based on a Black Scholes valuation model taking into account following inputs: share price (0.71 euros), strike price (0.7449 euros), volatility of the share (66.6%), duration (2.31 years) and risk free interest rate (-0.16%).

The inputs with the most significant effect on the fair value calculation of the Kreos warrants are the value and volatility of TiGenix's shares. The potential effect of using reasonable assumptions (Black-Scholes formula) for changes in these inputs are the following: i) share price (10% increase/decrease would have an impact of 65/-62 thousand of euros) ii) volatility of the shares (10% increase/decrease would have an impact of 34/-35 thousand of euros).

Pursuant to the terms and conditions of the convertible bonds issued on March 6, 2015, the measurement of the warrant at fair value shall be reflected at any time at its fair value as determined by direct observation.

The inputs with the most significant effect on the fair value calculation are the value and volatility of TiGenix's shares. The potential effect of using reasonable assumptions (Black-Scholes formula) for changes in these inputs are the following: i) share price (10% increase/decrease would have an impact of 238 thousand euros/-38 thousand euros) ii) volatility of the shares (10% increase/decrease would have an impact of 238 thousand euros/-238 thousand euros).

6. Revenues

	Years ended December 31,		
Thousands of euros	2016	2015	2014
Royalties	395	537	338
License revenues	25,000	—	—
Grant revenues	725	855	5,522
Other income	670	848	426
Total revenues	**26,790**	**2,240**	**6,286**

Royalties

In 2016 we earned 0.4 million euros (0.5 million euros in 2015) in royalties on net sales of ChondroCelect by Swedish Orphan Biovitrium, Sobi. Under the agreement with Sobi, we were entitled to receive 20% royalties on net sales as from June 2015. 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 further royalties on net sales of ChondroCelect were received as from November 2016.

In 2015 we earned 0.5 million euros (0.3 million euros in 2014, although in 2014 royalties were only received as from June 1, 2014) in royalties on net sales of ChondroCelect by Swedish Orphan Biovitrium, Sobi. Under the agreement with Sobi, we were entitled to receive 22% royalties on net sales until June 30, 2015 and 20% thereafter.

License revenues

On July 4, 2016, Takeda and TiGenix entered into an exclusive worldwide ex-us license, 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.

The terms of the agreement includes the transfer of the use of the license of the product in exchange of a non-refundable licensing fee of 25.0 million euros, milestone payments for new authorizations in new territories for production and selling the product and royalties on any product sales derived from the arrangement. These multiple element arrangements have been analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. License revenues are recognized when all significant risks and rewards derived from the ownership and right of use of the license in its current state have been transferred to the customer, for those other milestones not yet reached because there are some pending performance obligations to be satisfied or because there are future approvals, which do not depend only in the Company performance, the revenues are not recognized. The Company has analyzed and separated the different performance obligations and how will they be remunerated. If substantive contractual obligations are satisfied over time or over the life of the contract, revenue will be recognized over their performance. Milestone payments are immediately recognized as revenue when the condition is met, when performance obligations related to that milestone are fulfilled and if the milestone is not a condition to future deliverables and collectability is reasonably assured. Otherwise, they are recognized over the remaining term of the agreement or the performance period.

Grant revenues

In 2016 we recognized 0.7 million euros related to grants of which:

- 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 relate 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 Coretherapix in 2016 by the Ministry of Economy of 0.3 million euros and 0.6 million euros respectively with maturity February 2025 and 2026).

In 2015 we recognized 0.5 million euros related to 7th Framework Program. At the end of 2011, the Company obtained a 7th Framework Program for the project: "Bringing Regenarative Medicine into de market: Allogeneic eASCs Phase IB/IIA clinical trial for treating Rheumatoid Arthritis". The project lasted for 3 years (from January 2012 to December 2014) and all activities and expenses had to be justified in two reporting periods in June 30, 2013 and December 31, 2014. TiGenix SAU spent more than the amounts allocated to it, while its partners in the project spent less than the amounts allocated to them. In the course of 2015, the European Authorities accepted to reimburse TiGenix with the funds not used by said partners.

At December 29, 2011 TiGenix SAU obtained a soft loan from Ministry of Science of 0.7 million euros with maturity in February 2022. At year-end 2015 all activities related to this loan were done and justified and the period for inspection had elapsed. As such, the Company considered that there was sufficient assurance about the grant and recognized the benefit of 0.3 million euros as grant income in the income statement for the year ended December 31, 2015. The benefit obtained from a government loan at a below market rate was treated as a government grant, (measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates).

Grants that were recognized in 2014 are as follows:

- Grants earned through the 2014 activities related to the 7th Framework Program "Bringing Regenarative Medicine into de market: Allogeneic eASCs Phase IB/IIA clinical trial for treating Rheumatoid Arthritis". At year end 2014, the Company recognized in the income statement all the grants related to the activities performed in 2014 for an amount of 1.1 million euros.

- Grants related to soft loans:

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

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

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

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

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

Other income

Other operating income mainly represents reimbursement for certain regulatory and pharmacovigilance activities that we performed on behalf of Sobi under the license agreement of ChondroCelect.

In 2016 our other income decreased for an amount of 0.2 million euros compared to 2015 mainly due to the decrease of activities performed on behalf of Sobi in line with the Company´s decision to withdraw the ChondroCelect Market Authorization in July 2016.

7. Operating charges

The operating charges consist of the following elements:

Research and development expenses

	Years ended December 31,		
Thousands of euros	2016	2015	2014
Employee benefits expenses	5,000	3,500	2,425
Depreciation, amortization and impairment losses	3,115	3,725	1,997
Lab fees and other operating expenses	9,265	8,868	4,548
Other expenses	4,074	3,540	2,473
Total	**21,454**	**19,633**	**11,443**

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 expenses are quite in line with 2015 mainly attributable to clinical trials activities such as the startup of the US Phase III for Cx601 in Crohn's disease patients with complex perianal fistula, the finalization of the EU Phase III for Cx601 in Crohn's disease patients with complex perianal fistula and the phase II SEPSIS challenge trial for Cx611, as well as other key activities necessary for marketing authorization filing for Cx601 in Europe. Additional increase in research and development expenses has been due to the consolidation of the new acquired company Coretherapix into the consolidated financial statements for 12 months of operations for an amount of 1.6 million euros versus 5 months in 2015, for an amount of 0.9 million euros and due to the increase of the Coretherapix contingent consideration for a total amount of 0.8 million euros.

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 increase was mainly attributable to clinical trials activities such as the conclusion of the ADMIRE pivotal phase III trial for Cx601 and the phase I SEPSIS challenge trial for Cx611, as well as other key activities necessary for marketing authorization filing for Cx601

in Europe. In addition, the increase in research and development expenses was due to the consolidation of the new acquired company Coretherapix into the consolidated financial statements (5 months of operations), 896 thousand euros.

The Company recognized during 2011 and 2010 development costs for ChondroCelect. They were initially amortized over their useful life of ten years. No additional development costs for ChondroCelect were capitalized after 2011. During the 4th quarter of 2015, as a result of the corresponding impairment test, the company registered a loss amounting to 1.1 million euros in the accompanying consolidated income statements.

General and administrative expenses

	Years ended December 31,		
Thousands of euros	2016	2015	2014
Employee benefits expenses	3,949	2,772	2,980
Depreciation and amortization expenses	89	668	758
Services and other sundry expenses	3,240	2,227	2,530
Other expenses	1,085	1,016	1,137
Total	**8,363**	**6,683**	**7,406**

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 is mainly explained by higher expenses to obtain additional funding during the present year as compared with previous year as well as 7 more months of G&A expenses from the recently acquired Coretherapix for an amount of 1.2 million euros.

General and administrative costs decreased by 10%, from 7.4 million euros for the year ended December 31, 2014 to 6.6 million euros for the year ended December 31, 2015. The decreased was mainly explained by lower expenses to obtain additional funding during 2015 as compared with 2014.

Employee benefits expenses and mandate contractors

The employee benefits expenses included in the Research and development expenses and the General and administrative expenses lines of the income statements can be detailed as follows:

	Years ended December 31,		
Thousands of euros	2016	2015	2014
Wages, salaries, fees and bonuses	6,968	5,097	5,164
Social security cost	889	624	865
Group & Hospitalization insurance	97	43	105
Share based compensation	914	148	451
Other expenses	82	360	243
Total	**8,949**	**6,272**	**6,828**
of which included in discontinued operations	—	—	*1,064*

The number of FTE increased from 63 at 2015 year-end to 80 at 2016 year-end. In addition, the consolidation of the new acquired company Coretherapix into the consolidated financial statements (12 months of operations in 2016 versus 5 months in 2015) is impacting the evolution.

In a like for like comparison (without discontinued operations), during 2015 employee benefits expense has increased due to the consolidation of the new acquired company Coretherapix into the consolidated financial statements (5 months of operations), 275 thousand euros.

At year-end, the number of employees (full time equivalents) from continuing operations was as follows:

	As at December 31,		
Number of employees and mandate contractors	2016	2015	2014
Research and development staff	56	43	33
General and administrative staff	24	20	16
Total	**80**	**63**	**49**

For further details about the share-based compensation plans, see note 25.

8. Financial result

Thousands of euros	Years ended December 31, 2016	2015	2014
Interest income on bank deposits	19	10	23
Fair value gains	11,593	-	60
Other interest income	137	138	92
Total financial income	**11,749**	**148**	**175**
Interest on borrowings	(6,985)	(6,525)	(982)
Fair value losses	-	(6,654)	-
Impairment and losses on disposal of financial instruments	-	(161)	-
Other finance costs	(303)	(126)	(44)
Total financial expenses	**(7,288)**	**(13,466)**	**(1,026)**
Net foreign exchange differences	**232**	**1,000**	**1,101**
Financial result	**4,693**	**(12,318)**	**250**

Fair value gains

The fair value gains are due to the decrease of the fair value of the liabilities related to convertible bonds and Kreos loan's derivatives. The evolution of the fair value of the embedded derivative of the senior, unsecured convertible bonds issued by the Company from December 31, 2015 to December 31, 2016 (11.0 million euros gains); and by the evolution of the fair value of the warrants related to Kreos loan (0.6 million euros gains).

Interest on borrowings

Interest on borrowings increased from 6.5 million euros for the year ended December 31, 2015 to 7.0 million euros for the year ended December 31, 2016. They were mainly driven by: i) the convertible bonds (5.0 million euros) issued on March 6, 2015, ii) the interest expenses related to the Kreos loan (1.1 million euros) and iii) financial expenses (0.9 million euros) in connection with government loans.

Financial expenses increased from 1 million euros for the year ended December 31, 2014 to 13.5 million euros for the year ended December 31, 2015. They were mainly driven by:

- The interest on borrowings related to i) the convertible bonds (3.9 million euros) issued on March 6, 2015, ii) the interest expenses related to the Kreos loan (1.6 million euros) and iii) financial expenses (0.9 million euros) in connection with government loans.
- The evolution of the fair value of the embedded derivative of the senior, unsecured convertible bonds issued by the Company from the date of issuance (March 6, 2015) to December 31, 2015 (5.5 million euros); and by the evolution of the fair value of the warrants related to Kreos loan (0.6 million euros).
- The change in value of contingent deferred elements of the purchase price of Coretherapix relating to the time value of money and amounting to 685 thousand euros. (See note 22).

The total impairment of Arcarios's participation amounting to 161 thousand euros. (See note 14).

Foreign Exchange Differences

The difference is related to the intercompany loan (expressed in U.S. dollars) incurred by our subsidiary, TiGenix Inc. TiGenix NV has an intercompany receivable in U.S. dollars against TiGenix Inc. As at December 31, 2016 and due to the U.S. dollar appreciation against the euro, the balance of the receivable in euros was updated with the new closing exchange rate generating an exchange difference in TiGenix NV (1.05 EUR/USD at 2016 year-end versus 1.09 EUR/USD).

As at December 31, 2015 and due to the evolution of the euro against the U.S. dollar (during 2015 the U.S. dollar appreciated against the euro), the balance of the receivable in euros has been updated with the new closing exchange rate generating an exchange difference in TiGenix NV.

The intercompany loan with TiGenix Inc is extended annually, as the Company expects future repayment of this loan when TiGenix Inc's activities are reactivated in the context of future activities of the Group in the US. (See note 3).

9. Income tax benefits

The income tax benefit in 2016 of 2.1 million euros (1.3 million euros in 2015) corresponds to a tax incentive related to the tax Law 14/2013 of September 27, 2013 for entrepreneurs in Spain that allows TiGenix SAU to receive in cash the tax deductions obtained from R&D activities. These incentives need to be revised and approved by the tax authorities and TiGenix management do not recognize the profit until the revision process is fully complied and approval obtained. As the Company has received the approval reports for 2014 and 2015, it has applied for the reimbursement and recognized receivables (current and non-current) of 3.8 million euros of its tax credits reported in 2014 and 2015.

