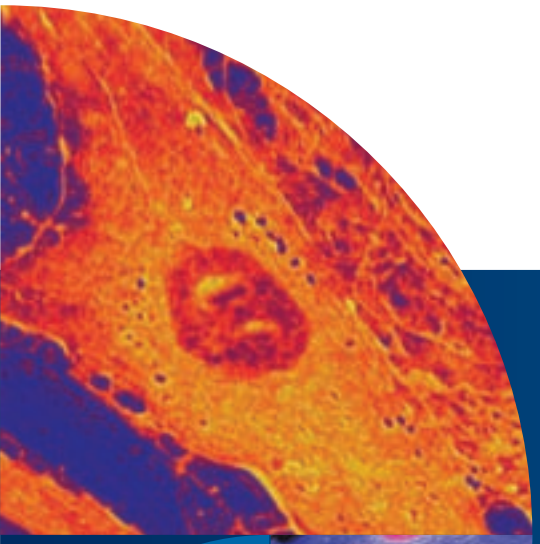
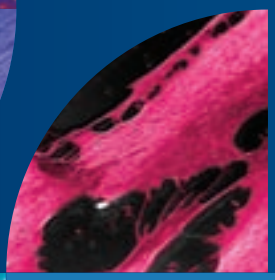
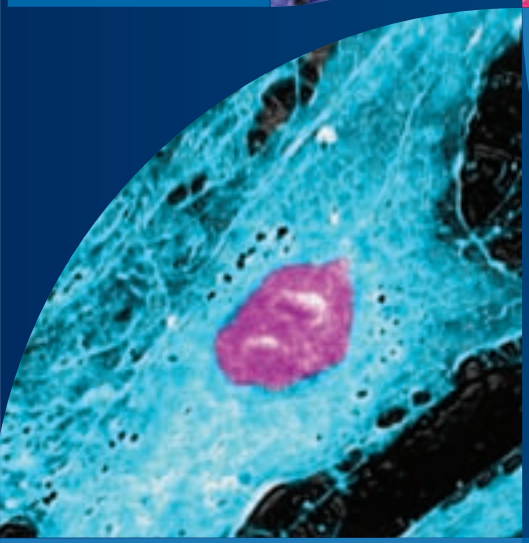
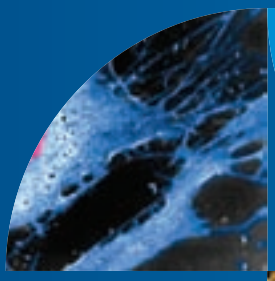
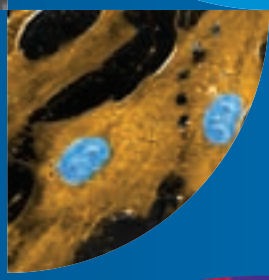
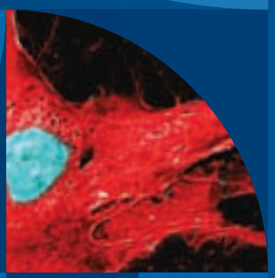
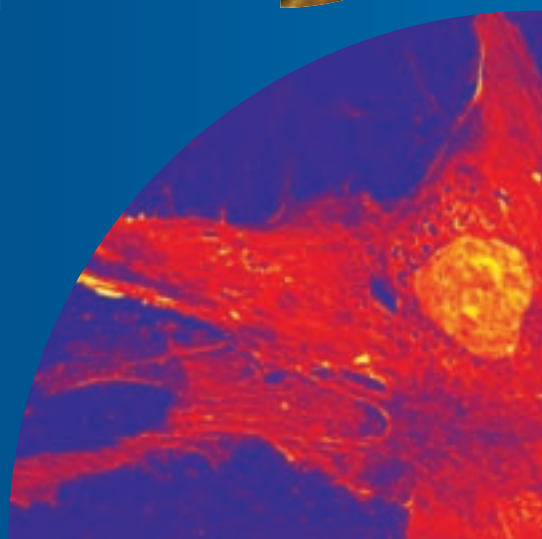
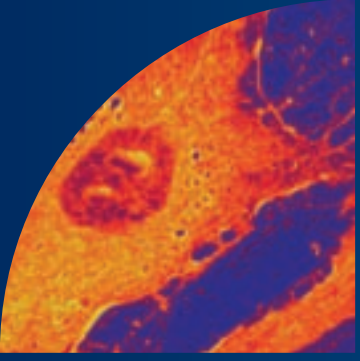
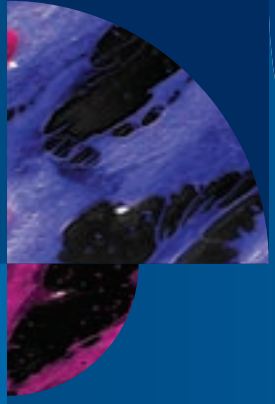
mesoblast

Annual Report **2011**







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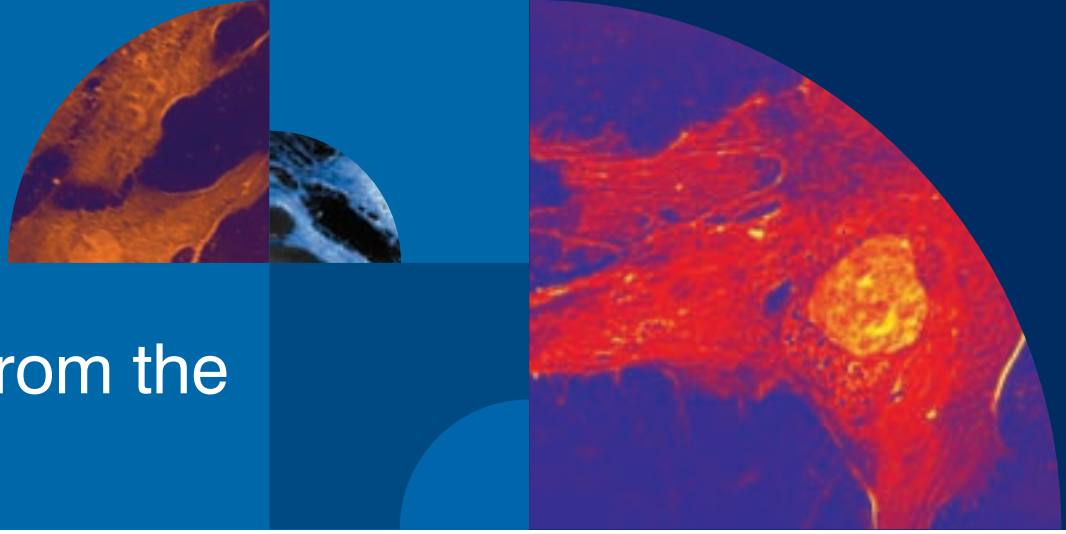


Message from the Chairman

The Mesoblast Board of Directors is delighted to report on what has been one of the Company's most stimulating and rewarding years to date. Mesoblast continues to set new standards as the world's leading regenerative medicine company.

The Company has expanded its corporate talent, has established strategic partnerships, is exceptionally well funded, and continues to expand its product offerings in major unmet clinical areas.

2011 was a year marked by major accomplishments. These included:

- Execution of a strategic distribution alliance with global biopharmaceutical company Cephalon Inc. for selected product commercialization
- Establishment of a strategic manufacturing alliance with the world's leading biologics firm, Lonza, ensuring long-term clinical and commercial product supply
- Completion of a Phase 2 trial of our lead cardiovascular product Revascor™ for congestive heart failure
- Expansion of the Revascor™ cardiovascular franchise to additionally cover heart attacks and chronic refractory angina
- Commencement of our first Phase 3 trial, for bone marrow transplantation
- Expansion of the spinal orthopedic franchise with the commencement of our degenerative disc repair Phase 2 trial to complement ongoing Phase 2 trials of NeoFuse™ for lumbar and cervical spinal fusion
- Development of an intravenous product for systemic diseases, such as Type 2 diabetes, osteoporosis, and various inflammatory conditions, and
- Inclusion in the Standard and Poor's Australian Securities Exchange (ASX) 200 stock index.

The Company has expanded its corporate talent, has established strategic partnerships, is exceptionally well funded, and continues to expand its product offerings in major unmet clinical areas.

Mesoblast has continued to drive success by reducing corporate risk in three key areas. Firstly, the Company continues to broaden its product portfolio and move multiple products simultaneously closer to commercialization. Secondly, the Cephalon alliance has delivered Mesoblast a first-class global distribution partner and has enabled the company to establish a position of considerable financial strength. Mesoblast's cash reserves will be wisely used to fund major new indications including diabetes, osteoporosis, inflammatory conditions of the lungs and other organs, eye diseases, and cartilage and bone conditions. Thirdly, the Lonza alliance has provided certainty of supply and manufacturing capability, as well as state of the art facilities exclusively catering for our product needs.

The Mesoblast Board would like to formally record our deep appreciation of the exemplary leadership of Chief Executive, Professor Silviu Itescu, whose deep commitment, laser focus, and strategic guidance have been instrumental in the Company's success. He has built a highly talented team of key executives in Australia and the United States, and over the past year has overseen the team's well-considered expansion, in areas including operations, clinical, regulatory, research, manufacturing, and strategic business units. This is a corporate culture that thrives on success and the knowledge that we are making positive contributions to improving the quality and length of lives.

We also thank our shareholders for their ongoing support and belief in our competence to deliver on extraordinary technology that has the potential to change the medical paradigm. I would also like to record my appreciation to the staff, consultants and my fellow Board members for their tireless efforts and dedication.

We are certain that our pace of commercialization will continue throughout 2012, with many value inflexion points to be marked on the next stage of this exciting journey.

It is a pleasure to present the Annual Report for 2011.

Brian Jamieson

Chief Executive's Report

I am delighted to report that over the past year, Mesoblast has maintained strong momentum and has continued to deliver on its key commercial and clinical milestones. While our operational achievements have been clearly set out in the Review of Operations section of the Directors' Report (page 7), I would like to outline our corporate strategy and provide context to our key accomplishments, including strategic alliances and product clinical development.

Corporate Strategy

Mesoblast is now an exceptionally well-funded late-stage group of companies commercializing biologic products derived from a leading-edge adult stem cell platform technology. We have established a world-class team that understands the strategic initiatives needed to achieve success, and is well versed in implementing strategies for risk mitigation.

Our corporate strategy is based on bringing multiple products to market within a parallel timeframe, enhancing likelihood of commercial success and reducing funding needs through distribution alliances, and maintaining control of manufacturing and optimizing production capability through manufacturing alliances.

Our distribution alliance with Cephalon Inc./Teva Pharmaceutical Industries (Teva) provides global distribution strength and funding certainty for expensive Phase 3 trials, while our manufacturing alliance with Lonza provides certainty of supply capability and reduces financing needs for manufacturing capacity. Overall, our strategy is to build a mix of products, some under our full commercial control and others in partnership with an expert commercial distributor.

We see the future commercial value of our Group to be based on the breadth of products we bring to market. As such, the value proposition will be the aggregate sum of our marketed products, target markets, and market share.

Our product diversity is principally in three distinct areas:

1. products we are commercializing in partnership with Cephalon/Teva, predominantly in cardiovascular and neurologic diseases,
2. products for orthopaedic conditions, notably degenerative diseases of the spine, fractures, and arthritis and
3. products delivered intravenously for Type 2 diabetes, osteoporosis, lung diseases, and other inflammatory conditions.

Additional value drivers include our bone marrow transplant product and our ophthalmic product for age-related macular degeneration and other vascular conditions of the eye.

Our considerable cash resources of $263 million at the end of the financial year will enable us to execute on further Phase 2 trials for our partnered products, and Phase 2/3 clinical trials for the rest of our product pipeline in which we retain 100% financial interest. This strategy allows us to plan for bringing to market, within a parallel timeframe, stem cell products for a wide range of major diseases. A strategy of parallel product launches will provide us with long-term market exclusivity in the United States, based on 12 year protection against biosimilars after first product commercialization. Elsewhere, our patent portfolio will provide similar market exclusivities.

Strategic Alliances

In December 2010 we entered into a strategic alliance with global biopharmaceutical company, Cephalon Inc., for the distribution, sale and marketing of various regenerative medicine products of ours, notably in the cardiovascular and neurological fields. Cephalon paid an upfront fee of $130 million and purchased 19.99% of Mesoblast stock. Additionally, under the financial terms, Mesoblast will receive significant revenues from product sales and in addition to these revenues, a series of potential payments totalling up to $1.7 billion on achievement of key regulatory and clinical milestones.

Cephalon is now in the process of being acquired by Teva, the world's largest maker and distributor of generic pharmaceuticals, who has stated it intends to significantly expand into the proprietary branded products markets. Among its stated reasons for the Cephalon acquisition was access to potential blockbuster drugs, including Mesoblast's product Revascor™ for cardiovascular diseases.

The Cephalon/Teva alliance brings a major international distribution force, with significant commercial reach and regulatory experience, together with funding certainty for Phase 3 trials of our cardiovascular and other partnered products. We are confident that the merged Cephalon/Teva global branded product organization will provide a committed partner driving the commercialization of our world-leading innovative therapeutics.

In September 2011, Mesoblast entered into a manufacturing agreement with the world's leading biologics manufacturing, Lonza. Manufacturing is a central component to our company's future success, and the Lonza agreement provides certainty of capacity to meet the long-term global supply of our proprietary MPC products.

The alliance with Lonza additionally provides Mesoblast with significant commercial advantages. Most importantly, it provides Mesoblast with exclusive access to Lonza's current and future allogeneic cell therapy facilities in Singapore (subject to certain exceptions), as well as exclusive access to fully-funded and purpose-built manufacturing facilities in the most appropriate jurisdictions for Mesoblast's markets. In return, Mesoblast will maintain manufacturing contracts and purchase agreed product quantities in line with our projected needs. Mesoblast retains the rights to purchase the purpose-specific facilities where its products will be made.

This manufacturing agreement ensures that Mesoblast will have access to the latest technology innovations for manufacture of cell therapy products, as well as certainty of product quality, consistency and reproducibility, key parameters for global regulators, our distribution partners, and ultimately our end-users the patients.

Product Clinical Development

Cardiovascular Programs

Mesoblast is developing innovative adult stem cell-based therapies for the treatment of congestive heart failure (CHF), acute myocardial infarction (AMI) and chronic refractory angina. These conditions are the principal cause of hospitalization and death in the industrialized world. Over five million patients suffer from heart failure in the United States alone.

The initial results of our Phase 2 trial with Revascor™ have been extremely encouraging, and the full data from this trial have been selected for presentation by the lead investigators at the upcoming American Heart Association annual meeting in November, as part of the key 'Clinical Science: Special Reports' session. This meeting represents the most prestigious gathering of cardiovascular experts in the world and we are delighted to have the achievements of our technology recognised by our peers in this way.

The results from the phase 2 trial for heart failure are expected to enable Revascor™ to move into Phase 3 for this indication during 2012. Building on these results, together with data showing that our cells can improve blood vessel numbers and blood flow in damaged hearts, we are commencing Phase 2 trials for the treatment of both AMI and chronic refractory angina.

In September 2011, Mesoblast received clearance by the European Medicines Agency (EMA) to begin a 225-patient multi-center Phase 2 clinical trial in Europe for Revascor™. This is the first European trial of 'off-the-shelf' stem cell treatment for heart attacks and is being performed in conjunction with angioplasty and stent procedures to prevent heart failure after a major heart attack. The trial will initially recruit patients at multiple European sites, including the United Kingdom, the Netherlands and Belgium. Subsequently, patient recruitment is expected to broaden to further European nations, Australia, and the United States. The primary endpoint of the study will be safety and efficacy at six months in heart attack patients who will receive either Revascor™ at one of two doses or placebo.

Orthopedic Programs

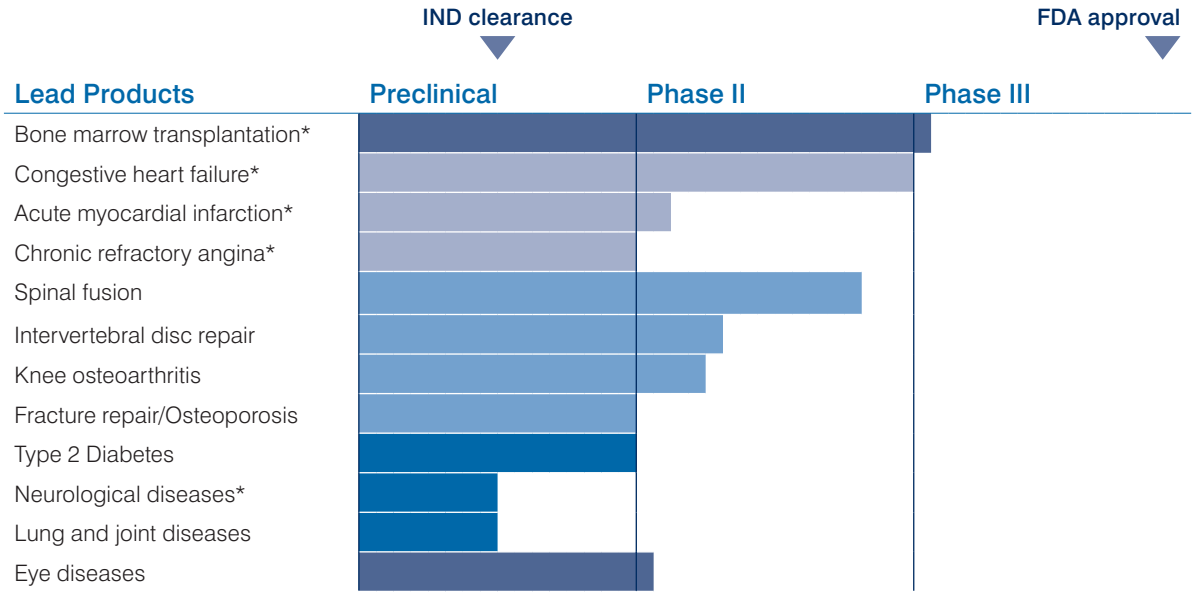
Mesoblast is developing innovative biologic products for a wide range of orthopedic indications, including restoration of degenerative intervertebral discs by a simple minimally-invasive injection, improving outcomes in spinal fusion surgery using its NeoFuse™ product, repair of degenerated cartilage in knee joints, and accelerating repair of hard to heal fractures.

Over four million patients in the United States alone suffer from chronic low back pain due to degenerative intervertebral disc disease. We have seen exciting preclinical results using our minimally invasive stem cell product to repair and regenerate severely damaged intervertebral discs, and in June we received clearance from the FDA to begin a 100-patient Phase 2 trial. Initial patients have now been treated with the minimally invasive procedure without problems, and the trial is actively enrolling across multiple centers in the United States, and shortly in Australia.

We are currently in the midst of international Phase 2 trials for our products in intervertebral disc repair and for cervical/lumbar spinal fusion surgery. We have already reported very encouraging interim results, with 90% of patients treated with NeoFuse™ showing successful bone bridging and reduction in mean pain scores by over 20% to baseline. Notably, we have not seen any cell-related adverse effects when NeoFuse™ has been used in either the lumbar or cervical spine. This is very important since the only approved biological treatment for these patients, bone morphogenic proteins, have been associated with significant side-effects including ectopic bone formation and nerve impingement in the lumbar spine, and neck swelling, respiratory distress and even death in the cervical spine.

If our Phase 2 trials with NeoFuse™ are successful, we aim to progress towards Phase 3 in 2012 in either cervical or lumbar fusion.

"Off-the-shelf" product franchises driving value creation



* *Partnered with Cephalon*

Eye Disease Programs

Our lead ophthalmic indication is for neovascular ("wet") Age-related Macular Degeneration (AMD), the leading cause of blindness in the Western world. AMD already affects around 25 million people globally, with the incidence expected to increase significantly as the average age of the population increases. Wet AMD accounts for over 90% of severe loss of vision in elderly people. The current standard-of-care therapy for wet AMD is repeated intravitreal injections using an anti-vascular endothelial growth factor (VEGF) agent.