The income tax in 2015 of 1.3 million euros (related to the 2014 R&D activities and received in January 2017) was related to the same law. The tax receivable in 2014 of 0.9 million euros (related to the 2013 R&D activities and received in April 2016) was presented as current tax assets in the statement of financial position, whereas the tax receivable relating to the R&D activities performed during 2014 was presented with the other non-current assets as we did not expect to receive the cash within one year. (See notes 15 & 18).

The income tax expense for the year can be reconciled to the accounting profit as follows:

	Years ended December 31,		
Thousands of euros	2016	2015	2014
Profit/(Loss) before taxes	1,666	(36,394)	(12,313)
Income tax expense calculated at 33.99%	566	(12,370)	(4,185)
Effect of income that is exempt from taxation	-	(2)	(7)
Effect of expenses that are not deductible	43	63	791
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(121)	11,303	3,018
Effect of different tax rates in foreign jurisdictions	(488)	1,006	383
Effect of the incentives of Spanish Tax Law 14/2013	2,136	1,325	927
Total	**2,136**	**1,325**	**927**

The deferred taxes are further detailed in note 21.

10. Discontinued operations

At the end of 2013, the board of directors decided to discontinue the ChondroCelect operations. As such and as negotiations to sell the Dutch manufacturing facility were significantly advanced, the Group recognized an impairment of 0.7 million euros at December 31, 2013, which was included in Loss for the period from discontinued operations.

During the first half of 2014, the discontinuation of the ChondroCelect operations was successfully completed through the combination of the sale of the Dutch manufacturing facility and a licensing agreement on the marketing and distribution rights of the ChondroCelect operations.

On May 30, 2014, the Group completed the sale of TiGenix B.V., our Dutch subsidiary, which held our manufacturing facility, to PharmaCell, a leading European contract manufacturing organization active in the area of cell therapy, for a total consideration of 4.3 million euros. Under the terms of the share purchase agreement with PharmaCell, we received an upfront payment of 3.5 million euros when the sale became effective on May 30, 2014 and will receive a final payment of 0.8 million euros (recognized at its present value of 0.6 million euros) after three years. At the end of 2013 an impairment test in respect of the Dutch manufacturing facility was conducted and 0.7 million euros were recognized as a loss. During the first half of 2014 and after the sale of the plant was completed, the Company registered an additional loss on disposal of 1.1 million euros which was included in Loss for the period from discontinued operations.

On June 1, 2014, TiGenix completed the licensing of the marketing and distribution rights of ChondroCelect to Sobi, the international specialty healthcare company dedicated to rare diseases. Sobi marketed and distributed the product within the European Union (excluding Finland, where we have a pre-existing distribution agreement with Finnish Red Cross Blood Service), Switzerland, Norway, Russia, Turkey and the Middle East and North Africa region. TiGenix received in return royalties on the net sales of ChondroCelect, and Sobi reimbursed nearly all of TiGenix's costs associated with the product.

Based on a contract manufacturing agreement with our former subsidiary, now owned by PharmaCell, the Company was entitled to a cost relief amounting up to a maximum of 1.5 million euros on purchases during the first three years since the effective date of the manufacturing agreement. Based on the distribution contract with Sobi, this cost relief was transferred to Sobi on ChondroCelect sales with the same maximum of 1.5 million euros during the same period. Both the manufacturing agreement with our former subsidiary now owned by PharmaCell and the distribution agreement with Sobi included commitments for minimum binding quantities of ChondroCelect that were required to be purchased by us and from us under the respective agreements. If Sobi's actual purchases were lower than the required minimum, we were entitled to receive payment from Sobi up to a maximum undiscounted amount of 8.8 million euros spread over a period of 3.5 years and would had been required to pass on such payment to PharmaCell.

The effect of the Pharmacell and Sobi arrangements is that TiGenix acted as a "pass through" intermediary for the ChondroCelect product (which is purchased from Pharmacell and sold to Sobi through back-to-back, identical contractual arrangements). This means that

following IAS 18.IE21, TiGenix was acting as an agent and not as a principal as it relates to the reimbursement of cost for the manufacturing activities. The amounts collected on behalf of the principal were offset against the amounts paid on behalf of the principal.

In the table below, a detail of the loss for the period 2014 from discontinued operations (which mainly includes the sales & marketing operations of ChondroCelect and the Dutch manufacturing facility) is set forth in previous years. Were the ChondroCelect sales and marketing operations to be presented as continuing operations, the below line items related to revenues and those specific expenses should have to be added to the corresponding line items from continuing operations on the consolidated income statement of 2014.

Analysis of loss for the period from discontinued operations

Thousands of euros	2014(*)
Revenue	3,527
Expenses	(4,991)
Operating expenses related to the sales & marketing	*(1,904)*
Operating expenses related to the Dutch manufacturing facility	*(1,971)*
Impairment losses related to the Dutch manufacturing facility	—
Loss on disposal related to the Dutch manufacturing facility	(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 euro)	**(0.01)**

(*) Figures for 2014 related only to 5 months of ChondroCelect

Cash flows from discontinued operations

Thousands of euros	2014
Cash flows from operating activities	(153)
Cash flows from investing activities	3,490
Net cash flows from discontinued operations	**3,336**

11. Earnings per share

The calculation of the basic net earning per share is based on the loss/profit attributable to the holders of ordinary shares and the weighted average number of ordinary shares outstanding during the period.

The Group offers its employee's share-based compensation benefits (see note 25), which may have a dilutive effect on the basic earning per share. For the purpose of calculating diluted earning per share, the number of ordinary shares shall be the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued in case of conversion into ordinary shares of all instruments that can be converted into ordinary shares.

On February 20, 2017, the Company issued 5,505,477 new warrants of which 4,802,477 have already been granted at the moment of issuing this registration document.

However, during 2014 and 2015 due to the losses incurred by the Group, these instruments had an anti-dilutive effect on the loss per share. Instruments that can be converted into ordinary shares shall only be treated as dilutive when their conversion into ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

	Years ended December 31,		
Thousands of euros except share and per share data	2016	2015	2014
CONTINUING AND DISCONTINUED OPERATIONS			
Profit/(Loss) for the period for the purpose of basic earnings per share	3,802	(35,069)	(12,990)
Weighted average number of shares for the purpose of basic earnings per share	199,946,147	164,487,813	160,476,620
Basic income (loss) per share from continuing and discontinued operations (in euros)	**0.02**	**(0.21)**	**(0.08)**
CONTINUING OPERATIONS			
Profit/(Loss) for the period for the purpose of basic earnings per share	3,802	(35,069)	(11,386)
Weighted average number of shares for the purpose of basic earnings per share	199,946,147	164,487,813	160,476,620
Basic income (loss) per share from continuing operations (in euros)	**0.02**	**(0.21)**	**(0.07)**
DISCONTINUED OPERATIONS			
Loss for the period for the purpose of basic earnings per share	—	—	(1,605)
Weighted average number of shares for the purpose of basic earnings per share	199,946,147	164,487,813	160,476,620
Basic loss per share from discontinued operations (in euros)	—	—	**(0.01)**
POTENTIAL DILUTIVE INSTRUMENTS			
Number of share-based options (out-of the money)	5,098,316	34,937,688	6,864,248
Number of share-based options (in-the-money)	32,680,195	3,045,235	1,724,730
Weighted average number of shares for the purpose of diluted earnings per share	232,626,342	167,533,048	162,201,350
Diluted income (loss) per share from continuing and discontinued operations (in euros)	0.02	(0.21)	(0.08)

12. Intangible assets

Thousands of euros	Development	Goodwill	Intellectual property	Patents and licences	Software	Total
COST						
Balance at January 1, 2014	**2,507**	**—**	**41,117**	**1,380**	**1,122**	**46,126**
Additions—separately acquired	—	—	—	315	—	315
Disposals	(49)	—	—	—	—	(49)
Reclassification	2,613	—	(2,613)	—	—	—
Balance at December 31, 2014	**5,071**	**—**	**38,504**	**1,695**	**1,122**	**46,393**
Additions—separately acquired	—	—	13	574	—	587
Coretherapix acquisition	17,374	717	—	277	—	18,368
Balance at December 31, 2015	**22,445**	**717**	**38,517**	**2,546**	**1,122**	**65,347**
Additions—separately acquired	—	—	—	617	15	631
Disposals	—	—	—	(412)	—	(412)
Reclassification	(1,714)	—	1,714	—	—	—
Balance at December 31, 2016	**20,731**	**717**	**40,231**	**2,750**	**1,137**	**65,567**
ACCUMULATED AMORTISATION AND IMPAIRMENT						
Balance at January 1, 2014	**(837)**	**—**	**(7,310)**	**(454)**	**(1,118)**	**(9,719)**
Amortisation expense	(222)	—	(2,102)	(137)	(2)	(2,463)
Effect of foreign exchange differences	(87)	—	—	—	—	(87)
Disposals	49	—	—	—	—	49
Balance at December 31, 2014	**(1,097)**	**—**	**(9,412)**	**(591)**	**(1,120)**	**(12,221)**
Amortisation expense	(240)	—	(2,565)	(206)	(2)	(3,012)
Impairment loss	(1,121)	—	—	—	—	(1,121)
Balance at December 31, 2015	**(2,458)**	**—**	**(11,977)**	**(797)**	**(1,122)**	**(16,354)**
Amortisation expense	—	—	(2,653)	(118)	(4)	(2,774)
Eliminated on disposals	—	—	—	146	—	146
Balance at December 31, 2016	**(2,458)**	**—**	**(14,630)**	**(769)**	**(1,126)**	**(18,984)**
Carrying amount at December 31, 2014	**3,973**	**—**	**29,092**	**1,104**	**2**	**34,172**
Carrying amount at December 31, 2015	**19,987**	**717**	**26,540**	**1,749**	**—**	**48,993**
Carrying amount at December 31, 2016	**18,273**	**717**	**25,601**	**1,981**	**11**	**46,584**

The Company recognized during 2011 and 2010 development costs for ChondroCelect. They were amortized over their useful life of 10 years. No additional development costs for ChondroCelect were capitalized after 2011. The Company has registered in 2015 an impairment on this asset amounting to 1.1 million euros (corresponding to its net carrying amount prior to its impairment).

On July 31, 2015 the Group acquired 100% of the issued share capital of Coretherapix, SLU. The most significant part of the purchase price has been allocated to in-process research & development (17.4 million euros) as well as certain other intangible assets (277 thousand euros). The difference between the fair values of the assets acquired and liabilities assumed and the purchase price comprises the value of expected synergies arising from the acquisition and has been recorded as goodwill (717 thousand euros). See note 4.

The asset recognized as a consequence of this business combination is currently not amortized, because it is not yet available for use and is, therefore, subject to an annual test for impairment. Group management has implemented an annual procedure to identify any possible impairment on net assets and goodwill allocated by CGU with respect to the recoverable amount thereof. The fair value less cost to sell of the Coretherapix unit was calculated as the present value of the cash flows resulting from the financial projections discounted at a rate that takes into account the assets' specific risks, the average cost of the liabilities and the Group's target financial structure covering a fifteen-year period. The period considered in the model exceeds five years because the first year of sales was estimated to be 2023 and the peak year of sales to be 2029. The estimate on the post tax discount rate has been updated at December 31, 2016. As a result, a range between 13% and 15% has been obtained. The post tax discount rate applied to cash flow projections when estimating fair values was 15% (same as December 31, 2015).

The main variables affecting the calculation of the aforementioned projections are as follows:

- Discount rate (15%)
- Market Penetration
- Price of the product
- Development tree and possible scenarios (9 possible scenarios depending on Licensing/no

Licensing; Pivotal /Not into Pivotal)
- Licensing Milestone incomes
- Trial and running costs
- Year of sales (Pick year sales)
- POS (Probability of success)

The main assumptions are based on past experience and are reviewed as part of management strategic planning cycle for changes in market conditions and sales erosion through competition.

As a result of the analyses performed, the directors considered that it was not necessary to recognise any impairment losses on intangible asset related to the cash generating unit Coretherapix.

However, significant unobservable valuation inputs are discount rate, market penetration and price of the product. These are those to which the fair value of the asset is most sensitive. The potential effect of changes in these inputs are the following: i) discount rate (10% increase/decrease would have an impact of -2.4/3.0 million euros); ii) market penetration (10% increase/decrease would have an impact of 2.5/-1.2 million euros); iii) price of the product (10% increase/decrease would have an impact of 3.4/-1.2 million euros).

In addition, intellectual property and development relate to the acquisition of TiGenix SAU in May 2011 and consist of the technology platform, included in 'Intellectual property' and, in-process research & development, included in 'Development'. These intangible assets were recognized at fair value in accordance with IFRS 3—*Business Combinations*. The technology platform's carrying value of 24.0 million euros at December 31, 2016 (2015: 26.5 million euros; 2014: 29.1 million euros) is amortized over its useful life of fifteen years. The remaining useful life is ten years at the end of 2016. In-process research & development at the end of 2015 amounted to 2.6 million euros and was not amortized, because it was not yet available for use. In July 2016, the product Cx601 (1.7 million euros) was considered as available for use and consequently subject to amortization. As a result of that, we have reclassified it from development to intellectual property. The estimated useful economic life has been determined to be 10 years, which is the remaining period for the patents related to it.