We have shown preclinically that a single injection of our proprietary MPC product may be synergistic with anti-VEGF treatment as determined by significant reductions in vascular leak and hemorrhage, scar formation, and retinal detachment compared with anti-VEGF therapy alone. As important, we anticipate that our technology could reduce the need for repeated injections of anti-VEGF therapy and could result in improved long term vision recovery.

In October, Mesoblast received clearance from the Singapore Health Sciences Authority (HSA) to begin a first Phase 2 clinical trial of Mesoblast's off-the-shelf (allogeneic) adult stem cells for patients with leaky blood vessels in the eyes – wet AMD.

The Phase 2 clinical trial is a randomized, controlled, dose-escalation study to investigate the safety and efficacy of a single intravitreal injection of allogeneic MPCs, in addition to standard-of-care therapy, in newly-diagnosed wet AMD patients. The primary objective of the trial is to establish if the allogeneic MPC treatment reduces the need for repeated monthly injections with an anti-VEGF agent. Other objectives include evaluating improvement in visual acuity, macular thickness and quality of life, compared to standard-of-care anti-VEGF treatment.

Intravenous Programs for Systemic Diseases

The development programs described above are reliant on local administration of one or more injections of our stem cell products to the disease site. In addition to local administration, Mesoblast is developing products to treat prevalent systemic disorders which affect the metabolic, inflammatory and immune systems. These disorders include type 2 diabetes, osteoporosis, inflammatory lung diseases, and multiple sclerosis. Since these disorders affect multiple organs, we have developed a formulation of our MPC technology which can be delivered once or in multiple administrations by intravenous administration.

Having previously shown in preclinical studies that Mesoblast's MPCs can increase pancreatic beta cells, resulting in sustained augmentation of insulin secretion and reduction in blood glucose levels, we aim to initiate human trials in 2012 in patients with diabetes. Restoration of defective or deficient bone forming cells, shown to occur when our MPCs are locally implanted into bone, means that our intravenous formulation may also be effective for delivering cells to conditions associated with systemic deficiency of bone forming cells such as osteoporosis. Completion of preclinical studies with the intravenous MPC formulation may also allow us to progress into clinical trials for osteoporosis in 2012.

Bone Marrow Transplantation

During the year, we received approval from the FDA to commence a Phase 3 clinical trial using our MPCs to expand hematopoietic precursors from cord blood for transplantation in cancer patients whose bone marrow has been destroyed by high dose chemotherapy.

This clearance occurred within 30 days, the minimum timeframe possible, serving again to further validate our clinical, regulatory and manufacturing capabilities. Mesoblast's objective is to develop a therapy that results in effective bone marrow reconstitution without the potentially life-threatening complication of Graft-Versus-Host Disease (GVHD).

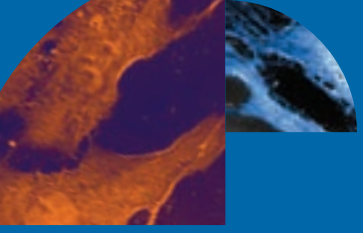
If our product is successful, it could increase the total number of unrelated donor transplants performed by 3-4 fold, providing a therapy for patients who currently cannot find a donor and who would otherwise die.

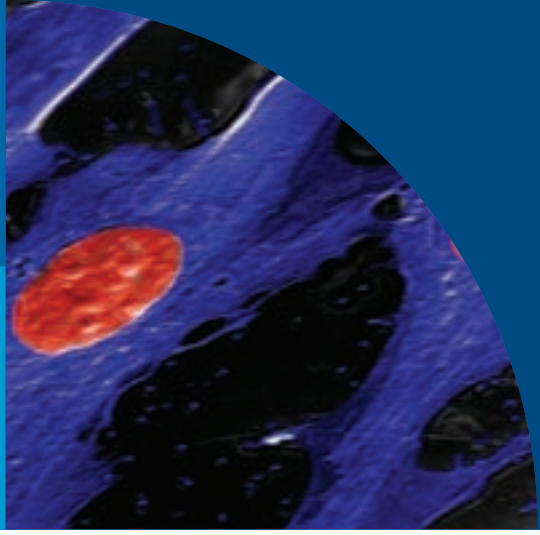
Outlook

Over the past year, Mesoblast has matured into a full-scale operational group of companies, with a major strategic corporate alliance in place with Cephalon/Teva, and a significant manufacturing alliance with Lonza. We have a substantial clinical pipeline, with late stage trials in place in the United States, Europe, Australia and Asia.

Looking forward to the new financial year, we expect to be reporting a series of clinical results, progression to additional Phase 3 trials, and commencement of clinical programs in a number of new major indications. We expect these events to continue to enable Mesoblast to retain its leadership position in the regenerative field globally.

Silviu Itescu





Directors' Report

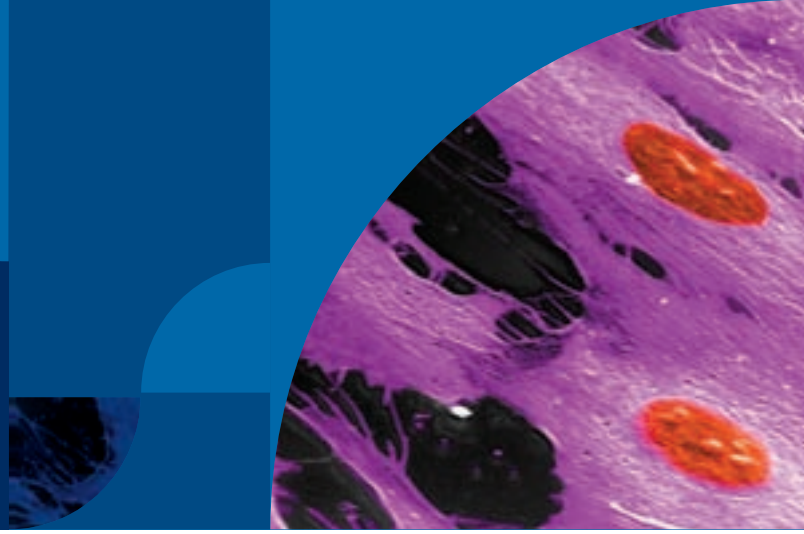
The Board of Directors of Mesoblast Group has resolved to submit the following annual financial report of the Group for the financial year ended 30 June 2011. In order to comply with the provisions of the *Corporations Act 2001,* the directors report the following information:

Directors

Directors of the Company in office at any time during or since the end of the year (unless specified) were:

Name	Position
Brian Jamieson	Non-executive Chairman
Kevin Buchi	Non-executive Director (elected to the Board on 30 December 2010)
Donal O'Dwyer	Non-executive Director
Michael Spooner	Non-executive Director
Byron McAllister	Non-executive Director (resigned 29 November 2010)
Silviu Itescu	Executive Director (CEO)

Details of directors qualifications, experience and special responsibilities, together with meetings attended, can be found on pages 16 to 18 of this report.



Principal Activities & Strategy

Review of Operations

Mesoblast is in a position of considerable strength. We have approximately $263 million in place to continue the strong pace of commercialization of our cutting edge technology platform. To date, over 130 patients have been treated with our cell products, with the earliest receiving our proprietary adult Mesenchymal Precursor Cells (MPCs) over five years ago. There have not been any cell-related adverse events. Therefore, we are building a growing body of clinical data which continues to support the safety profile of our technology. Additionally, we are accumulating significant evidence which indicates that our patented cells are highly effective in a growing number of clinical conditions of unmet medical need.

Together, these features increase our confidence that we will obtain rapid product regulatory approvals for major commercial markets.

Major Accomplishments

The key financial highlights of the 2011 year were:

- Acquired 100% of Angioblast and entire intellectual property for MPCs
- Executed a strategic alliance with Cephalon Inc., a major global biopharmaceutical company, covering cardiovascular, neurologic and bone marrow products
- Cash reserves of $263 million following receipt of upfront fee and equity placement to Cephalon.

The key operational highlights of the 2011 year were:

- Strategic expansion of the cardiovascular franchise to cover congestive heart failure, heart attacks and chronic angina
- Completion of our congestive heart failure Phase 2 trial, and its selection for special presentation at the American Heart Association 2011 annual meeting
- Commencement of our first Phase 3 trial, for bone marrow transplantation
- Expansion of spinal franchise with the commencement of our degenerative disc repair Phase 2 trial to complement ongoing spinal fusion Phase 2 trials
- Development of intravenous product for systemic diseases, such as Type 2 diabetes and various inflammatory conditions.

Financial Snapshot

The full-year ended 30 June 2011 saw the Company with a substantial cash position of $263.2 million, compared with $32 million in the financial year ended 2010. Mesoblast recorded total revenue and other income of $120.9 million and a profit before tax of $92.2 million in the 2011 financial year, compared with revenue of $0.8 million and losses of $14.8 million in the financial year ended 2010.

Mesoblast has recently made a number of senior strategic appointments, exceptionally qualified and experienced experts who will add to our value curve by driving clinical programs, regulatory development and manufacturing across multiple jurisdictions, and new strategic business units.

Your Directors will ensure that our funds are continued to be used wisely to take our suite of products through to full commercialization.

Significant Corporate Strengthening

Mesoblast has significantly strengthened its execution capability by forming a strategic partnership with Cephalon to distribute certain products. Cephalon will fund all Phase 3 regulatory trials required to enable sales and marketing of Mesoblast's cardiovascular and neurologic products, in addition to our bone marrow regeneration product in cancer patients.

In parallel, Mesoblast will use its existing funds to execute Phase 2 and Phase 3 trials needed to commercialize our broad-ranging product pipeline of stem cell products not already partnered with Cephalon. These include products for orthopedic indications such as degenerative disc disease and bone repair, products for diabetes and metabolic disorders, and products for inflammatory conditions of the lungs and other organs.

For some of these products, Mesoblast intends to retain full commercial control and build out its own sales and marketing franchises. For others, where distribution is more challenging, such as diabetes and metabolic diseases, we may seek global commercial partners to leverage execution capability.

Specific Components of the Strategic Alliance

We continue to work closely with Cephalon in the development and commercialization of our adult stem cell technology for cardiovascular and neurological conditions and for bone marrow augmentation.