Intangible assets have been pledged to secure the Kreos credit facilities and the soft loans related to Madrid Network. The Group is not allowed to pledge these assets as security for other borrowings or to sell them.

At December 31, 2016, 2015 and 2014 no commitments were signed to acquire intangible assets.

13. Property, plant and equipment

Thousands of euros	IT & machinery	Furniture	Laboratory equipment	Leasehold improvements	TOTAL
COST					
Balance at January 1, 2014	**2,164**	**451**	**704**	**1,215**	**4,535**
Additions	11	1	28	—	40
Disposals	(413)	(50)	—	—	(463)
Balance at December 31, 2014	**1,763**	**402**	**732**	**1,215**	**4,113**
Additions	9	4	21	—	34
Acquisition Coretherapix (Note 4)	5	14	90	—	109
Balance at December 31, 2015	**1,777**	**421**	**843**	**1,215**	**4,256**
Additions	46	154	481	818	1,499
Disposals	(2)	—	(1)	(879)	(881)
Balance at December 31, 2016	**1,822**	**574**	**1,324**	**1,154**	**4,875**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
Balance at January 1, 2014	**(1,825)**	**(365)**	**(547)**	**(921)**	**(3,655)**
Depreciation expense	(9)	(79)	(150)	(81)	(319)
Impairment losses	413	50	—	—	463
Balance at December 31, 2014	**(1,422)**	**(394)**	**(697)**	**(999)**	**(3,512)**
Depreciation expense	(12)	(24)	(109)	(115)	(260)
Balance at December 31, 2015	**(1,434)**	**(419)**	**(806)**	**(1,114)**	**(3,772)**
Depreciation expense	(11)	(38)	(131)	(6)	(186)
Eliminated on disposals	—	—	—	725	725
Balance at December 31, 2016	**(1,446)**	**(456)**	**(937)**	**(395)**	**(3,233)**
Carrying amount at December 31, 2014	**342**	**10**	**36**	**213**	**601**
Carrying amount at December 31, 2015	**343**	**4**	**37**	**101**	**485**
Carrying amount at December 31, 2016	**377**	**118**	**387**	**759**	**1,642**

During 2016, TiGenix SAU increased its leased offices in Madrid and started working to increase the capacity of its manufacturing plant (at December 31, 2016, 0.6 million euros were under construction). At December 31, 2016 there are commitments with corresponding suppliers for a total amount of 0.4 million euros. The 50% of the costs incurred to increase the current manufacturing capacity, will be paid by Takeda as per the License Agreement signed in July 2016.

On July 31, 2015 the Group acquired Coretherapix as well as certain Coretherapix property, plant and equipment with a fair value of 109 thousand euros. (See note 4).

At December 31, 2015 and 2014 there were no commitments signed to acquire property, plant and equipment.

14. Available for sale investments

The available for sale investments in 2014, consisted of the investment of TiGenix in Arcarios B.V., a spin off established jointly with Therosteon in which the Company held 3.53% of the shares. The investment was classified as a financial asset available for sale in accordance with IAS 39—*Financial Instruments: Recognition and Measurement*. However, due to the fact that Arcarios B.V. is not traded on an active market and the Group is not able to measure fair value in an alternative way, the investment is carried at cost less impairment.

During 2015 the Company recognized an impairment loss for the remaining value of the Arcarios' investment (161 thousand euros) due to continuing losses incurred during recent years. The impairment has been recorded under " Impairment and gains/(losses) on disposal of financial instruments" in the accompanying consolidated income statements.

On November 30, 2016, the shareholders approved the sale of the remaining assets and started the liquidation process. As of December 30, 2016, the liquidation of Arcarios B.V. was closed and the company consequently ceased to exist.

15. Other non-current assets

The other non-current assets include guaranteed deposits in relation to soft loans obtained from Madrid Network and other guarantees for the rental of the buildings in Madrid and Leuven.

In 2015 and 2014 it also included the deferred consideration from the sale of the Dutch manufacturing facility. As consequence of the early termination of the agreement with Pharmacell signed in July 2016 we have collected this pending amount (0.8 million euros) in December 2016.

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. These convertible bonds must have a coupon escrow that is an amount sufficient to pay the aggregate amount of interest due on the bonds on the first four interest payment dates up to and including March 6, 2017. The corresponding amount has been transferred to an escrow account for the purpose of paying those four interest payments. This is a restricted account (this amount cannot be used for any other purpose). As of year-end 2016 the remaining amount of 1.13 million euros of interest payments has been classified as other current financial assets. More information in note 20.

In accordance with Law 14/2013 of September 27, 2013 on supporting entrepreneurs and their internationalisation (published in the Official State Gazette of September 28, 2013), TiGenix SAU and Coretherapix SLU annually request the monetization of the tax incentives related to the R&D expenses already approved by the tax authorities. The amount approved has been recognized as other non-current assets as it is not expected to be collected before 2018.

16. Inventories

The carrying amounts of the different components of the inventory are as follows:

	As at December 31,		
Thousands of euros	2016	2015	2014
Raw materials and consumables	244	365	102
Total	**244**	**365**	**102**

All the raw materials and consumables are related to the eASC platform´s activities.

17. Trade and other receivable

	As at December 31,		
Thousands of euros	2016	2015	2014
Trade receivables	1,728	1,687	627
Other receivables	1,009	1,346	1,107
Recoverable taxes	*582*	*1,346*	*776*
Other	*427*	—	*331*
Total	**2,737**	**3,033**	**1,734**

The trade receivables can be detailed as follows:

	As at December 31,		
Thousands of euros	2016	2015	2014
Trade receivables	1,728	1,687	714
Allowance for doubtful debts	—	—	(87)
Total	**1,728**	**1,687**	**627**

The aging analysis of the Group's trade receivables at year end is as follows:

	As at December 31,		
Thousands of euros	2016	2015	2014
Not past due	1,647	847	578
Up to three months	6	210	29
Three to six months	26	630	—
Six to twelve months	—	—	20
More than one year	49	—	—
Total	**1,728**	**1,687**	**627**

The movement in the allowance for doubtful debts is detailed below:

	As at December 31,		
Thousands of euros	2016	2015	2014
Balance at January 1	**—**	**87**	**114**
Impairment losses recognized	—	—	41
Amounts recovered during the year	—	—	(35)
Impairment losses reversed	—	(87)	(32)
Balance at December 31	**—**	**—**	**87**

How credit risk is managed is described in section 5 of the consolidated financial statements.

18. Other current financial assets

Other current financial assets mainly include 1.13 million euros of restricted cash in relation to interest payments to be executed in the short term with respect to the Convertible Bonds issued on March 6th, 2015. (See note 15).

19. Equity

19.1. Share Capital

The share capital of TiGenix amounts to 26.0 million euros at December 31, 2016 (2015: 17.7 million euros; 2014: 16.0 million euros), represented by 259,956,365 shares (2015: 177,304,587 shares; 2014: 160,476,620 shares). The Company's shares have no par value. The holders of TiGenix shares are entitled to receive dividends as declared and to one vote per share at the shareholders' meeting of the Company. All shares issued are fully paid.

The Company has never declared or paid any dividend on its shares. In the future, the Company's dividend policy will be determined by its board of directors and may change from time to time. Any declaration of dividends will be based upon the Company's earnings, financial condition, capital requirements and other factors considered important by the board of directors. Belgian law and the Company's articles of association do not require the Company to declare dividends. Currently, the board of directors expects to retain all earnings, if any, generated by the Company's operations for the development and growth of its business and does not anticipate paying any dividend in the near future.

The change in the number of shares during the year is as follows:

Number of shares	2016	2015	2014
Balance at January 1,	**177,304,587**	**160,476,620**	**160,476,620**
Capital increase—contribution in kind	—	7,712,757	—
Capital increase—contribution in cash	82,651,778	9,115,210	—
Balance at December 31,	**259,956,365**	**177,304,587**	**160,476,620**

During 2016, the share capital of the Company has been increased three times:

	Nº of shares	Nominal value	Thousand of euros
Share Capital			
Capital increase March 10, 2016	25,000,000	0.10	2,500
Capital increase December 15, 2016	46,000,000	0.10	4,600
Capital Increase December 29, 2016	11,651,778	0.10	1,165
Total Increase of share capital in 2016	**82,651,778**		**8,265**
Share premium			
Capital increase March 10, 2016	25,000,000	0.85	21,250
Capital increase December 15, 2016	46,000,000	0.642	29,512
Capital Increase December 29, 2016	11,651,778	0.758	8,834
Total Increase	82,651,778		59,596
Transaction costs			(5,716)
Total increase share premium in 2016			53,880

- 25,000,000 shares were issued pursuant to a capital increase on March 10, 2016 (23.75 million euros gross proceeds)
- 46,000,000 shares were issued pursuant to a Nasdaq IPO on December 15, 2016 (34.1 million euros gross proceeds).
- 11,651,778 shares were issued pursuant to the capital increase of 10.0 million euros from Takeda on December 29, 2016.

Transaction costs related to these capital increases amounted to 5.7 million euros.

During 2015, the share capital of the Company had been increased four times:

- 7,712,757 shares were issued pursuant to the acquisition of Coretherapix, SLU on July 31, 2015 (See note 4).
- 4,149,286 shares were issued pursuant to a contribution in cash on November 27, 2015 (3.9 million euros).
- 4,956,894 shares were issued pursuant to a contribution in cash on December 3, 2015 (4.7 million euros).
- The capital increase of 903 euros on December 14, 2015 following the exercise of 9,030 warrants.

Transaction costs related to these capital increases amounted to 441 thousand euros.

19.2. Equity settled employee benefits reserve

The equity-settled employee benefits reserve relates to share options granted by the Group to its employees under its employee share option plan. Further information about share-based payments to employees is set out in note 25.

19.3. Translation reserves

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (the euro) are recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating the net assets of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation (see note 8).

TiGenix Inc is the only group entity of which the financial statements are not expressed in euros. At December 31, 2016 the negative equity (10.8 million dollars) of TiGenix Inc is translated into euros at the historical exchange rate (Euro/Dollar) while the rest of the statement of financial position is translated at the closing rate of December 31, 2016. TiGenix Inc has a significant intercompany liability in US dollars (10.8 million euros) with TiGenix NV. As the dollar appreciated during last years against the euro, liabilities in euro have been significantly increased while past year results (equity) remain constant with the same value they had when consolidated in those years. The result of applying this conversion procedure and the evolution of the exchange rates is the 2.4 million euros in translation reserves.

20. Financial loans and other payables

Thousands of euros	As at December 31, 2016	2015	2014
Non-current			
Financial loans	5,568	7,879	10,052
Convertible notes (Ordinary note)	20,835	18,127	—
Convertible notes (Warrant)	2,379	13,337	—
Other payables	302	741	601
Non-current borrowings	**29,084**	**40,084**	**10,652**
Current			
Current portion of financial loans	4,699	3,898	2,256
Convertible notes (Ordinary note)	713	713	—
Other financial liabilities	350	985	671
Current borrowings	**5,762**	**5,596**	**2,927**
Total	**34,846**	**45,680**	**13,579**

The Company's current and non-current borrowings can mainly be detailed as follows:

- Roll-over credit facility (from 2007) as presented within financial loans for an original amount 0.4 million euros used for the acquisition of manufacturing equipment in the United States. The borrowing has a remaining maturity of 6 months and carries a variable interest of three month Euribor + 1.40%. Outstanding amount for this facility at December 31, 2016 was 20 thousand euros all of them short term.
- Two loans received in different tranches over 2011 and 2013 from Madrid Network, presented within financial loans, for an original amount of 5.9 million euros to finance the TiGenix SAU Phase III study for complex perianal fistulas in Crohn's disease patients and to develop the potential of stem cells in autoimmune inflammatory diseases. The loans will be reimbursed over a period of ten years starting in 2015 with an annual fixed interest rate of 1.46%. Outstanding amount for this facility at December 31, 2016 was 2.7 million euros of which 2.0 million euros are long term. These loans have been registered at an amortized cost using an annual interest of 21%.
- Interest-free loans, presented within financial loans, maturing in 2025 received from the Spanish Government. These loans have an original amount of 3.2 million euros. Outstanding amount for this facility at December 31, 2016 was 1.3 million euros of which 1.0 million euros are long term. These loans have been registered at an amortized cost using an annual interest of 21%.
- Kreos loan, presented within financial loans, received in 3 tranches over 2014 of 5.0 million euros, 2.5 million euros and 2.5 million euros respectively. The loan will be repaid as from the first anniversary over a period of four years and has a fixed interest rate of 12.5%. Outstanding amount for this facility at December 31, 2016 was 4.7 million euros of which 1.2 million euros are long term.
- Interest-free loan from the Innpacto Program, presented within financial loans as well. It has a term of 10 years, with a grace period of three years. In January 2012, the Company received the first annual instalment of the Innpacto loan amounting to 548 thousand euros. In 2013, the Company received two annual payments of the Innpacto loan, one of 457 thousand euros and another of 142 thousand euros. Outstanding amount for these facilities at December 31, 2016 was 0.6 million euros of which 0.4 million euros are long term. These loans have been registered at an amortized cost using an annual effective interest of 20.35% and 19.91%.
- Two loans received in January 2016 and December 2016 from the Ministry of Science, for an original amount of 0.3 million euros and 0.6 million euros respectively to finance the Coretherapix chronic heart failure preclinical investigations. The loans will be reimbursed over a period of ten years starting in 2019 and 2020 respectively with an annual fixed interest rate of 0.329%. Outstanding amount for these facilities at December 31, 2016 was 0.8 million euros (all long term). These loans have been registered at an amortized cost using an annual interest of 4.97% and 3.03% respectively.

Some of these borrowings, were granted subject to the condition of maintaining specific covenants. As at December 31, 2016, 2015 and 2014 the Group was not in breach of any of the covenants. As at the date of this Document, and to the Company's best estimates, the Group is not close to a breach of the covenants.

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.

Unsecured. The bonds are unsecured, meaning that the holders of the bonds will not benefit from any security interests to secure the performance of the Company's obligations under the bonds, except for the guarantee

provided by TiGenix SAU, the coupon escrow and the negative pledge as further described.

Senior. The bonds will constitute senior obligations of the Company, meaning that the obligations of the Company will not be subordinated to the repayment of any other unsecured financial indebtedness of the Company. The bonds will rank at all times pari passu and rateably, without any preference among themselves, and equally with all other existing and future unsecured (subject to the coupon escrow and the negative pledge) and unsubordinated obligations of the Company.

Coupon escrow. An amount sufficient to pay the aggregate amount of interest to be paid on the bonds on the first four interest payment dates up to and including March 6, 2017 has been transferred to an escrow account for the purpose of paying those four interest payments. This is a restricted account (this amount cannot be used for any other different purpose). 1.13 million euros payments to be executed in the short term have been classified as other current financial assets.

Negative pledge. The Company and its subsidiaries cannot issue debt instruments on the capital market.

Issue price / Redemption price / Coupon / Maturity. The bonds are issued and will be redeemed at 100% of their principal amount and have a coupon of 9% per annum, payable semi-annually in arrear in equal instalments on March 6 and September 6 of each year. The first interest payment date was on September 6, 2015. Final maturity date is March 6, 2018.

Initial conversion price. The initial conversion price has been set at 0.9414 euros. At this initial conversion price, the bonds were convertible into 26,556,192 fully paid ordinary shares of the Company. Following the private placement by the Company of 25,000,000 new shares at an issue price of 0.95 euros per new share announced on March 10, 2016, the calculation agent appointed for the bonds has determined that the conversion price had to be adjusted from its previous level of 0.9414 euros to the new level of 0.9263 euros per TiGenix share. At this adjusted conversion price, the bonds were convertible into 26,989,096 fully paid ordinary shares of the Company. This conversion price adjustment became effective on March 14, 2016.

Following the announcement by the Company on December 15, 2016 of the pricing of its initial public offering in the United States (the "Offering"), totalling US$ 35.65 million from the sale of 2,300,000 American Depositary Shares ("ADSs") representing 46,000,000 new Ordinary Shares at an issue price of US$ 15.50 per ADS, and, in connection with the Offering, the granting by the Company to the underwriters of a 30-day option to purchase up to an additional 345,000 ADSs representing 6,900,000 new Ordinary Shares, with cancellation of the preferential subscription rights for the existing shareholders of the Company, the Calculation Agent determined that the Conversion Price had to be adjusted from its previous level of EUR 0.9263 to the new level of EUR 0.8983 per Ordinary Share (after rounding in accordance with Condition 6.6 of the Terms and Conditions of the Bonds). The Conversion Price adjustment became effective on December 20, 2016. At their current (*i.e.* as from December 20, 2016) conversion price of EUR 0.8983, the bonds can be converted into 27,830,346 new shares in the Company in case all convertible bonds are converted.

Conversion period. The bonds are convertible into shares of the Company during the period from April 16, 2015 until approximately 10 dealing days prior to the final maturity date or, in the case of an earlier redemption, the date falling 10 dealing days prior to the relevant redemption date.

Conversion price reset. As from March 7, 2016, the conversion price shall be adjusted so as to equal the greater of (i) the arithmetic average of the daily volume weighted average price ("VWAP") of the Company's share on each dealing day in the "reset period", and (ii) 80% of the arithmetic average of the conversion price in effect on each dealing day in the "reset period", whereby "reset period" means the 20 consecutive dealing days ending on the fifth dealing day prior to March 7, 2016, provided that no adjustment will be made if such adjustment would result in an increase to the conversion price. At March 7, 2016 the conversion price was maintained at its original value as an adjustment based on the conversion price reset formula would have resulted in an increase of the conversion price. On March 14, 2016, as a result of the private placement, the conversion price for the 9% senior unsecured convertible bonds due 2018 was adjusted from its previous level of 0.9414 euros to the level of 0.9263 euros per share. On December 20, 2016 the conversion price was adjusted from its previous level of 0.9263 euros per share to the new level of 0.8983 euros per share as a consequence of the initial public offering of the Company in the United States.

Issuer call option. If at any time after March 27, 2017, the share price on each of at least 20 dealing days within a period of 30 consecutive dealing days ending not earlier than 7 dealing days prior to the giving of a notice of redemption shall have been at least 130% of the applicable conversion price in effect on each such dealing day, by giving a notice, the Company may redeem all, but not some only, of the bonds at their principal amount (plus accrued interest) within not less than 30 and not more than 60 days of the date of the notice of redemption.

Clean-up call. The Company may redeem all, but not some only, of the outstanding bonds at their principal amount (plus accrued interest) at any time if less than 15% of the aggregate principal amount of the bonds originally issued remains outstanding, by giving not less than 30 and not more than 60 days' notice.

Anti-dilution protection. The bonds are issued subject to standard anti-dilution protection dealing with, inter alia, share consolidations, share splits, rights issues, capital distributions and bonus issues.

Dividend protection. The bonds benefit from full dividend protection through adjustment of the conversion price for any distribution in cash or shares.

Change of control protection. Upon the occurrence of a change of control (*i.e.* when one or several individuals or legal entities acting alone or in concert acquire, directly or indirectly, more than 30% of the share capital or voting shares of the Company), bondholders may require the Company to redeem their bonds at the principal amount, plus accrued interest. In addition, the conversion price of the bonds shall be temporarily adjusted downwards in accordance with a market standard formula for a period of 60 days.

Transferability. The bonds are freely transferable.

Lock-up. The Company agreed, subject to certain customary exceptions, not to issue or dispose of ordinary shares, convertible bonds, warrants or related securities during a period of 90 days after March 6, 2015.

Governing law. The bonds are governed by English law, except for the provisions relating to meetings of bondholders and any matter relating to the dematerialized form of the bonds, which are governed by Belgian law.

Issuance costs amounted to 1.1 million euros and have been allocated to the Ordinary Note and the Warrant in proportion to their values (0.7 million euros and 0.4 million euros, respectively). In the case of the warrant, issuance costs have been recognized in profit or loss on initial recognition, following IAS 39.

At issuance, the Instrument had a nominal value of 25 million euros, being the fair value of the Warrant 7.9 million euros and the amortized cost of the Ordinary Note 16.4 million euros. As at December 31, 2016 the fair value of the warrant amounts to 2.4 million euros (13.3 million euros at December 31, 2015) and the amortized cost (with an effective interest rate of 28.06%) of the Ordinary Note to 21.5 million euros.

The fair value of the government loans at below market rate interest represented in the table above for the periods 2015-2014, has been calculated based on a discount rate of 21% reflecting the market credit risk for a company such as TiGenix in a similar development stage. This market credit risk was determined considering the effective interest from the Kreos loan, which was signed at the end of December 2013 but only into force since February 2014, and the market yields of similar companies.

Other financial liabilities in 2016, 2015 and 2014 relate to the warrants issued as a consideration for the Kreos loan for an amount of 350 thousand euros in 2016. The warrant plan consisted of 1,994,302 warrants that were issued with an exercise price of 0.75 euros exercisable immediately and which expire in April 2019. The warrants also include a put option that authorizes Kreos Capital IV (Expert Fund) to return the warrants to the Company and to settle the warrants in cash under certain circumstances. In May 2015, Kreos Capital exercised this option and executed one third of the warrants (163,333 euros), the remaining put options lapsed in January 2016. The amount in other financial liabilities at December 31, 2016 recognizes the fair value of remaining warrants at that date.

21. Deferred taxes

Deferred tax liabilities

	As at December 31,		
Thousands of euros	2016	2015	2014
Deferred tax liabilities	—	24	29
Total	—	**24**	**29**

The variation in the deferred tax balances presented in the consolidated statement of financial position is as follows:

Thousands of euros	Intangible assets	Tax losses	Other	Total
Balance at January 1, 2014	**(10,143)**	**10,143**	**(29)**	**(29)**
Recognized in income statement—continuing operations	631	(631)	—	—
Balance at December 31, 2014	**(9,512)**	**9,512**	**(29)**	**(29)**
Coretherapix acquisition	(1,532)	1,532	—	—
Recognized in income statement—continuing operations	2,362	(2,362)	5	5
Balance at December 31, 2015	**(8,682)**	**8,682**	**(24)**	**(24)**
Recognized in income statement—continuing operations	(2,283)	2,283	24	24
Balance at December 31, 2016	**(10,965)**	**(10,965)**	**-**	**-**

In the context of the business combination with TiGenix SAU, the Group recognized a deferred tax liability of 12.3 million euros relating to the recognition of the intangible assets of TiGenix SAU at the acquisition date. At the same time *(i.e.*, the acquisition date), a deferred tax asset was recognized for the tax losses carried forward of TiGenix SAU to the extent of the deferred tax liabilities recognized.

In the case of Coretherapix SLU acquisition, the Group has recognized a deferred tax liability of 1.5 million euros relating to the recognition of the intangible assets of Coretherapix SLU at the acquisition date. At the same time (*i.e.*, the acquisition date), a deferred tax asset was recognized for the tax losses carried forward of Coretherapix SLU to the extent of the deferred tax liabilities recognized. As a consequence of a change in accounting policy at statutory level, there has been an increase in the amount of tax losses; in 2016, the mentioned deferred tax liability raised to 4.3 million euros. This mainly explains the 2.3 million euros evolution of deferred tax assets during the period to the extent of the deferred tax liabilities recognized.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized, are attributable to the following:

	As at December 31,		
Thousands of euros	2016	2015	2014
Unused tax losses	200,349	180,671	143,384
Unused tax credits	20,804	20,086	15,034
Notional interest deductions	1,748	3,033	5,132
Total	**222,901**	**203,790**	**163,550**

The tax losses do not have an expiration date. 18% of the unused tax credits will expire within a period of ten years. 79% of unused tax credits have an expiration date between ten and eighteen years. The remaining 3% do not have an expiration date. The notional interest deductions will expire within a period of three years.

Due to the losses of the Group, no income taxes were payable. On December 31, 2016 the Group had losses carried forward amounting to 200.3 million euros (2015: 180.7 million euros; 2014: 143.4 million euros), including a potential deferred tax asset of 61.8 million euros. Due to the uncertainty surrounding TiGenix's ability to realize taxable profits in the near future, the Company did not recognize any deferred tax assets, except for the ones used to offset the deferred tax liabilities recognized as part of a past business combination, on its balance sheet.

In addition to tax losses, the Group has unused tax credits (2016: 20.8 million euros; 2015: 20.1 million euros; 2014: 15.0 million euros) and notional interest deductions (2016: 1.7 million euros; 2015: 3.0 million euros; 2014: 5.1 million euros) for which no deferred tax assets have been recognized either.

22. Other non-current liabilities – contingent consideration

Other non-current liabilities include the fair value at December 31, 2016 of the contingent deferred elements of the purchase price of Coretherapix (7.3 million euros).

The fair value upon acquisition date of the contingent deferred elements of the purchase price of 11.3 million euros was computed as the sum of the probability-weighted values of the fair values of the purchase prices associated with each of the nine product development routes. The fair value of each route was in turn computed as the sum of the survival probability-discounted present values of the contingent payments in each such route including the Milestone and Commercialization Payments. The discount rate used in the model was 15%. (See note 4).

The fair values are reviewed on a regular basis, at least at each reporting period, and any changes are reflected in the income statement. The fair value of contingent consideration increased from 12.0 million euros at the December 31, 2015 to 12.9 million euros at December 31, 2016 (of which, 7.3 million euros are presented as non-current liabilities and 5.5 million euros as current liabilities). The increase was due to the reduction of the probability of fast track routes and resulted in an operating expense of 0.8 million euros in the TiGenix' audited consolidated income statement for the year ended December 31, 2016.