In July, Cephalon stockholders voted to approve a proposal by Teva Pharmaceutical Industries to acquire Cephalon for a total enterprise value of approximately $US6.8 billion. Cephalon and Teva continue to operate as two independent companies pending clearances by the United States Federal Trade Commission and the European Commission.

We are greatly encouraged by Teva's stated objective to strengthen its branded portfolio, its focus on branded products with blockbuster potential within Cephalon's pipeline, and its deep diligence process prior to the acquisition bid. We believe that Teva shares our profound respect for the strength of Mesoblast's technology and the unique capability of the technology to deliver a pipeline of blockbuster products.

The merged Cephalon/Teva global business will provide us with an international partner committed to progressively moving into high-margin specialty therapeutics. This is in alignment with our business model and we believe there will be numerous synergies that can be further exploited with the Teva/Cephalon amalgamated entity. The Teva acquisition of Cephalon will not alter the terms of the strategic alliance.

Once the acquisition of Cephalon by Teva is finalized:

1. Teva will be bound by the terms of the commercialization agreement to make the agreed payments to Mesoblast of up to $1.7 billion as key regulatory and clinical milestones are achieved
2. Teva will fund all of the Phase 2b and 3 clinical trials for cardiovascular and neurodegenerative diseases, as well as bone marrow transplantation, and the subsequent commercialization of the products
3. Teva retains the exclusive worldwide distribution rights to selected Mesoblast products
4. Mesoblast retains the manufacturing rights and will sell finished product to our distribution partner.

As a world leader in the pharmaceutical industry, we expect that Teva will be an excellent, like-minded partner going forward and that Mesoblast will benefit greatly from its global reach, scale and operational experience.

Commencement of Phase 3 Trial for Bone Marrow Transplantation Exemplifies Consistent Clinical Progress

Mesoblast has now received approval from the United States regulatory body, the Food and Drug Administration (FDA), to commence a Phase 3 clinical trial of our proprietary adult stem cell technology for bone marrow transplantation.

Our commercial goal is to make bone marrow transplantation a more accessible and safer option for critically ill patients who undergo chemotherapy to potentially cure blood cancer. The FDA clearance, which occurred within the minimum 30-day timeframe, is a significant achievement for Mesoblast, marking the first in what we expect will be multiple product Phase 3 trials as our biologic therapies move towards commercial licensure approvals.

Cardiovascular Franchise: Congestive Heart Failure, Acute Myocardial Infarction, and Chronic Angina Represent a Massive Global Commercial Opportunity

Mesoblast is developing our "off-the-shelf" proprietary adult stem cell product Revascor™ as an innovative therapy for a broad-based cardiovascular franchise, including the treatment of congestive heart failure, acute myocardial infarction and chronic refractory angina. These indications represent multi-billion dollar annual revenue opportunities, particularly given the rapid uptake of proven cardiovascular therapies in first world countries.

Congestive heart failure is the number one cause of morbidity and mortality in the Western world. In the United States alone, as many as 6 million patients suffer from this condition, with over 670,000 new patients diagnosed annually. The results of our Phase 2 trial in congestive heart failure have been outstanding (see below). In partnership with Cephalon/Teva, we intend to commence a Phase 3 trial for this indication in early 2012.

In June we reported that a subset analysis of the Phase 2 heart failure trial results demonstrated that Revascor™ increased blood supply to damaged heart muscle and that the improved perfusion led to long-term reduction of Major Adverse Cardiac Events (MACE, defined as cardiac death, heart attack, or coronary revascularization procedures). This was in stark contrast to the control patients who showed no improvement in perfusion.

Based on these positive results, and on preclinical trials showing that our stem cells can create new blood vessels in damaged heart muscle, we are now instigating Phase 2 trials of Revascor™ for the treatment of both acute myocardial infarction and chronic refractory angina.

Completion of Congestive Heart Failure Phase 2 Trial: Strong Results Selected for Special Presentation by American Heart Association

After the end of the reporting period, we announced that our Phase 2 trial for congestive heart failure has been chosen by the American Heart Association to be featured at its 2011 annual conference in Orlando, Florida, in the "Clinical Science: Special Reports" session on 14 November. This is peer-reviewed recognition by the premier global cardiovascular group of the strength of the Phase 2 trial results.

Patients with New York Heart Association Class II and III congestive heart failure have significantly worse survivals over 18-24 months, principally as their Ejection Fractions progressively diminish below 35-40%. In contrast, patients with Class I heart failure have very low mortality risk, and much higher Ejection Fractions.

The FDA generally wants to see improvement in a composite of "hard endpoints" which includes cardiac mortality when considering whether to approve a new product for congestive heart failure. In order to most closely emulate the study population of a Phase 3 trial, our Phase 2 trial aimed to capture patients at "high risk" for mortality. Consequently our 60 patient Phase 2 trial enrolled only Class II/III heart failure patients with Ejection

Fraction less than 40%, a population that historically has a high mortality risk.

Interim results from the Phase 2 trial of Revascor™ for congestive heart failure were reported in January. At that time point, the 45 patients who received Revascor™ had been followed for a mean of 18.5 months/patient and the 15 controls had been followed for a mean of 18 months/patient. Analyses of time-dependent hard efficacy endpoints showed that a single injection of Revascor™ decreased the overall monthly risk of a MACE by 84% compared with controls (p=0.01), decreased the overall monthly rate of cardiac-related hospitalizations by 48% (p=0.07), and reduced the mortality from cardiac causes from 13.3% to 0% over this period (p=0.059).

Importantly, the mortality rates and MACE event rates in the controls were consistent with those seen in numerous other studies, indicating indeed that Revascor™ in this study was improving outcomes in comparison to existing best standards of care. We look forward to having the Phase 2 results presented in their entirety at the American Heart Association meeting in November by the independent clinical trial investigators.

Spine Franchise: A Suite of Products for the Treatment of Degenerative Disc Disease, from Disc Repair to Spinal Fusion

Up to 15 per cent of people in industrialized countries have chronic low back pain lasting more than six months. For those with progressive, severe and debilitating pain due to ongoing progression of disc degeneration, the only option is major back surgery involving artificial disc replacement or spinal fusion. Both types of surgery are associated with significant risks, and the avoidance of surgery is a major objective of new treatments for degenerative disease of the spine.

In preclinical trials, a single minimally invasive injection of our proprietary allogeneic stem cells into severely damaged intervertebral discs resulted in significant reversal of the degenerative process, regrowth of disc cartilage, and sustained normalization of disc pathology, anatomy and function for at least six months.

In June, we received FDA clearance to commence a 100-patient Phase 2 trial of our minimally-invasive adult stem cell product for disc repair. The first minimally-invasive lumbar disc procedure was successfully performed in mid-August, and lasted less than 20 minutes, with the patient fully awake and under light sedation. The patient was shortly discharged and there were no complications.

If Mesoblast's minimally-invasive adult stem cell product finds broad use in the non-surgical treatment of degenerative disc disease, this will represent a multi-billion dollar annual revenue opportunity for the Company.

For patients with end-stage disc degeneration, there will always be need for spinal fusion surgery, with the standard therapy being hip bone autograft obtained from a second surgical procedure. To address this existing market of over 500,000 new patients annually in the United States alone, Mesoblast is currently completing Phase 2 trials for cervical and lumbar fusion. On product approval, Mesoblast's NeoFuse™ would eliminate the need for a second procedure, with its associated risk of infection and chronic hip pain.

We reported that at three months of follow-up, approximately 90% per cent of patients implanted with NeoFuse™ in the lumbar spine had achieved successful bone bridging by CT scan, with reduction in mean pain scores of more than 20% compared with baseline. Full trial results are expected towards the end of this year, with the Company progressing to Phase 3 trials for spinal fusion next year if these excellent outcomes are maintained.

Systemic Diseases: Intravenous Product to Target Diabetes and Metabolic Diseases, Lung Diseases, and Other Inflammatory/Immunologic Conditions

In addition to developing stem cell products for local tissue delivery, Mesoblast is developing an intravenous product formulation to target widespread systemic metabolic, inflammatory and immunologic disorders. Preclinical sheep and non-human primate trials are ongoing to establish safety data in support of moving into the first Phase 2 clinical trials using our intravenous injection formulation.

Type 2 diabetes represents a global epidemic and a massive market opportunity. We are confident, that based on earlier positive preclinical studies and on ongoing non-human primate trials, Type 2 diabetes will represent the first human condition targeted by our intravenous stem cell product. This represents a massive global commercial opportunity for the Company.

Robust Patent Suite

The Company's product development strategy was further strengthened in May 2011 by novel composition of matter claims granted by the United States Patent and Trade Mark Office in two distinct patent families to which Mesoblast has exclusive worldwide commercial rights. Together with earlier composition of matter claims relating to Mesoblast's proprietary Mesenchymal Precursor Cell technology platform, these new patents give Mesoblast exclusive ownership over MPCs derived from a variety of sources, including dental pulp and adipose tissue (fat), in addition to bone marrow.

The MPCs derived from dental pulp may be particularly effective for the treatment and prevention of neural degenerative diseases such as Alzheimer's and Parkinson's disease, as well as for dental applications such as regenerating teeth. Adipose-derived MPCs may have particular benefits for reconstructive surgery and cosmetic indications.

The new patents are major assets that confer certainty, broaden the range of product offerings by the Company, and significantly increase the commercial value of our platform technology. Maintaining commercial exclusivity for our adult stem cell products through a robust international patent portfolio is fundamental to our commercial strategy.

Global Recognition

In March, Chief Executive Silviu Itescu was named BioSpectrum Asia Pacific Person of the Year 2011. BioSpectrum Asia, the leading Asian life sciences publication, said the international jury's choice of Professor Itescu was unanimous. The Person of the Year Award was judged on meeting award criteria including performance of the organization, role beyond the Company, key projects in 2010, global initiatives, influence on policy making, fostering industry harmony and stature as a leader and visionary.

In April, Mesoblast notched up another achievement with its inclusion in the S&P/ASX 200 Index. This further underscores the Company's strong financial performance and global leadership in the field of regenerative medicine.

We were also pleased to note that Mesoblast was the second highest performing stock in the ASX 200 Index for the 2011 financial year, gaining approximately 368 per cent value over 12 months.