23. Trade and other payables

	As at December 31,		
Thousands of euros	2016	2015	2014
Trade payables	3,165	1,804	1,188
Other payables	1,982	1,545	1,164
Payables relating to personnel	*1,967*	*1,410*	*1,014*
Other	*15*	*135*	*150*
Total	**5,147**	**3,349**	**2,352**

24. Other current liabilities

The other current liabilities consist of grant income and other accruals.

	As at December 31,		
Thousands of euros	2016	2015	2014
Accrued charges	3,277	4,711	3,204
Deferred income	394	233	—
Total	**3,671**	**4,944**	**3,204**

Accrued charges decreased significantly in 2016 mainly due to the increase in trade payables when comparing with 2015.

Accrued charges increased significantly in 2015 when comparing with 2014 due to the increase of the research and development activities. (See note 7).

Other current liabilities – contingent consideration include the fair value at December 31, 2016 of the short term contingent deferred elements of the purchase price of Coretherapix (5.5 million euros).

25. Share based payments

TiGenix—Stock options granted to employees, consultants and directors

On February 26, 2007 (800,000), March 20, 2008 (400,000), June 19, 2009 (500,000), March 12, 2010 (500,000), July 6, 2012 (4,000,000), March 20, 2013 (777,000), December 16, 2013 (1,806,000) and December 7, 2015 (2,250,000) in the aggregate 11,033,000 warrants were issued for the benefit of employees, consultants and directors, subject to the warrants being granted to and accepted by the beneficiaries. Of these 11,033,000 warrants, (i) 764,621 warrants expired as they have not been granted, (ii) 440,933 warrants have expired as they have not been accepted by their beneficiaries, (iii) 1,197,286 warrants have lapsed due to their beneficiaries leaving the Company, and (iv) 11,530 warrants have been exercised. As a result, as at December 31, 2016, there are 8,618,630 warrants granted and outstanding (2015: 8,344,086; 2014: 6,594,676).

The warrants are granted to employees, consultants and directors of the Company and its subsidiaries, as well as to other persons who in the scope of their professional activity have made themselves useful to the Group, including but not limited to the members of the scientific advisory board and the clinical advisors. The warrants have been granted free of charge. Each warrant entitles its holder to subscribe to one common share of the Company at a subscription price determined by the board of directors, within the limits decided upon at the occasion of their issuance.

The warrants issued on February 26, 2007, March 20, 2008, June 19, 2009, March 12, 2010, July 6, 2012, December 16, 2013 and December 7, 2015 have a term of ten years. The warrants issued on March 20, 2013 have a term of five years. Upon expiration of the ten or five year term, the warrants become null and void.

The warrants issued on February 26, 2007, March 20, 2008, June 19, 2009, March 12, 2010 vest, in principle, in cumulative tranches of 25% per year, *i.e.*, 25% as of the first anniversary date of their granting, 50% as of the second anniversary date of their granting, 75% as of the third anniversary date of their granting, 100% as of the fourth anniversary date of their granting provided that the cooperation between the Company and the warrant holder has not yet ended, unless the board of directors approved a deviation from this vesting schedule. As to the warrants issued on July 6, 2012, March 20, 2013 and December 7, 2015, in principle, (i) one-third of the warrants granted will vest on the first anniversary of the granting of the warrants and (ii) one-twenty-fourth of the remaining two-thirds of the warrants granted will vest on the last day of each of the twenty-four months following the month of the first anniversary of the granting of

the warrants. As to the warrants issued on December 16, 2013, in principle, (i) 10% of the warrants granted will vest on the date of acceptance of the warrants, (ii) 25% of the warrants granted will vest on the first anniversary of the granting of the warrants and (iii) 65% of the warrants granted will only vest (one-twenty-fourth on the last day of each of the months included in the period January 2015 to December 2016) if the Company effectively enters into certain business transactions. The warrants can only be exercised by the warrant holder if they have effectively vested.

In accordance with IFRS 2, the table below provides an overview as at December 31, 2016 of all outstanding warrant pools offered to employees, consultants and directors of the Company and its subsidiaries together with the activities under the different pools of warrants during 2016.

Number of options	Weighted average exercise price	Total	December 07, 2015	December 16, 2013	March 20, 2013	March 20, 2013	July 6, 2012	March 12, 2010	June 19, 2009	March 20, 2008	February 26, 2007
Number of options created			2,250,000	1,806,000	160,000	273,000	4,000,000	500,000	500,000	400,000	800,000
Weighted average exercise price (euros)			0,95	0,47	1,00	0,91	1,00	2,74	3,98	4,10	5,49
Fair value at grant date (euros)			0,68	0,35	0,20	0,43	0,17	2,00	3,53	2,56	2,64
Expiration date			11/30/2025	11/30/2025	11/30/2019	11/30/2019	05/31/2022	11/30/2019	05/31/2019	11/30/2017	03/31/2017
Balance at January 1, 2014	**1.77**	**6,570,285**	**—**	**957,180**	**160,000**	**273,000**	**3,547,297**	**253,000**	**139,800**	**286,500**	**509,813**
Granted	0.47	848,820	—	848,820	—	—	—	—	—	—	—
Forfeited	1.05	(380,734)	—	(81,270)	—	—	(204,464)	(95,000)	—	—	—
Expired	3.50	(443,695)	—	—	—	—	—	—	—	—	—
Balance at December 31, 2014	**1.53**	**6,594,676**	**—**	**1,724,730**	**160,000**	**273,000**	**3,342,833**	**158,000**	**139,800**	**286,500**	**509,813**
Granted	0.96	1,766,218	1,766,218	—	—	—	—	—	—	—	—
Forfeited	1.00	(7,778)	—	—	—	—	(7,778)	—	—	—	—
Expired	0.46	(9,030)	—	(9,030)	—	—	—	—	—	—	—
Balance at December 31, 2015	**1.41**	**8,344,086**	**1,766,218**	**1,715,700**	**160,000**	**273,000**	**3,335,056**	**158,000**	**139,800**	**286,500**	**509,813**
Granted	0.96	453,961	453,961	—	—	—	—	—	—	—	—
Forfeited	0.83	(179,417)	(142,581)	(17,119)	(19,717)	—	—	—	—	—	—
Balance at December 31, 2016	**1.40**	**8,618,630**	**2,077,598**	**1,698,581**	**140,283**	**273,000**	**3,335,056**	**158,000**	**139,800**	**286,500**	**509,813**

On December 7, 2015, 2,250,000 warrants were issued of which 2,220,179 warrants were granted in total and 29,821 warrants expired because they were not granted.

On December 7, 2015, 1,766,218 warrants were granted. The exercise price was determined as follows:

- For all employees, the exercise price was set at 0.95 euro, the closing price of our ordinary shares on December 4, 2015, the last closing price prior to the grant of the warrants on December 7, 2015, which was lower than the 30 day average price.
- For our CEO, Eduardo Bravo, who is not an employee of TiGenix SAU, the exercise price was set at 0.97 euro, the average closing price of our ordinary shares during 30 calendar days prior to the issuance of the warrants on December 7, 2015.

On May 4, 2016, 96,637 warrants were granted. The exercise price was determined as follows:

- For all employees, the exercise price was set at 0.95 euro, the closing price of our ordinary shares on May 3, 2016, the last closing price prior to the grant of the warrants on May 4, 2016, which was higher than the 30 day average price.

On June 2, 2016, 193,863 warrants were granted. The exercise price was determined as follows:

- For our independent directors, who are not employees of TiGenix, the exercise price was set at 0.97 euro, the average closing price of our ordinary shares during 30 calendar days prior to the issuance of the warrants on December 7, 2015.

On September 6, 2016, 163,461 warrants were granted. The exercise price was determined as follows:

- For all employees, the exercise price was set at 0.97 euro, the closing price of our ordinary shares on September 5, 2016, the last closing price prior to the grant of the warrants on September 6, 2016, which was lower than the 30 day average price.

The warrants issued on December 7, 2015 have a term of ten years. Upon expiration of the ten year term, the warrants become null and void. The issuance of these warrants has no impact on the accompanying consolidated financial statements.

The fair value of each warrant was estimated on the date of grant using the Black Scholes model with the following assumptions:

- The historic volatility of the Company (ranged between 66.9% and 69.7% for the 2015 warrant plan granted in four different tranches, 67% for the 2013 warrant plans, 52.8% for the 2012 warrant plan and 60% for the previous plans), which was determined based on past (three years) volatility of the TiGenix share;
- The expected dividends are assumed to be zero in the model;
- Weighted average risk-free interest rates based on Belgian Sovereign Strips at the date of grant with a term equal to the expected life of the warrants, ranging between 0% and 4.6%;

- Weighted average share price (determined at 0.96 euros for the latest warrant plan); and
- The expected lifetime of the warrants, which on average is about five years for the warrants with a maximum duration of ten years.

The remaining weighted average life of these options was 5.86 years at December 31, 2016 (2015: 6.8 years; 2014: 6.9 years).

The total expense recognized for the year arising from share-based payment transactions amounts to 0.9 million euro at December 31, 2016 (2015: 0.1 million euro).

TiGenix SAU—Stock options granted to employees, executives and independent board members

Prior to the business combination, TiGenix SAU (formerly Cellerix) had created two equity based incentive plans, or EBIPs. The completion of the business combination triggered certain consequences outlined below which affect both EBIPs. A summary overview of some of the conditions of both EBIPs is given below.

Options under the EBIP 2008 were granted to employees, executives and independent members of the board of directors of TiGenix SAU prior to the business combination. Options under the EBIP 2008 were granted to each beneficiary through individual letters. As a result of the business combination, all EBIP 2008 options vested except for 32,832 options of employees who terminated their employment with TiGenix SAU before the business combination and that were not re allocated. The exercise prices of the EBIP 2008 were set at 11.0 euros, 7.0 euros and 5.291 euros depending on the date of grant and beneficiary. TiGenix SAU granted 453,550 options under the EBIP 2008 of which 420,718 were vested. As a result of the business combination, all TiGenix SAU options were exchanged into TiGenix stock options.

The options under the EBIP 2008 had to be exercised prior to August 6, 2015. As no beneficiary exercised its options, they have now expired. This resulted in a movement of 2,108 euro in accumulated deficits during year 2015. The Company is exploring its options with respect to a new plan that would be based on the existing shares underlying the expired options.

Options under the EBIP 2010 were only granted to senior management of TiGenix SAU. The EBIP provides that the normal exercise price of the options is set at 5.291 euros. However, as a result of the business combination the exercise price for all EBIP 2010 options has been reduced to 0.013 euros. TiGenix SAU has granted 221,508 options under the EBIP 2010. As a result of the business combination, all EBIP 2010 options have vested. Pursuant to the terms of the EBIP 2010 the board of directors of TiGenix SAU has opted to exchange all existing options for new options over existing TiGenix shares. Pursuant to the initial terms of the EBIP 2010, beneficiaries had to exercise their options 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 of December 31, 2016, no more options were outstanding under the EBIPs.

Number of options Grant date	Total	Options issued in 2010
Number of options created	221,508	221,508
Weighted average exercise price (euros)		0.01
Fair value at grant date (euros)		2.30
Expiration date		9/30/2016
Balance at January 1, 2014	**221,508**	**221,508**
Exercised	(31,011)	(31,011)
Balance at December 31, 2014	**190,497**	**190,497**
Balance at December 31, 2015	**190,497**	**190,497**
Exercised	(190,497)	(190,497)
Balance at December 31, 2016	**—**	**—**

26. Related party transactions

Transactions between the Group and its employees, consultants or directors are disclosed below.

Compensation of key management personnel

Key management personnel are identified as being the CEO, CFO, CTO and CMO.

The combined remuneration package of key management was as follows:

Thousands of euros	Years ended December 31, 2016	2015	2014
Short-term benefits	1,600	1,387	1,257
Post-employment benefits	87	86	65
Share-based payments	470	104	302
Total	**2,157**	**1,577**	**1,623**

No loan, quasi loan or other guarantee is outstanding with members of the management team.

Transactions with non-executive directors

Non-executive directors that represent shareholders of the Company receive no compensation for their position as directors.

The independent directors receive a fee for attending and preparing the meetings of the board of directors and they receive reimbursement for expenses directly related to the board meetings. In 2016, an amount of 0.2 million euros (2015: 0.2 million euros; 2014: 0.1 million euros) in total was paid as fees and expense reimbursement to independent members of the board of directors.

No advances or credits have been granted to any member of the board of directors. None of the members of the board of directors has received any non-monetary remuneration other than warrants.

27. Segment information

The Group's activities are managed and operated in one segment, biopharmaceuticals. There is no other significant class of business, either individual or in aggregate. As such, the chief operating decision maker *(i.e.,* the CEO) reviews the operating results and operating plans and makes resource allocation decisions on a company-wide basis.

Geographical information

Revenue from continuing operations are mainly related to royalties 0.4 million euros (Sweden), License revenues for a total amount of 25 million euros (Switzerland) and grants and other operating income 0.8 million euros Spain and 0.6 million euros Belgium).

All sales related to the product ChondroCelect have been disclosed as a discontinued operation in 2014. (See note 10).

The Group's non-current assets (excluding non-current assets held for sale) by location are presented below:

Thousands of euros	Years ended December 31, 2016	2015	2014
Belgium	154	2,159	2,564
Spain	51,927	52,082	34,244
Total	**52,081**	**54,241**	**36,808**

28. Commitments and contingencies

Operating lease commitments

The operating lease commitments of the Group relate to leases of buildings between one and nine years and leases of cars and IT equipment for four years. The Group does not have an option to purchase the leased assets.

In 2016, the Group made operating minimum lease payments for a total amount of 0.3 million euros (2015: 0.5 million euros; 2014: 0.9 million euros).

The operating lease commitments for future periods are presented in the table below:

Thousands of euros	As at December 31, 2016	2015	2014
Within one year	474	590	603
In the second to fifth year	926	1,351	516
After five years	—	—	—
Total	**1,401**	**1,941**	**1,119**

Other commitments

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 (0.3 million euros in 2015). Cognate was the party with whom TiGenix had a joint venture, TC CEF LLC, in the past.

Legal proceedings

Tigenix SAU is involved in the following legal proceedings.

Invalidation of U.S. patent US6777231

On April 1, 2011, Cellerix (the predecessor entity of our subsidiary TiGenix SAU) filed an *inter partes* re examination request with the US Patent and Trademark Office regarding the patent US6777231, owned by the University of Pittsburgh. The US Patent and Trademark Office examiner issued a decision concluding that all ten originally issued and all eighteen newly submitted claims of the patent granted to the University of Pittsburgh were invalid. The University of Pittsburgh then appealed the examiner's decision, but only with respect to two of the newly submitted claims. We cross appealed the examiner's refusal to reject those two newly submitted claims as anticipated by the prior art. The Patent Trial and Appeal Board issued a decision simultaneously granting both appeals, thus confirming that all claims of the patent were invalid, but with respect to the newly submitted claims, on different grounds than those cited in the decision by the initial examiner. On this basis, the University of Pittsburgh filed a request to reopen prosecution and submitted claim amendments to those newly submitted claims to the US Patent and Trademark Office for further consideration in an attempt to overcome the Patent Trial and Appeal Board's institution of a new ground for rejection as anticipated by the prior art. We submitted comments to the US Patent and Trademark Office arguing that these claim amendments did not overcome the anticipated rejection. On March 16, 2015, the examiner issued her determination that the claim amendments did not overcome the anticipated rejection and further adopted our proposed anticipated rejections over two additional prior art references and two proposed indefiniteness rejections. We and the University of Pittsburgh have submitted comments on the examiner's determination and replied to each other's comments. The comments and replies have been entered into the record and the proceedings were forwarded to the Patent Trial and Appeal Board on December 18, 2015. The proceedings were docketed at the PTAB as of September 13, 2016; accordingly a decision could be rendered by the PTAB at any time. We do not know exactly when a final decision will be rendered, and at this stage, we are not in a position to assess the probable outcome of these proceedings.

If the re-examination is not successful, the Company may be required to obtain a license on unfavorable terms, or may not be able to obtain a license at all in order to commercialize its adipose-derived stem cell products in the United States. The Company would potentially be susceptible to patent infringement or litigation regarding patent infringement while commercializing its eASC products in the United States. The Company may, therefore, choose to delay the launch of its adipose-derived stem cell products in the U.S. market until the expiration of the patent US6777231 on March 10, 2020.

29. Subsequent events

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

30. Consolidation scope

			Ownership interest As at December 31,		
Legal Entity	Principal activity	Place of incorporation	2016	2015	2014
TiGenix Romeinse straat 12, Box 2 3001 Leuven	Biopharmaceutical company	Belgium	100%	100%	100%
TiGenix SAU Calle Marconi 1, Parque Tecnológico de Madrid Tres Cantos 28760 Madrid	Biopharmaceutical company	Spain	100%	100%	100%
Coretherapix SLU Calle Marconi 1, Parque Tecnológico de Madrid Tres Cantos 28760 Madrid	Biopharmaceutical company	Spain	100%	100%	—%
TiGenix Inc. 1209 Orange Street Wilmington, Delaware	Biopharmaceutical company	U.S.A.	100%	100%	100%

31. Auditor remuneration

The total remuneration of the statutory auditor (and related firms) in 2016 amounted to 216,000 euros (excluding VAT) (audit fees related to TiGenix NV and TiGenix SAU, as well as fees related to assignments entrusted to the statutory auditor by law) and 560,916 euros (excluding VAT) (fees for other services, related to the TiGenix group). In accordance with Article 133 of the Belgian Companies Code, the Company's audit committee has approved that the fees for other services are higher than the audit fees. The higher fees for other services are justified by the fact that in 2016, the Company required substantial ad hoc services in connection with the Company's preparation to obtain additional funding during 2016.

The total remuneration of the statutory auditor (and related firms) in 2015 amounted to 142,497 euros (excluding VAT) (audit fees related to TiGenix NV and TiGenix SAU, as well as fees related to assignments entrusted to the statutory auditor by law) and 495,385 euros (excluding VAT) (fees for other services, related to the TiGenix group). In accordance with Article 133 of the Belgian Companies Code, the Company's audit committee had approved that the fees for other services are higher than the audit fees. The higher fees for other services are justified by the fact that in 2015, the Company required substantial ad hoc services in connection with the Company's preparation to obtain additional funding during 2015.

The total remuneration of the statutory auditor (and related firms) in 2014 amounted to 96,707 euros (excluding VAT) (audit fees related to TiGenix NV and TiGenix SAU, as well as fees related to assignments entrusted to the statutory auditor by law) and 766,461 euros (excluding VAT) (fees for other services, related to the TiGenix group). In accordance with Article 133 of the Belgian Companies Code, the Company's audit committee had approved that the fees for other services are higher than the audit fees. The higher fees for other services are justified by the fact that in 2014, the Company required substantial ad hoc services in connection with the Company's preparation to obtain additional funding during 2014.

11.7. AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PER DECEMBER 31, 2016

As required by law, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated financial statements, as well as the required additional statement. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the explanatory notes.

Report on the consolidated financial statements – unqualified opinion

We have audited the consolidated financial statements of the company TiGenix NV for the year ended December 31, 2016, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, which show a consolidated statement of financial position total of 136.201 (000) EUR and a consolidated income statement showing a consolidated profit for the year of 3.802 (000) EUR.

Responsibility of the board of Directors for the preparation of the consolidated financial statements

The board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as the board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA's) as adopted in Belgium. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers the company's internal control relevant to the preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the board of Directors and company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of the company TiGenix NV give a true and fair view of the group's equity and financial position as at December 31, 2016, and of its results and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The board of Directors is responsible for the preparation and the content of the Directors' report on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which do not modify the scope of our opinion on the consolidated financial statements:

- The Directors' report the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, April 5, 2017

BDO Réviseurs d'Entreprises Soc. Civ. SCRL

Statutory auditor

Represented by Veerle Catry

11.8. AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PER DECEMBER 31, 2015

As required by law, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated financial statements, as well as the required additional statement. The consolidated financial statements comprise the consolidated statement of financial position as at December 31, 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the explanatory notes.

Report on the consolidated financial statements – unqualified opinion

We have audited the consolidated financial statements of the company TiGenix NV for the year ended December 31, 2015, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, which show a consolidated statement of financial position total of 79.171 (000) EUR and a consolidated income statement showing a consolidated loss for the year of 35.069 (000) EUR.

Responsibility of the board of Directors for the preparation of the consolidated financial statements

The board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as the board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA's). Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers the company's internal control relevant to the preparation of consolidated financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the board of Directors and company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of the company TiGenix NV give a true and fair view of the group's equity and financial position as at December 31, 2015, and of its consolidated results and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter paragraph

Notwithstanding the Group suffered significant losses that affected its financial position and cash situation, the consolidated financial statements have been drawn up in the assumption of going concern. This is only justified if the underlying assumptions, as described in chapter 11.6 § 2.1 of the consolidated financial statements, will be realized. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of the assets' carrying amounts or to the amount and classification of liabilities that would have to be made should the company be unable to continue as a going concern.

Report on other legal and regulatory requirements

The board of Directors is responsible for the preparation and the content of the Directors' report on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which do not modify the scope of our opinion on the consolidated financial statements:

- The Directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, April 11, 2016

BDO Réviseurs d'Entreprises Soc. Civ. SCRL

Statutory auditor

Represented by Gert Claes

11.9. AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PER DECEMBER 31, 2014

As required by law, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated financial statements, as well as the required additional statement. The consolidate financial statements comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and the explanatory note.

Report on the consolidated financial statements – unqualified opinion

We have audited the consolidated financial statements of the company Tigenix NV for the year 2014 ended December 31, 2014, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, which show a consolidated statement of financial position total of 53.921 (000) EUR and a consolidated income statement showing a consolidated loss for the year of 12.990 (000) EUR.

Responsibility of the board of Directors for the preparation of the consolidated financial statements

The board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards, and for such internal control as the board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA's). Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers the company's internal control relevant to the preparation of consolidated financial statements that give a true and fair view, in order

to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the board of Directors and company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of the company Tigenix NV give a true and fair view of the group's equity and financial position as at December 31, 2014, and of its results and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter paragraph

Notwithstanding the Group suffered significant losses that affected its financial position and cash situation, the consolidated financial statements have been drawn up in the assumption of going concern. This is only justified if the underlying assumptions, as described in chapter 11.6 § 2.1 of the consolidated financial statements, will be realized. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amount and classification of liabilities that would have to be made should the company be unable to continue as a going concern.

Report on other legal and regulatory requirements

The board of Directors is responsible for the preparation and the content of the Director's report on the consolidated financial statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement, which do not modify the scope of our opinion on the consolidated financial statements:

- The Director's report the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information that we became aware of during the performance of our mandate.

Zaventem, March 16, 2015

BDO Réviseurs d'Entreprises Soc. Civ. SCRL

Statutory auditor

Represented by

Gert Claes

Registered auditor

12. STATUTORY FINANCIAL STATEMENTS 2016-2015-2014

The statutory accounts are based upon Belgian GAAP.

An unqualified audit opinion has been issued by the statutory auditor on April 5, 2017.

The information included in this section is an extract from the statutory accounts that will be submitted for approval to the annual shareholders meeting of June 1, 2017 and that will be filed with the Belgian National Bank, and does not include all information as required by articles 98 and 100 of the Belgian Companies Code.

12.1. STATUTORY INCOME STATEMENT 2016-2015-2014

	Years ended December 31,		
Thousands of euros	2016	2015*	2014*
I. Operating income	***1,508***	***1,586***	***4,866***
A. Turnover	970	1,277	4,150
D. Other operating income	535	302	641
E. Non-recurring operational income	3	7	75
II. Operating charges	***(12,878)***	***(10,299)***	***(10,257)***
A. Raw materials, consumables, goods for resale	-	(6)	(831)
B. Services and other goods	(10,051)	(5,617)	(5,576)
C. Remuneration, social security contributions and pensions	(1,230)	(1,158)	(1,851)
D. Depreciation & amounts written off on formation expenses, intangible and tangible fixed assets	(1,429)	(2,364)	(1,352)
G. Other operating charges	-	(33)	(583)
H. Non-recurring operational charges	(168)	(1,121)	(64)
III. Operating profit/(loss)	**(11,370)**	**(8,713)**	**(5,391)**
IV. Financial income	**1,039**	**1,675**	**594**
A. Income from financial fixed assets	501	484	519
B. Income from current assets	1	-	1
C. Other financial income	537	1,191	74
V. Financial charges	**(3,456)**	**(3,748)**	**(3,040)**
A. Debt charges	(3,349)	(3,568)	(1,092)
C. Other financial charges	(107)	(19)	(14)
D. Non-recurring financial charges	-	(161)	(1,934)
VI. Profit/(loss) before taxes	**(13,787)**	**(10,786)**	**(7,836)**
X. Income taxes	**43**	**33**	**—**
XI. Profit/(loss) for the year after taxes	**(13,744)**	**(10,753)**	**(7,836)**

* Please note that certain changes have been made to the figures for financial years 2014 and 2015 as compared to the figures included in the registration document dated April 12, 2016 due to changes in accounting law regarding the presentation of exceptional results.