Positive Projections

Mesoblast's leadership in the global regenerative medicine industry has been reaffirmed by the continuing accomplishments achieved in the 2011 financial year.

We have confirmed both the tremendous promise of our proprietary adult stem cells to treat major diseases, and the Company's commercial strength and ability to grow and profit through valuable alliances.

We remain extremely focused and determined to bring our extraordinary platform technology to full commercialization as quickly as possible.

This is only the beginning of the Mesoblast story.

Financial Summary

Operating results

Net profit/(loss) after tax for the year was $90,606,590 (2010: ($14,780,895)). The significant increase in net profit after tax over last year is mainly due to gains of $101,611,460 recorded as a result of the acquisition of Angioblast (see below), together with commercialization and interest revenue earned of $19,257,822. Expenses from operations amounted to $28,679,781 (2010: $15,545,810), the increase reflecting both the Angioblast expenses since acquisition and the increased clinical activities in the development of the orthopedic programs.

Net profit/(loss) after tax includes income tax expense of $1,634,914 (2010: nil) reflecting the income tax expense associated with the accounting profits derived from Angioblast operations since acquisition, after allowing for permanent taxable differences. Prior to acquisition, Angioblast was in a net tax loss position which resulted in the Group recording a deferred tax asset as part of the acquisition to reflect the accumulated losses. These losses are all expected to be utilized in full against taxable profits reported in the six months ending 31 December 2011.

Revenue and other income

Revenue from continuing operations earned during the year was $19,257,822 (2010: $739,786) and is made up of:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Revenue from continuing operations		
Commercialization revenue	14,609,186	-
Interest revenue	4,648,636	739,786
	19,257,822	739,786

Other income earned during the year was $101,663,463 (2010: $25,129) and is made up of:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Other income		
Gain on revaluation of investment to fair value	86,737,561	-
Share of losses of equity accounted associates written back on acquisition	14,873,899	-
Total other income recorded on the acquisition of a previously held associate	101,611,460	-
Foreign exchange gains	52,003	19,629
Government grant revenue	-	5,500
	101,663,463	25,129

Expenditure

In line with the Group's policy and to comply with accounting standards, all costs associated with research and development are fully expensed in the period in which they are incurred as the directors do not consider the Group can yet demonstrate all the factors required in order to capitalize development expenditure.

Total operating expenses for the year were $28,679,781 (2010: $15,545,810) and consist of:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Research and development	15,314,548	7,566,050
Management and administration	11,844,976	3,585,713
Interest expense	14,912	-
Share of losses of equity accounted associates	1,505,345	4,394,047
	28,679,781	15,545,810

Earnings per share

	2011 Cents	2010 Cents
Basic earnings/(losses) per share	41.79	(10.51)
Diluted earnings/(losses) per share	39.78	(10.51)

Statement of cash flows

Net cash inflow from operations for the year is $108,228,873 (2010: outflow $9,657,662). The increase of $117,886,535 is primarily due to the commercialization payments received from Cephalon totaling USD130m, offset by spend on operations of $22,488,270.

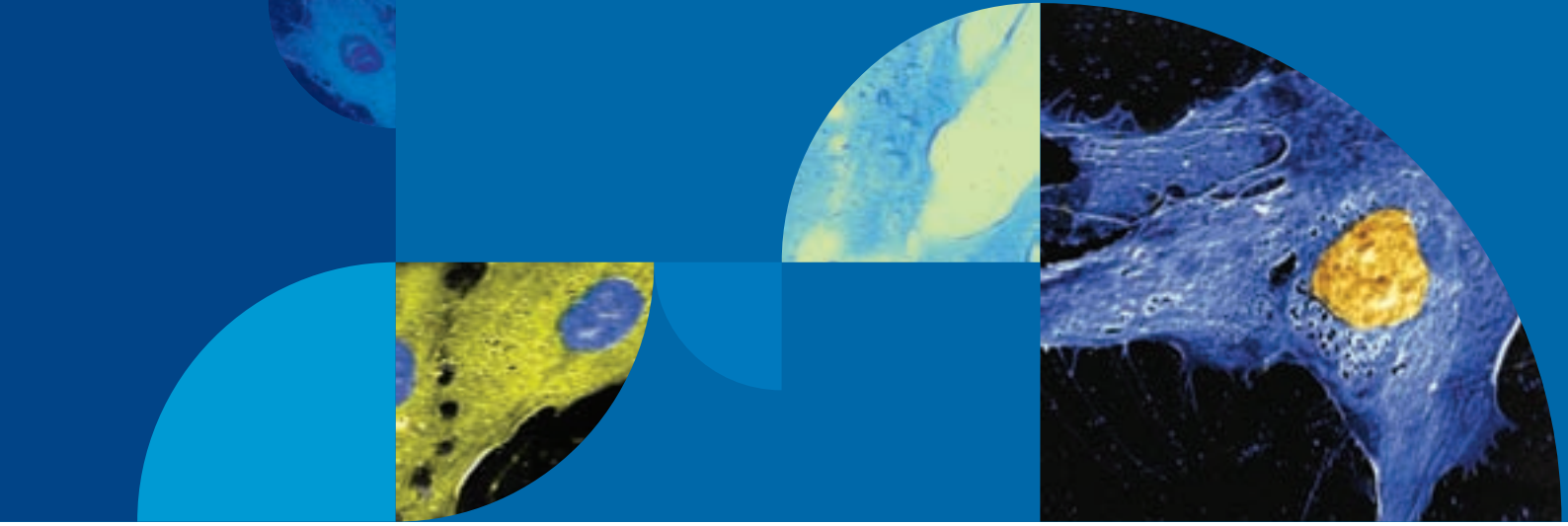
Balance sheet

The Group's cash position at 30 June 2011 was $263,227,585 (2010: $32,049,327). The increase in cash reserves relates to the commercialization revenue received and the equity investment made by Cephalon.

The Group's policy is to hold its cash and cash equivalent deposits in "A" rated or better deposits, spread across multiple institutions. Currently the Group holds its cash in both USD and AUD which creates a natural foreign exchange hedge. The Group continually reviews and monitors its foreign exchange rate risk.

The Group's strategy is to outsource manufacturing, continuing research, and clinical trials to specialist, best of breed partner organizations which is expensed as incurred. Consequently the Group has not incurred any major capital expenditure for the period.

During the year Mesoblast acquired the remaining shares it did not already own in Angioblast Systems Inc. As a result of this acquisition, the Group no longer accounts for this investment as an equity accounted associate, and the investment is eliminated fully on consolidation. As part of this acquisition, Mesoblast assessed the fair value of the Angioblast Intellectual Property being acquired, using a discounted cash flow analysis, which resulted in Intellectual Property being recorded on the balance sheet of US$387m. This intellectual property will be amortized when it is deemed available for use, which is likely to be when it obtains regulatory approval for products to be sold. In accordance with accounting standard AASB3 (business combinations) the Group also recognized a deferred tax liability at 35% of the intellectual property value totaling US$135.45m reflecting the future tax payable as this asset produces revenue. Offsetting this deferred taxation liability is a deferred tax asset of $US12.3m representing the tax losses taken to account on acquisition. Also in accordance with accounting standard AASB3, the Group has recognized a provision on acquisition of US$7.8m being an amount previously recognized in the subsidiary as a contingent liability.



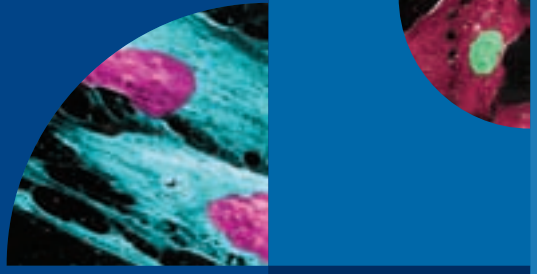
The balances arising on acquisition, at their fair value as at 30 June 2011 are as follows:

	30 June 2011 $A	30 June 2010 $A
Investment in Angioblast Systems, Inc. whilst as associate (net book value)	-	5,334,241
Deferred tax asset	21,820,392	
Intellectual property	365,192,550	
Goodwill	109,738,837	
Deferred tax liability	(127,817,393)	
Provisions	(7,402,233)	

During the year the Group entered into a commercialization and development agreement with Cephalon for the commercialization and development of its core non-orthopedic indications such as congestive heart failure, bone marrow transplantation and central nervous system diseases. As a result of entering into this agreement the Group received an upfront payment of USD130m. The Group is recognizing this payment as revenue over the life of the majority of its development phase. As at 30 June 2011 the Group had recognized commercialization revenue of AU$14,609,186 with the remainder being recorded as deferred revenue on the balance sheet, which totalled AU$108,464,074 at 30 June 2011. The Group continually monitors and reviews this development program and reassesses the recognition of this deferred revenue at every reporting date.

Dividends

No dividends were paid or declared during the course of the financial year and no dividends are recommended in respect to the financial year ended 30 June 2011 (2010: nil).



Share Options

Shares under option

Unissued ordinary shares of Mesoblast Limited under option at the date of this directors' report are as follows:

Option series issued	Issue date	Number of shares under option	Exercise price of options	Expiry date of options
Angioblast	7 December 2010	159,822	USD0.001	30 November 2012
Angioblast	7 December 2010	287,903	USD0.046	7 July 2015
Angioblast	7 December 2010	127,956	USD0.305	7 December 2014
Angioblast	7 December 2010	434,865	USD0.305	26 October 2018
Angioblast	7 December 2010	255,913	USD0.340	7 December 2014
Angioblast	7 December 2010	749,953	USD0.340	26 October 2019
Angioblast	7 December 2010	347,848	USD0.444	25 April 2017
Angioblast	7 December 2010	127,956	USD0.444	2 May 2017
Angioblast	7 December 2010	255,913	USD0.474	7 December 2014
Angioblast	7 December 2010	277,389	$1.20	7 December 2011
Angioblast	7 December 2010	277,389	$3.44	7 June 2012
Angioblast	7 December 2010	277,390	$3.78	7 December 2012
7	27 July 2007	930,000	$2.13	30 June 2012
8	7 July 2008	1,446,000	$1.00	30 June 2013
9	19 January 2009	80,000	$0.96	18 January 2014
10	30 November 2009	300,000	$1.73	30 November 2014
11	30 November 2009	1,350,000	$1.58	30 November 2014
12	26 February 2010	75,000	$2.00	26 February 2015
13	22 September 2010	525,000	$2.64	21 September 2015
14	29 November 2010	2,676,300	$3.48	29 November 2015
		10,962,597		

No option holder has any right under the options to participate in any other share issue of the Group. Further details of the options series can be found in Note 24 to the financial statements.

Shares issued on exercise of options

Detail of shares or interests issued as a result of the exercise of options during or since the end of the financial year are:

Option series	Grant date	Number of shares issued	Amount paid per share	Amount unpaid per share
4(b)	23 February 2006	200,000	$1.20	Nil
6(d)	1 January 2007	15,000	$1.96	Nil
7	27 July 2007	1,200,000	$2.13	Nil
8	7 July 2008	772,000	$1.00	Nil
9	19 January 2009	160,000	$0.96	Nil
11	30 November 2009	330,000	$1.58	Nil
12	26 February 2010	15,000	$2.00	Nil
AGB	07 December 2010	124	USD0.001	Nil
AGB	07 December 2010	1,535,482	USD0.046	Nil
AGB	07 December 2010	1,829,261	USD0.305	Nil
AGB	07 December 2010	1,919,348	USD0.340	Nil
AGB	07 December 2010	2,947,035	USD0.444	Nil
AGB	07 December 2010	1,055,643	USD0.474	Nil
		11,978,893		

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

In December 2010 Mesoblast acquired the remaining shares it did not already own of Angioblast Systems, Inc, giving it full access to the MPC platform technology. This acquisition resulted in the fair value of net assets acquired being recorded on acquisition (including goodwill) further detail is set out in note 20 of the notes to the financial statements.

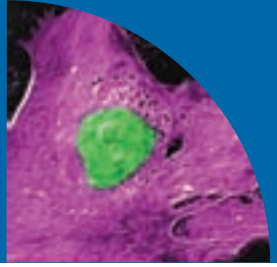
In December 2010 the Group entered into a commercialization and development agreement with Cephalon for which an upfront payment was received of US$130m. Cephalon also acquired a 19.99% equity stake in the Company at a price of $4.35 per share. The result of these two transactions has significantly contributed to the cash reserves balance of $263m as at 30 June 2011, compared with $32m at 30 June 2011. Equity issued during the period totalled 125.5m ordinary shares, contributing $361.5m to share capital reserves.

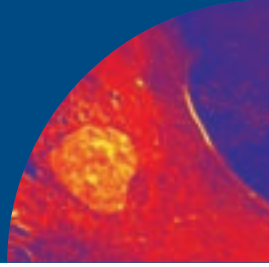
Matters Subsequent to the End of the Financial Year

There are no events that have arisen after 30 June 2011 and prior to the signing of this financial report that would likely have a material impact on the financial results presented.

Business Strategy Prospects for Future Years

Our corporate strategy is to leverage, as rapidly as possible, our unique and patented adult stem cell platform technology for product commercialization. This strategy requires partnering with pharmaceutical or device companies that bring commercial synergies, ensuring we have sufficient cash reserves, and expanding our own clinical, regulatory and distribution expertise. In addition, delivering on an integrated manufacturing strategy, together with maintaining our intellectual property leadership position, should result in significant shareholder returns.





Environmental Regulations

The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Indemnification of Officers

During the financial year, the Group paid premiums in respect of a contract insuring the directors and group secretary of the Group, and all executive officers of the Group. The liabilities insured are to the extent permitted by the *Corporations Act 2001.* Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the insurance contract.

Proceedings on Behalf of the Group

The *Corporations Act 2001* allows specified persons to bring, or intervene in, proceedings on behalf of the Group. No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001.*

Non-Audit Services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience are relevant and considered to be important.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of the non-audit services as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* because the services are not deemed to undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	30 June 2011 $	30 June 2010 $
Taxation services		
Corporate tax compliance	-	25,000
Employee Share Option structuring advice	47,500	-
Tax structuring advice	-	71,397
Total taxation services	47,500	96,397

Auditor's Independence Declaration

A copy of the auditor's independence declaration under Section 307C in relation to the audit for the year ended 30 June 2011 is included on page 29 of the annual report.

Information on Directors

Brian Jamieson, Non-executive Chairman FCA

Shares held: 235,000
Options held: 300,000

Mr Jamieson has over 30 years' experience in providing advice and audit services to a diverse range of public and large private companies. He was chief executive of Minter Ellison, Melbourne, from 2002–2005. Prior to that he was chief executive officer of KPMG Australia from 1998–2000, managing partner of KPMG Melbourne and Southern Regions from 1993–1998, and chairman of KPMG Melbourne from 2001–2002. He was also a KPMG board member in Australia and a member of the USA management committee.

Mr Jamieson was recently appointed to the position of non-executive Chairman of Sigma Pharmaceuticals Limited, having been a non-executive director since December 2005. Mr Jamieson is also a non-executive director of Tatts Group Limited (since May 2005), and Oz Minerals Limited (since August 2004), all of which are ASX listed companies. He is also a non-executive director and treasurer of the Bionic Ear Institute, and a director of The Sir Robert Menzies Foundation.

Silviu Itescu, Executive Director MBBS (Hons), FRACP, FACP, FACR

Shares held: 68,244,642
Options held: -

A medically trained physician scientist, Professor Itescu has established an outstanding international reputation in the fields of stem cell biology, autoimmune diseases, organ transplantation, and heart failure. He has been a faculty member of Columbia University in New York and of the University of Melbourne. His pioneering work in the use of adult stem cells for heart disease has laid the groundwork for a potential paradigm shift in the treatment of cardiovascular disorders. Professor Itescu has consulted for various international pharmaceutical companies, has been an adviser to biotechnology and health care investor groups, and has served on the Board of Directors of several publicly-listed Australian life sciences companies. In addition, he is the founder and a member of the Board of Directors of Angioblast Systems Inc.

Donal O'Dwyer, Non-executive Director BE, MBA

Shares held: 305,000
Options held: 799,727

Mr O'Dwyer has over 20 years' experience as a senior executive in the global cardiovascular and medical devices industries. From 1996 to 2003, Mr O'Dwyer worked for Cordis Cardiology, the cardiology division of Johnson & Johnson's Cordis Corporation, initially as its president (Europe) and from 2000 as its worldwide president. Cordis is the world's largest manufacturer of innovative products for interventional medicine, minimally invasive computer-based imaging, and electrophysiology.

In his role, Mr O'Dwyer led Cordis through the launch of the revolutionary Cypher drug eluting coronary stent technology, and saw the company take over number one market share of coronary stents worldwide. Prior to joining Cordis, Mr O'Dwyer worked for 12 years with Baxter Healthcare, rising from plant management in Ireland to president of the Cardiovascular Group, Europe, now Edwards Lifesciences. Mr O'Dwyer is a qualified civil engineer, has an MBA and is on the board of a number of companies including Cochlear Limited, Atcor Medical Holdings Ltd and Sunshine Heart Inc.

Michael Spooner, Non-executive Director BCOM, ACA, MAICD

Shares held: 1,059,000
Options held: -

Mr Spooner is a well-known and respected business leader. He has an extensive network of relationships with investment firms and business communities across the globe, having spent the majority of the past 25 years living and working internationally. Mr Spooner consults to a number of listed and unlisted companies based in Australia and the US. In 2010 Mr Spooner was appointed Chairman of BiVACOR a total artificial heart company. Most recently, Mr Spooner was a non-executive director of Peplin Inc., a dermatology focused skin cancer company from 2004 until the company was sold in 2010 for over $300m. Mr Spooner was Executive Chairman of Hunter Immunology Limited a respiratory medicine company from 2007 to 2009. He was a director of Australian Surgical Design & Manufacture Ltd an Australian publicly listed company in 2010 and a non-executive director of Hawaii Biotech Inc a US based specialty developer of vaccines from 2009 to 2011. Previously, Mr Spooner was the Chairman of Mesoblast Limited from its initial listing in 2004 until 2007 and Managing Director & CEO of Ventracor Limited where he led the transformation of a small Australian listed life sciences company into the second highest performing stock on the S&P/ASX 200 index. He was a Principal Partner and Director of Consulting Services with PricewaterhouseCoopers (Coopers & Lybrand) in Hong Kong for several years.

J.Kevin Buchi

Shares held: -
Options held: -

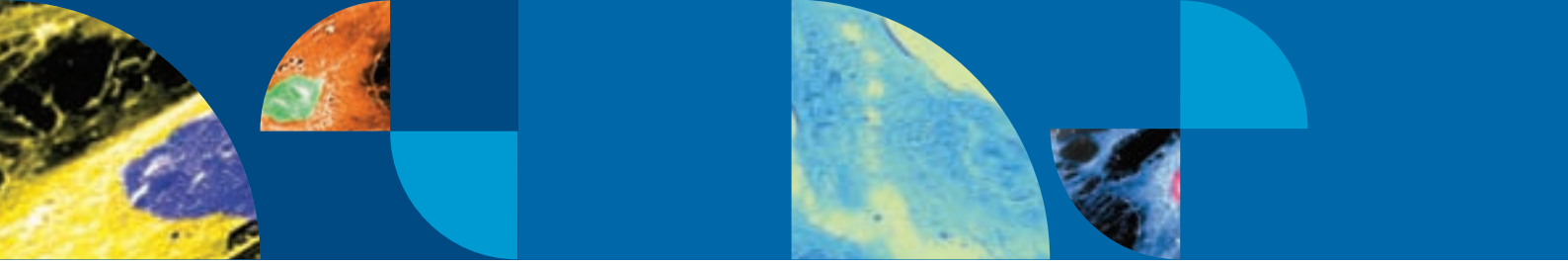
J. Kevin Buchi was promoted to Chief Executive Officer of global biopharmaceutical company, Cephalon, in 2010, after serving the company in other capacities for almost 20 years. Most recently, Mr Buchi served as Chief Operating Officer and managed the company's global sales and marketing functions, as well as product manufacturing, business development and investor relations. From 1996 to 2009, he served as Chief Financial Officer and, from 2004, head of business development for the company. Mr Buchi has played an instrumental role in the global growth of Cephalon through acquisitions and sound financial management. At various times in his career since joining Cephalon in 1991 as controller, Mr Buchi has had oversight of corporate finance, accounting, information systems, facilities, human resources and administration.