12.2. STATUTORY BALANCE SHEET 2016-2015-2014

Thousands of euros	As at December 31, 2016	2015	2014
NON-CURRENT ASSETS	**106,236**	**101,071**	**79,023**
I. Formation expenses	***526***	***993***	***1,593***
II. Intangible fixed assets	***11***	***116***	***1,476***
III. Tangible fixed assets	***3***	***141***	***225***
B. Plant, machinery and equipment	3	6	10
E. Other tangible assets	—	135	215
IV. Financial fixed assets	***105,696***	***99,821***	***75,729***
A. Affiliated enterprises	105,555	97,905	74,856
A1. Investments	105,555	97,905	74,856
A2. Amounts receivable	—	—	—
C. Other financial non-current assets	141	1,916	873
C1. Shares	—	—	161
C2. Amounts received and cash guarantee	141	1,916	712
CURRENT ASSETS	**57,671**	**13,613**	**10,265**
VII. Amounts receivable within one year	***3,237***	***4,078***	***1,292***
A. Trade debtors	1,937	1,049	701
B. Other amounts receivable	1,300	3,029	591
IX. Cash at bank and in hand	***54,429***	***9,474***	***8,830***
X. Deferred charges and accrued income	***5***	***61***	***143***
TOTAL ASSETS	**163,907**	**114,684**	**89,288**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES	**130,185**	**76,066**	**72,923**
I. Capital	***25,996***	***17,730***	***16,048***
A. Issued capital	25,996	17,730	16,048
II. Share premium	***180,706***	***121,109***	***108,897***
V. Accumulated profit/(loss)	***(76,517)***	***(62,773)***	***(52,020)***
LIABILITIES	**33,722**	**38,618**	**16,364**
VIII. Debts payable after 1 year	***26,370***	***29,817***	***10,741***
A. Financial debts	—	20	60
A4. Credit institutions	—	20	60
F. Other debts	26,370	29,797	10,681
IX. Debts payable within 1 year	***5,143***	***6,553***	***3,663***
A. Current portion of debts after one year	3,415	2,865	1,586
C. Trade debts	1,486	767	223
C1. Suppliers	1,486	767	223
E. Taxes, remuneration & social security	242	303	436
E2. Remuneration & social security	242	303	436
F. Other amounts payables	—	2,618	1,417
X. Accrued charges and deferred income	***2,209***	***2,248***	***1,961***
TOTAL EQUITY AND LIABILITIES	**163,907**	**114,684**	**89,288**

12.3. ACCOUNTING POLICIES (BELGIAN GAAP)

The valuation rules have been prepared in accordance with the provisions of Chapter II of the Belgian Royal Decree of January 30, 2001 relating to the implementation of the Belgian Companies Code (*Koninklijk besluit tot uitvoering van het wetboek van vennootschappen / Arrêté royal portant exécution du code des sociétés).* All amortisations and depreciations are done on a pro rata basis in the year of purchase.

12.3.1. Formation expenses and costs relating to capital increases

These expenses, included the issuance costs, historically were recognised as assets and were amortised by 20% annually. In 2015 there was a change in accounting policy affecting costs relating to capital increases. From 2015 onwards these costs are registered directly in the Income statement. The effect of this change of accounting policy amounts to 441 thousand euros in 2015.

12.3.2. Intangible fixed assets

Research and development costs

Research costs are expensed directly in the income statement. Development costs are recognized as intangible assets if it is probable that the asset developed will generate future economic benefits and if the development costs can be measured reliably. Development costs are amortized on a straight-line basis over their estimated useful life from the moment that they are available for use.

In case the recoverable amount of the capitalized development costs is no longer justified by expected future economic benefits an impairment should be recorded. Impairment losses on intangible fixed assets are shown in non-recurrent operational charges.

Patents, licenses and similar rights

The costs relating to the request of these rights are expensed directly in the income statement. Costs relating to the maintenance of these assets are capitalised at purchase value or, if lower, at their useful value. Patents are depreciated on a straight-line basis over a period of 5 years and software rights are depreciated on a straight-line basis over a period of 3 years.

12.3.3. Tangible fixed assets

These assets are capitalised and depreciated on a straight-line basis:

- IT equipment: over a period of 3 years;
- Installations and equipment: over a period of 5 years;
- Furniture: over a period of 5 years;
- Laboratory equipment: over a period of 5 year;
- Leasehold improvements: in line with the lease agreement period;
- Leasing: in line with the lease agreement period.

In the event where the carrying value exceeds the recoverable value, the Company should record additional or exceptional depreciations.

12.3.4. Financial fixed assets

These assets are capitalised at purchase value excluding any miscellaneous costs.

The value of shares and participations are impaired in case of reduction in value as a result of the situation, the profitability or the prospects of the company related to those shares or participation. Impairment is recorded in the income statement as extraordinary charge.

The value of long term receivables is reduced in case the recoverability becomes uncertain at its due date.

12.3.5. Amounts receivable

The amounts receivable do not carry any interest and are capitalised at their nominal value.

12.3.6. Treasury placements

Placements with financial institutions are valued at their purchase value. Additional costs relating to the purchase of these assets are expensed as incurred.

Reductions in value are recorded in the event where the realisation value at the date of the closing of the financial year is below the purchase value.

12.3.7. Debts (payable after one year - payable within one year)

All debts are capitalised at their nominal value at the date of the closing of the financial year.

The interests relating to the outstanding debts are accrued on the regularisation accounts if not paid yet during the year. Interest expenses are presented with the financial expenses.

12.3.8. Regularisation accounts

Regularisation accounts on the assets side

These accounts include:

- The *pro rata* parts of the charges incurred during the financial year or during a previous financial year but that are related to one or more subsequent financial years.
- The *pro rata* parts of the proceeds that will only be received during a subsequent financial year but that relate to a previous financial year.

Regularisation accounts on the liabilities side

These accounts include:

- The pro rata parts of the charges that will only be paid during a subsequent financial year but that relate to a previous financial year.
- The pro rata parts of the proceeds received during the financial year or a previous financial year but that relate to one or more subsequent financial years.

12.3.9. Currencies

The amounts receivable and debts in other currencies are converted at the applicable exchange rate at the date of the closing of the financial year.

Currency losses are recorded in the income statement.

13. 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 terminat-

ed 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 Royalties

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,	
Thousands of euros	**2016**	**2015**
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,	
Thousands of euros	2016	2015
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 deriva-

tives 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 EUR/USD at December 31, 2015 to 1,054 EUR/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:

	Year ended December 31,		
Thousands of euros	2016	2015	% Change
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,	
Thousands of euros	2015	2014
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,	
Thousands of euros	2015	2014
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,
Thousands of euros, except per share data	**2014**
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[11]. 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.

11 *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.*

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

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[5]	**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

(1) The term of the mandates of the directors will expire immediately after the annual shareholders' meeting held in the year set forth next to the director's name.
(2) First appointed on a provisional basis by the meeting of the Board of Directors on September 19, 2012, in order to replace Ms. Mounia Chaoui-Roulleau (who had been appointed director herself on January 18, 2012 in replacement of Ventech S.A.) and Mr. Koenraad Debackere, both having resigned effective as of September 19, 2012. The shareholders' meeting of February 26, 2013 has confirmed their appointment. Reappointed by the shareholders' meeting of June 2, 2016.
(3) First appointed on April 26, 2011 with effect as of May 3, 2011; reappointed on April 20, 2015.
(4) 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.
(5) 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 (ac-

quired 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, options on existing shares under EBIPs 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

14. BUSINESS AND FINANCIAL UPDATE AND OUTLOOK FOR THE NEXT 12 MONTHS

Copy of the April 6, 2017 press release: "TiGenix reports 2016 full year results"

Leuven (BELGIUM) – April 6, 2017, 07:00h CEST – TiGenix NV (Euronext Brussels and NASDAQ: TIG), an advanced biopharmaceutical company developing and commercializing novel therapeutics which exploit the anti-inflammatory properties of allogeneic, or donor-derived, stem cells, today reported its business and financial highlights for 2016 and post year-end events.

Key 2016 and post year-end highlights:

- Cx601 reached significant value inflection points in Europe and the U.S.
  - Day 120 List of Questions responses submitted to the European Medicines Agency (EMA) to support the Marketing Authorization Approval (MAA) for Cx601 following submission of the application in March 2016
  - Day 180 List of Outstanding Issues (LoOI) received from the Committee for Medicinal Products for Human Use (CHMP) of the EMA
  - European Commission decision anticipated in 2017, triggering a payment of EUR 15.0 million from Takeda Pharmaceuticals upon approval of the market authorization
  - The global pivotal Phase III trial for the U.S. registration of Cx601 is expected to begin in the first half of 2017. TiGenix is also exploring further expedited pathways to accelerate the submission and review process for its future Biologics License Application (BLA)
  - Cx601 delivered positive follow-up results at 52 and 104 weeks, confirming the long-term safety and efficacy profile
- Strong relationship with Takeda Pharmaceuticals
  - Licensing agreement for the ex-U.S. rights of Cx601 signed in July 2016 for up to EUR 355.0 million in regulatory and sales milestones and EUR 25.0 million on signing
  - EUR 10.0 million in equity investment realized in December 2016
  - Exercised option to develop and commercialize Cx601 in both Japan and Canada
- Continued progress with pipeline
  - First patient enrolled in Phase I/II clinical trial of Cx611 for the treatment of severe sepsis
  - Promising Phase I/II trial results of AlloCSC-01 in Acute Myocardial Infarction (AMI)
- Strong cash position at December 31, 2016 of EUR 78.0 million, due to:
  - Equity raise of EUR 23.8 million in March 2016 with marquee investors
  - Upfront cash payment of EUR 25.0 million from Takeda deal in July 2016 and EUR 10.0 million of equity investment in December
  - EUR 34.1 million (USD 35.7 million) raised with Nasdaq IPO
- Strategic appointments
  - Dr. June Almenoff appointed as an Independent Director to the Board

"The past year has been truly transformational for TiGenix. We have reached the final phase before our first allogeneic product potentially enters the market in Europe, published our positive Phase III data in The Lancet1, signed a major licensing deal with a world-class partner, raised substantial funds and advanced our pipeline," said Eduardo Bravo, CEO of TiGenix. "I am proud of what has been achieved and enormously excited about the rest of the year, including taking the next steps in developing Cx601 for the U.S. market and in further indications."

Business highlights

Cx601 reached major value inflection points

2016 has been an extraordinary year for TiGenix as we continue the transformation of the company to focus on products from our allogeneic stem cell platforms. Our most advanced product, Cx601, reached significant major value inflection points and the vision of bringing this innovative medicine to patients suffering a severe, debilitating complication of Crohn's disease has become tangible with the signing of an exclusive licensing agreement for the development and commercialization of Cx601 outside the U.S. with Takeda, a world leader in gastroenterology.

In July, TiGenix received a payment of EUR 25.0 million upon signing the licensing agreement with Takeda. TiGenix is eligible to receive additional regulatory and sales milestone payments for up to a potential total of EUR 355.0 million and double digit royalties on net sales. In addition to these financial benefits, we believe the partnership with Takeda has increased the probability of commercial success by drawing on the reimbursement and commercial expertise of one of the leaders in the gastroenterology field.

Since signing of the licensing agreement, Takeda has made an additional equity investment of EUR 10.0 million in the share capital of TiGenix, has exercised the option to develop and commercialize Cx601 in both Japan and Canada, and has launched a series of key activities to ensure the timely launch of Cx601 as soon as the marketing approval is obtained.

Cx601 has continued to produce impressive results following the meeting of the primary endpoint at week 24.

The positive 24-week results were presented at the two major congresses for gastrointestinal specialists on both sides of the Atlantic and published in The Lanceti, one of the most reputable peer reviewed publications in the scientific community. In March 2016, TiGenix announced positive follow-up results at 52 weeks for Cx601, confirming its sustained efficacy and safety profile. A single administration of Cx601 was statistically superior to control (placebo) in achieving combined remission at week 52, in line with the primary endpoint results at week 24. In March 2017, Cx601 delivered positive follow-up results at 104 weeks, confirming its long-term safety and efficacy profile.

In March 2016, TiGenix filed a centralized European MAA for Cx601. In March 2017, we received the Day 180 List of Outstanding Issues from the CHMP. Having reviewed the LoOI, we remain confident that Cx601 is on track to receive Marketing Authorization. A CHMP opinion and decision by the European Commission is expected in 2017 and upon obtaining the Marketing Authorization, TiGenix is eligible to receive from Takeda a EUR 15.0 million milestone payment. The path to European commercialization was also further advanced in October 2016 when Cx601 was granted Orphan Drug Designation (ODD) in Switzerland.

In parallel to the progress in Europe, we have been advancing our program to bring Cx601 to U.S. patients. In January 2017, the FDA agreed to an improved protocol for the global Phase III trial of Cx601, which has now been formally endorsed by a new SPA. With these amendments, the FDA has agreed that a Biologics License Application (BLA) could be filed based on the efficacy and safety follow-up of patients assessed at week 24, instead of week 52. Furthermore, the FDA has agreed to accept fewer patients than originally planned in the study, and has endorsed a broader target population that will ultimately facilitate the recruitment process. With these adjustments, the study will benefit from an expedited recruitment process that should lead to shorter timelines, an earlier filing, and the possibility of an earlier approval in the U.S. As a result of these modifications, the trial design is even more similar to the European ADMIRE-CD than before.

The global pivotal Phase III trial for the U.S. registration of Cx601 is expected to begin in the first half of 2017. In parallel, TiGenix is exploring further expedited pathways to accelerate the submission and review process for its future BLA.

Progress with pipeline

In June 2016, TiGenix announced preliminary interim six-month results for the Phase I/II (CAREMI) study of AlloCSC-01 in Acute Myocardial Infarction (AMI) and in March 2017 announced the top-line results of the study.

Financial highlights for 2016

CAREMI is the first-in-human clinical trial with the primary objective being safety and evaluating the feasibility of an intracoronary infusion of AlloCSCs in patients with AMI and left ventricular dysfunction treated within the first week post-AMI. Importantly, the trial is the first cardiac stem cell study to integrate a highly discriminatory magnetic resonance imaging (MRI) strategy to select patients at increased risk of heart failure and late adverse outcomes. CAREMI was not powered to establish efficacy therefore no conclusion can be drawn on the secondary efficacy end-points.

All safety objectives of the study have been met. No mortality or major cardiac adverse events (MACE) have been found at 30 days meeting the primary end-point of the study. Moreover neither mortality nor MACE have been found at 6 months or 12 months follow-up. Of particular relevance to this allogeneic approach, no immune-related adverse events have been recorded at one-year follow-up. A larger reduction in infarct size was found in one pre-specified subgroup associated with poor long-term prognosis which represents more than half of the patient population of the randomization phase of the study. This finding has revealed valuable insight, and provides a specific direction for potential studies in a targeted subset of high-risk patients and we expect to announce next steps in the development of AlloCSC-01 later in 2017.

Cx611, our second eASC-based product candidate, is a potential first-in-class intravenous injectable allogeneic (or donor derived) stem cell therapy intended for the treatment of severe sepsis, a major cause of mortality in the developed world. We believe that Cx611 represents a highly innovative potential treatment for this indication. The Phase I/II SEPCELL study was launched in the second half of 2016 and the first patient was dosed in January 2017. Data is expected to be available in 2019.

In July, 2016, TiGenix announced the initiation of the withdrawal of the marketing authorization for ChondroCelect. TiGenix decided to initiate the withdrawal process for commercial reasons. After the effective day, November 30, 2016, TiGenix no longer expects to generate any revenues from this product. Ultimately, this decision is in line with TiGenix's strategy to concentrate its resources and capabilities on its allogeneic stem cell platforms.

Corporate development

In September 2016 TiGenix announced the appointment of Dr. June Almenoff as an independent director. June Almenoff MD, PhD has more than 20 years' pharmaceutical industry experience including leading the process towards FDA approval for a GI product, broad experience in clinical development, scientific licensing and business development; an expertise in infectious diseases, and a clear focus on the U.S. market.

Key figures for the full year 2016 (consolidated)

EUR Million, except for share data (EUR)	31 Dec 2016	31 Dec 2015
Revenues	26.8	2.2
Royalties	0.4	0.5
License revenues	25.0	-
Grants and other operating income	1. 4	1.7
Operating charges	**(29.8)**	**(26.3)**
Research and development expenses	(21.4)	(19.6)
General and administrative expenses	(8.4)	(6.7)
Operating Loss	**(3.0)**	**(24. 1)**
Financial income	0.2	0.2
Interest on borrowing and other finance costs	(7.3)	(6.6)
Fair value gains/(losses)	11.6	(6.7)
Impairment and losses on disposal of financial instruments	-	(0.2)
Foreign exchange differences, net	0.2	1.0
Income tax benefits	2.1	1.3
Profit (Loss) for the year	**3.8**	**(35.1)**
Basic income (loss) per share (EUR)	**0.02**	**(0.21)**
Cash and cash equivalents at the end of the year	**78.0**	**18.0**
Net cash (used in)/provided by operating activities	3.5	(19.6)

Revenues for 2016 amounted to EUR 26.8 million, compared to EUR 2.2 million in 2015. The increase is mainly driven by License revenues obtained from the licensing agreement signed in July 2016 with Takeda. The decrease in Royalties and Grants and other operating income during the year is due to the withdrawal of the marketing authorization of ChondroCelect for commercial reasons.

Total operating charges for 2016 amounted to EUR 29.8 million, compared to EUR 26.3 million in 2015. The increase is mainly due to the increase in Research and Development expenses, driven by Cx601 clinical development progress (including U.S. Cx601 clinical start-up activities), the clinical activities related to the Cx611 Phase I/II clinical trial in severe sepsis (SEPCELL) and those related to the AlloCSC-01 Phase I/II in AMI (CAREMI). General and Administrative expenses increased to EUR 8.4 million from EUR 6.7 million in 2015 mainly driven by the expenses related to the Nasdaq IPO.

As a result of the above, the operating loss decreased in 2016 to EUR 3.0 million, from EUR 24.1 million in 2015.

The Interest on borrowings and other finance costs for 2016 amounted to EUR 7.3 million. These costs include both cash financial expenditures (for EUR 3.5 million) and non-cash financial expenditures resulting mainly from the recording of the financial liabilities at amortized cost (Kreos loan, the ordinary note component of the convertible bonds and the governmental loans). The fair value gains for 2016 amounted to EUR 11.6 million. These gains include non-cash income resulting from the change in the fair value of the warrant component of the convertible bonds (mainly as a result of the lower share price at year-end 2016 compared to the share price at year-end 2015) and the warrants issued for the Kreos loan. Income tax benefits amounted to EUR 2.1 million and refer to the tax deductions under Spanish tax law obtained from R&D activities.

As a result of the above, the profit for the year 2016 amounted to EUR 3.8 million compared to a loss of EUR 35.1 million in 2015.

Cash and cash equivalents amounted to EUR 78.0 million on December 31, 2016. We end the year in a strong financial position following the equity raise of EUR 23.8 million in March 2016 with marquee investors, upfront cash payment of EUR 25.0 million from the Takeda deal in July 2016, EUR 10.0 million of equity investment from Takeda in December and EUR 34.1 million (USD 35.7 million) raised with the Nasdaq IPO. Net cash provided by operating activities in 2016 amounted to EUR 3.5 million.

Outlook for the rest of 2017

- 1H 2017 - Opening of U.S. operations
- 1H 2017 - Start of global phase III for Cx601 BLA
- 2H 2017 - Cx601 EU approval decision
- 2H 2017 - EUR 15 million milestone potential payment by Takeda
- 2H 2017 - Plan on new indications for Cx601
- 1H 2018 - Takeda to launch Cx601 in EU markets
- 1H 2018 - Cx601 IND and start of recruitment in U.S. centers

Auditor's report

The statutory auditor of the Company, BDO Bedrijfsrevisoren Burg. Ven. CBVA, has completed its audit of the financial statements of the Company for the year ended on 31 December 2016 and issued an unqualified audit opinion. The auditor's report on the consolidated financial statements can be found in the Newsroom section of the TiGenix website, www.tigenix.com, on or around 6 April 2017.

Financial statements

The financial statements for the year ended 31 December 2016 can be found in the Newsroom section of the TiGenix website, www.tigenix.com. TiGenix will publish its audited Annual Report for the year ended 31 December 2016 via the Company's website on or around 6 April 2017.

15. AVAILABLE DOCUMENTS

The Company must file its (restated and amended) Articles of Association and all other deeds that are to be published in the annexes to the Belgian Official Gazette with the clerk's office of the Commercial Court of Leuven (Belgium), where they are available to the public. A copy of the most recently restated Articles of Association and the corporate governance charter is also available on the Company's website.

In accordance with Belgian law, the Company must prepare annual audited statutory and consolidated financial statements. The annual statutory and consolidated financial statements and the reports of the Board of Directors and statutory auditor relating thereto are filed with the Belgian National Bank, where they are available to the public. Furthermore, as a listed company, the Company publishes summaries of its annual and semi-annual financial statements. These summaries are generally made publicly available in the financial press in Belgium in the form of a press release. Copies thereof are also available on the Company's website.

The Company also has to disclose price sensitive information, information about its shareholders' structure, and certain other information to the public. In accordance with the Belgian Royal Decree of November 14, 2007 relating to the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market (*Koninklijk besluit betreffende de verplichtingen van emittenten van financiële instrumenten die zijn toegelaten tot de verhandeling op een Belgische gereglementeerde markt / Arrêté royal relatif aux obligations des émetteurs d'instruments financiers admis aux négociations sur un marché réglementé belge*), such information and documentation will be made available through press releases, the financial press in Belgium, the Company's website, the communication channels of Euronext Brussels or a combination of these media.

The Company's website can be found at www.tigenix.com.

ANNEX A – GLOSSARY

Adipose	Fat tissue
Adipose-derived	Derived from fat tissue
ADR	American Depositary Receipts
ADS	American Depositary Shares
Allogeneic	Derived from a donor (i.e. another person than the patient who is being treated)
Amino acid	The building block of proteins
Analgesic	Painkiller
Antibody	Type of protein that is used by the immune system to identify and neutralize foreign objects such as bacteria and viruses
Antigen	Antibody generator; generates immune response
Anti-TNFs	anti-Tumor Necrosis Factors
ATMP	Advanced therapy medicinal product
B lymphocytes or B cells	Subtype of lymphocytes
BLA	Biologics license application
CBER	Center for Biologics Evaluation and Research
CDER	Center for Drug Evaluation and Research
cGMP	current Good Manufacturing Practices
Chimeric monoclonal antibody	Hybrid human / non-human antibody created through genetic engineering
CHMP	Committee for Medicinal Products for Human Use
Coagulation	Blood clotting
Contribution Agreement	The contribution agreement of 29 July 2015 between Genetrix and TiGenix as regards the acquisition of 100% of the shares of Coretherapix, as well as certain receivables of Genetrix on Coretherapix
Co-stimulatory molecules	Proteins that are at the surface of cells and help the generation of an immune response
Cytokines	Proteins that are released by cells and affect the behaviour of other cells
Dendritic cells	Type of cells of the immune system that process antigens
DRS	Direct Registration System
eASCs	Expanded adipose derived stem cells
Ectopic tissue growth	Growth of new tissue at a site within the body where such tissue would not occur naturally
EMA	European Medicines Agency
EPO	European Patent Office
ESR	Erythrocyte Sedimentation Rate
FDA	United States Food and Drug Administration
GCP	Good Clinical Practices
GTP	Good Tissue Practice
Human leukocyte antigens	Proteins that are at the surface of cells and that can be different from person to person; they are responsible for being recognized as foreign and therefore for leading to possible rejection of cells by the patient´s immune system
Hypo-perfusion	Decreased blood flow through an organ
IBC	Institutional Biosafety Committee
IDO-enzyme	Indoleamine 2,3 dioxygenase enzyme; enzyme that degrades the amino acid tryptophan
IDO-inhibitor	Compound that blocks the activity of the IDO enzyme
Immune-mediated inflammatory process	An inflammatory process that is generated through the activation of the immune system. In case this inflammation is deregulated, it can lead to inflammatory or autoimmune diseases, such as e.g. psoriasis, arthritis, inflammatory bowel disease (IBD), autistic enterocolitis or allergy

Immunogenicity	Potential of a substance to provoke an immune response
Immunoglobulin	Type of protein that constitutes an antibody
Immunomodulatory	Capable of modifying or regulating the immune system
IND application	Investigational New Drug application
Inhibitory effect	Suppressing effect
Intralymphatic administration	Administration through an injection into the lymphatic system
Intraperitoneal administration	Administration through an injection into the peritoneal/abdominal cavity
Intravenous administration	Administration through an injection into the veins
IRB	Independent institutional Review Board
ITT	Intention To Treat
Ligands for neurokinin receptors	Molecules that bind to neurokinin receptors and thereby can activate the receptors; neurokinin receptors are present at the surface of certain cells and implicated in the stress and/or pain pathways involved in chronic pain conditions
Lymphocytes	Type of white blood cells of the immune system; cells that produce antibodies, destroy invading microorganisms or regulate the function of other immune cells
Macrophages	Type of white blood cells of the immune system; cells that destroy invading microorganisms
Mesenchymal stem cells, or MSCs	Stem cells from tissues of mesenchymal origin such as bone marrow or fat
Monocytes	Type of white blood cells of the immune system that develop into macrophages
Natural killer cells, or NK cells	Subtype of lymphocytes; cells that kill foreign substances and abnormal tissues
Neutrophils	Type of white blood cells of the immune system; cells that consume harmful bacteria, fungi and other foreign materials
OCTGT	Office of Cellular, Tissue and Gene Therapies
OTAT	Office of Tissues and Advanced Therapies
Peripheral blood mononuclear cells, or PBMCs	Immune cells obtained from blood
Phenotype	Physical, cellular or biochemical characteristics
PTAB	Patent Trial and Appeal Board
RA	Rheumatoid Arthritis
Rectovaginal administration	Administration through the rectum or the vagina
Re-epithelization	Regeneration of epithelial tissue; epithelial tissue is composed of single or stratified layers of cells, and cover internal or external surfaces of the body
Refractory	Treatment-resistant
SEC	Securities and Exchange Commission
Soluble factors	Molecules that are released to the environment and have a function on the surrounding cells, tissues or body fluids
SPA	Special protocol assessment
Stromal vascular fraction of the fat tissue	The part of fat tissue that is not composed of fat cells themselves but of the surrounding and supporting tissue; it contains several cell types including the adipose stem cells
T lymphocytes or T cells	Subtype of lymphocytes
Transwell	A semi-permeable membrane
Tryptophan	Type of amino acid
Tumorigenicity	Potential of a substance to cause tumors

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