Mr Buchi graduated from Cornell University with a Bachelor of Arts degree in chemistry. He was a synthetic organic chemist for the Eastman Kodak Company before going on to obtain a master's degree in management from the J.L. Kellogg Graduate School of Management at Northwestern University. He worked for a large public accounting firm before beginning his career in the pharmaceutical industry with E.I. du Pont de Nemours and Company in 1983. Mr Buchi is a certified public accountant and is the representative for the Cephalon seat on the board of Mesoblast.

Kevin Hollingsworth, Company Secretary FCPA, FCMA

Shares held: -
Options held: -

Mr Hollingsworth is a Fellow of CPA Australia, and a past chairman of both the National and Victorian Industry and Commerce Accountants Committees. He is also a Fellow of the Chartered Management Accountants and a Past National President of CIMA Australia. Mr Hollingsworth has most recently been non-executive director and company secretary for Alpha Technologies Corporation Ltd, a global company with operations in the US, Mexico, Europe and China, designing and manufacturing temperature sensors for disposable medical devices, as well as precision thermometry and instrumentation for the biotechnical and life science industry.



Meetings of Directors

The number of meetings of the Group's directors (including committee meetings of directors) held during the year ended 30 June 2011 and the numbers of meetings attended by each director were:

	Board of directors		Audit & Risk committee		Nomination & remuneration committee	
Director	Held*	Attended	Held	Attended	Held	Attended
Brian Jamieson	14	14	2	2	1	1
Silviu Itescu	14	14	**	**	**	**
Byron McAllister *(resigned 29 November 2010)*	7	5	1	1	1	1
Donal O'Dwyer	14	14	2	2	1	1
Michael Spooner	14	14	2	2	1	1
Kevin Buchi *(appointed 30 December 2010)*	5	5	**	**	**	**

* number of meetings held during the time the director held office or was a member of the committee during the year

** not a member of the relevant committee

Remuneration Report

The directors of the Group present the following remuneration report, which forms part of the directors' report and has been prepared in accordance with s300A of the *Corporations Act 2001.* The remuneration report has been audited as required by s308 (3C) of the *Corporations Act 2001.* The remuneration report sets out remuneration information for the Mesoblast Group's non-executive directors, executive directors, other key management personnel and the five highest remunerated executives of the Group and the Company.

The remuneration report is set out under the following main headings:

A. Remuneration principles and policies

B. Remuneration of key management personnel

C. Service agreements

D. Share-based compensation

A. Remuneration Principles and Policies

Board policy for determining remuneration

The Group's goal is to engage and promote excellence at Board level, in staff members and in partner organizations. The Group looks to engage the services of individuals and organizations with the experience necessary to assist the Group in meeting its strategic objectives.

The Board ensures that executive reward complies with good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage
- Transparency

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organization.

The Group's remuneration framework is aligned to shareholders interests and in particular aligned to the rapid commercialization of the Group's intellectual property and in achieving its milestones in a highly ethical and professional manner.

The executive remuneration framework provides a mix of fixed and variable pay, and performance incentive rewards.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, non-executive directors and executives of the Group.

Remuneration structure

(a) Non-executive directors fees

The current base fees were reviewed and approved effective 1 July 2011;

	Effective 1 July 2011			1 July 2010 – 30 June 2011		
Position	Board $	Audit Committee $	Remuneration Committee $	Board $	Audit Committee $	Remuneration Committee $
Chair	220,000	20,000	15,000	120,000	-	-
Member	100,000	10,000	7,500	60,000	-	-
Company Secretary	40,000	-	-	40,000	-	-

For the year ended 30 June 2011, total remuneration paid to Directors consisted of cash fees (as per the table above) and proposed options to be granted. This is consistent with the Group's policy to provide adequate remuneration while conserving cash for the use of advancing the Group's clinical programs. The proposed grant of options to Directors will be subject to shareholder approval at the next annual general meeting.

Going forward, due to the recent changes in the Company's financial position and the increased levels of operational activity and complexity, directors fees have been set with reference to external advice and market rates, and are disclosed in the table above. The Group does not expect to issue options to Directors as a method of remuneration going forward.

(b) Executive pay

The executive pay and reward framework has three components, which in combination comprises the executives' total remuneration:

- Base pay and benefits (i)
- Short term performance incentives (ii)
- Long term performance incentives (iii)

(i) Base pay and benefits

A total employment cost package may include a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The base pay for executives is reviewed annually to ensure the executives' pay is competitive with the market. An executive's pay is also reviewed on promotion.

There is no guaranteed base pay increases included in any executive contracts.

(ii) Short term performance incentives

Bonuses are payable to executives based upon the attainment of agreed corporate and individual milestones, which are reviewed annually and approved by the Board of Directors.

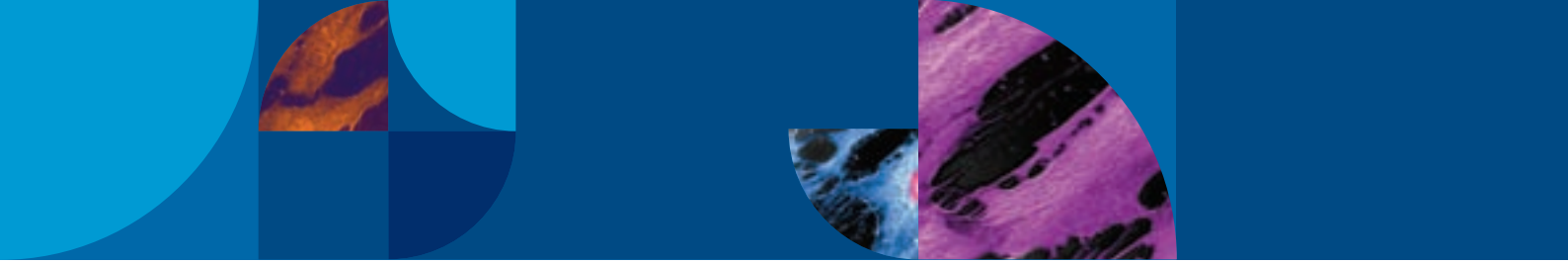
(iii) Long term performance incentives

All options are issued with an exercise price which includes a premium to the actual share price on grant date.
In addition to the exercise premium, certain options are granted with performance milestones (refer page 25). For those options which do not have specific additional performance milestones attached, they will vest over time, provided the holder continues to provide services to the Company.

Relationship between remuneration policy and Group performance

	Parent 30 June 2006	*Parent* 30 June 2007	*Parent* 30 June 2008	*Parent* 30 June 2009	*Parent* 30 June 2010	*Consolidated* 30 June 2011
Closing share price	$1.52	$2.02	$0.91	$0.83	$1.85	$8.65
Price increase/ (decrease) $	$1.09	$0.50	$(1.11)	$(0.08)	$1.02	$6.80
Price increase/ (decrease) %	255%	33%	(55%)	(8.8%)	123%	368%
Total key management personnel remuneration	1,368,039	1,189,907	1,802,804	1,971,389	2,340,036	5,233,679
Remuneration increase/ (decrease) %	172%	(13%)	52%	10%	19%	124%

The Group's remuneration policies seek to reward staff members for their contribution to achieving significant clinical and regulatory milestones, together with the achievement of operational and commercial objectives. These milestones and objectives build sustainable and long term shareholder value. The significant increase in key management personnel remuneration from 2010 to 2011 is largely due to appointments of key executives following the acquisition of Angioblast Systems, Inc.



The share price increase from 2010 to 2011 is attributed to this acquisition, and the development and commercialization agreement signed in December 2010 with Cephalon Inc., which resulted in an equity investment made in the Group of 19.99% at $4.35 per share and a further US$130m of upfront milestones. In addition to this there are milestones on certain regulatory approvals, and a profit sharing agreement on future sales. This agreement has led to significant expansion of the clinical activities of the Group which has in turn led to certain strategic key appointments and a resetting of executive pay.

The increase in remuneration in the earlier years (from IPO (16 December 2004: share price $0.50) to 30 June 2010) reflects an increase in resources required whilst the Company continued to build and expand the clinical program of the Company.

B. Remuneration of Key Management Personnel

Key management personnel includes all directors (as disclosed on page 6), and the CEO of the Group, who has authority and responsibility for planning, directing and controlling the activities of the Group, together with the Board of Directors.

Directors and executives disclosed in this report:

Name	Position
Key management personnel	
Non-executive and executive directors – see pages 16 to 17 above.	
Other persons who are among the 5 highest paid remunerated Group and/or Company executive	
Graeme Kaufman	EVP Corporate Finance and Investor Relations#/^
Suzanne Lipe	Vice President of Operations^
Jenni Pilcher	Chief Financial Officer^
Paul Rennie	Special Projects Consultant^
Michael Schuster	EVP Therapeutic Business Units#/**
Donna Skerrett	Chief Medical Officer#/**
Michael Warman	EVP Business Development#/**

 # denotes one of the 5 highest paid executives of the Group

^ denotes one of the 5 highest paid executives of the Company

*** remuneration earned from subsidiary included from date of consolidation into Group (12 November 2010).*

Remuneration details

Details of the remuneration of each director of Mesoblast Limited and the other key management personnel, together with the five highest paid executives of the Group and/or Company, are set out below:

	Short term employee benefits			Long-term benefits
Name	Salary & fees $	Cash bonus[(i)] $	Non-monetary benefits $	Long service leave $
2011				
Key management personnel				
Executive directors				
Silviu Itescu[#/^]	498,436	400,000	-	32,973
Non-executive directors				
Brian Jamieson	110,917	-	-	-
Byron McAllister *(from 1 July to 29 November 2010)*	25,000	-	-	-
Donal O'Dwyer	55,046	-	-	-
Michael Spooner	55,046	-	-	-
Kevin Buchi[*] *(from 30 December 2010 to 30 June 2011)*	30,000	-	-	-
	774,445	400,000	-	32,973
Other Company and Group executives				
Graeme Kaufman[#/^]	339,100	-	-	-
Suzanne Lipe[^]	190,000	-	-	2,177
Jenni Pilcher[^]	162,500	-	-	1,849
Paul Rennie[^]	265,800	-	-	-
Donna Skerrett[#/**]	225,561	-	3,419	-
Michael Schuster[#/**]	343,934	-	30,901	-
Michael Warman[#/**]	230,200	-	-	-
	1,757,095	-	34,320	4,026
Total 2011	**2,531,540**	**400,000**	**34,320**	**36,999**
2010				
Key management personnel – directors				
Executive directors				
Silviu Itescu[^]	250,000	100,000	-	5,368
Non-executive directors				
Brian Jamieson	110,092	-	-	-
Byron McAllister	60,000	-	-	-
Donal O'Dwyer	55,046	-	-	-
Michael Spooner	55,046	-	-	-
	530,184	100,000	-	5,368
Other key management personnel – executives				
Roger Brown[^^]	249,873	47,200	39,909	-
Suzanne Lipe[^^]	190,000	15,000	-	1,403
Jenni Pilcher[^^]	153,125	30,000	-	2,514
Paul Rennie[^^]	221,600	25,000	-	-
James Ryaby[^^]	177,182	-	22,078	-
Kevin Hollingsworth[^^]	40,000	-	-	-
	1,031,780	117,200	61,987	3,917
Total 2010	**1,561,964**	**217,200**	**61,987**	**9,285**

Post-employment benefits	Share-based payments	Other	
Superannuation $	Options & rights[ii] $	Termination benefits $	Total $
15,199	-	-	946,608
9,083	87,057	-	207,057
-	-	-	25,000
4,954	-	-	60,000
4,954	-	-	60,000
-	-	-	30,000
34,190	87,057	-	1,328,665
-	271,342	-	610,442
17,100	57,117	-	266,394
14,625	351,973	-	530,947
-	106,483	-	372,283
-	322,198	-	551,178
-	461,265	-	836,100
-	507,470	-	737,670
31,725	2,077,848	-	3,905,014
65,915	**2,164,905**	**-**	**5,233,679**
14,461	-	-	369,829
9,908	106,130	-	226,130
-	-	-	60,000
4,954	-	-	60,000
4,954	-	-	60,000
34,277	106,130	-	775,959
-	87,149	-	424,131
18,450	23,800	-	248,653
16,481	111,263	-	313,383
-	53,379	-	299,979
-	31,733	-	230,993
-	16,223	-	56,223
34,931	323,547	-	1,573,362
69,208	**429,677**	**-**	**2,349,321**

 # denotes one of the 5 highest paid executives of the Group

^ denotes one of the 5 highest paid executives of the parent company

^^ key management personnel for 2010 only

** Kevin Buchi is the nominated representative for Cephalon who occupy a seat on the Board, all fees above are paid to Cephalon – not the representative personally*

*** Executives of Angioblast Systems, Inc. Any remuneration paid to these executives that relates to their employment with Angioblast has only been included in this table from the date of consolidation of Angioblast into the Group (12 November 2010)*

(i) All bonuses reported in the above table are 100% of the bonus entitlement for each relevant executive. Bonuses forfeited during the year as a result of performance targets not being met were nil (2010: nil).

(ii) Performance-based remuneration includes all bonuses paid.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2011	2010	2011	2010	2011	2010
	%	%	%	%	%	%
Key management personnel – executive directors						
Silviu Itescu#/^	58	73	42	27	-	-
Other Company and Group executives						
Graeme Kaufman#/^	56	n/a	-	n/a	44	n/a
Jenni Pilcher^	34	54	-	10	66	36
Michael Schuster#	45	n/a	-	n/a	55	n/a
Donna Skerrett#	42	n/a	-	n/a	58	n/a
Michael Warman#	31	n/a	-	n/a	69	n/a
Roger Brown^^	n/a	68	n/a	11	n/a	21
Suzanne Lipe^/^^	79	84	-	6	21	10
Paul Rennie^/^^	71	74	-	8	29	18
James Ryaby^^	n/a	86	n/a	-	n/a	14
Kevin Hollingsworth^^	n/a	71	n/a	-	n/a	29

 # denotes one of the 5 highest paid executives of the Group

^ denotes one of the 5 highest paid executives of the Company

^^ key management personnel for 2010

C. Service Agreements

The non-executive directors and the Company secretary are engaged through a letter of appointment. Non-executive directors are appointed by shareholders on the basis that one third of all non-executive directors retire annually and are eligible for re-election at the Annual General Meeting.

Remuneration and other terms of employment for the CEO and other Company and Group executives are formalized in employment and consulting agreements. These agreements may provide for the provision of performance related cash bonuses and the award of options. Provisions of the agreements relating to remuneration are set out below:

Name	Term	Termination Benefits
Key management personnel – executive directors		
Silviu Itescu#/^	Three years, commencing 1 April 2011	12 months' salary
Other Company and Group Executives		
Graeme Kaufman#/^	Consulting agreement	None
Suzanne Lipe^	No fixed term, commencing March 2008	Three months' salary
Jenni Pilcher#/^	No fixed term, commencing 1 January 2008	Three months' salary
Paul Rennie^	Consulting agreement**	None
Donna Skerrett#	Three years, commencing 1 April 2011	Greater of 18 months and remaining term*, plus outstanding options and bonus entitlements
Michael Schuster#	Three years, commencing 1 January 2011	Greater of 18 months and remaining term*, plus outstanding options and bonus entitlements
Michael Warman#	Three years, commencing 1 January 2011	Greater of 18 months and remaining term*, plus outstanding options and bonus entitlements

** payable if termination is caused by more than 50% of the Company being acquired pursuant to a takeover bid of a scheme of arrangement*

*** consulting agreement terminated 6th July 2011, and replaced with an employment agreement commencing 7 July 2011, which includes termination benefits consisting of outstanding options and bonus entitlements in the case of early termination by the Company, and 12 months' notice period applies in all instances of termination.*

C. Share-Based Compensation

Options to purchase fully paid shares of the Group were granted as remuneration during the year as follows:

	Grant Date	Granted No.	Vesting date	Expiry date	Exercise price $	Fair value (per option) $	Total value of options granted at grant date**
2011							
Other Company and Group Executives							
Graeme Kaufman#/^	29/11/2010	133,400	29/11/2011	29/11/2015	3.48	2.26	301,591
Graeme Kaufman#/^	29/11/2010	133,400	29/11/2012	29/11/2015	3.48	2.66	354,444
Graeme Kaufman#/^	29/11/2010	133,400	29/11/2013	29/11/2015	3.48	2.98	397,265
Suzanne Lipe^	29/11/2010	23,400	29/11/2011	29/11/2015	3.48	2.26	52,903
Suzanne Lipe^	29/11/2010	23,400	29/11/2012	29/11/2015	3.48	2.66	62,174
Suzanne Lipe^	29/11/2010	23,400	29/11/2013	29/11/2015	3.48	2.98	69,685
Jenni Pilcher^	29/11/2010	133,400	29/11/2011	29/11/2015	3.48	2.26	301,591
Jenni Pilcher^	29/11/2010	133,400	29/11/2012	29/11/2015	3.48	2.66	354,444
Jenni Pilcher^	29/11/2010	133,400	29/11/2013	29/11/2015	3.48	2.98	397,265
Paul Rennie^	29/11/2010	23,400	29/11/2011	29/11/2015	3.48	2.26	52,903
Paul Rennie^	29/11/2010	23,400	29/11/2012	29/11/2015	3.48	2.66	62,174
Paul Rennie^	29/11/2010	23,400	29/11/2013	29/11/2015	3.48	2.98	69,685
Michael Schuster#	29/11/2010	400,200	29/11/2011*	29/11/2015	3.48	3.47	1,389,894
Donna Skerrett#	29/11/2010	125,100	29/11/2011*	29/11/2015	3.48	3.47	434,472
Donna Skerrett#	22/09/2010	270,000	22/09/2011	22/09/2015	2.64	1.38	373,140
Michael Warman#	29/11/2010	400,200	29/11/2011*	29/11/2015	3.48	3.47	1,389,894
Michael Warman#	22/09/2010	135,000	22/09/2011	22/09/2015	2.64	1.38	186,570
2010							
Directors							
Brian Jamieson	30/11/2009	75,000	09/12/10***	30/11/2014	1.73	0.70	52,500
Brian Jamieson	30/11/2009	75,000	17/03/11***	30/11/2014	1.73	0.70	52,500
Brian Jamieson	30/11/2009	75,000	31/03/12***	30/11/2014	1.73	0.70	52,500
Brian Jamieson	30/11/2009	75,000	20/07/10***	30/11/2014	1.73	0.70	52,500
Roger Brown^^	30/11/2009	150,000	30/11/2010*	30/11/2014	1.58	0.73	109,500
Jenni Pilcher^^	30/11/2009	240,000	30/11/2010*	30/11/2014	1.58	0.73	175,200
Paul Rennie^^	30/11/2009	180,000	30/11/2010*	30/11/2014	1.58	0.73	131,400

 # denotes one of the 5 highest paid executives of the Group

^ denotes one of the 5 highest paid executives of the Company

^^ key management personnel for 2010 only

** Each grant of options is divided into three equal tranches. Tranche A has a vesting date which is shown in the above table. Tranches B and C have vesting dates one and two years respectively after Tranche A. All tranches have the same expiry date, exercise price and fair value which are as shown in the above table.*

*** The value of options granted during the year has been calculated using a Black Scholes model, and the total value calculated is recognized as compensation over the vesting period (from grant date to vesting date) in accordance with International Financial Reporting Standards.*

**** Vesting occurs on the date the following milestones are reached:*

- *signing of a commercial partnering contract (reached 9 December 2010);*
- *receive IND clearance from the FDA for its first clinical trial for Intervertebral Disc Repair (reached 17 March 2011);*
- *complete patient enrolment for its first clinical trial under IND for Intervertebral Disc Repair (not yet reached, estimated vesting date used for the purposes of the valuation);*
- *obtain a license from the Therapeutics Goods Administration (TGA) for the manufacture of product (reached on 20 July 2010).*

All share options issued to key management personnel and other Company and Group executives were made in accordance with the provisions of the executive share option plan and have been approved by the Board. Options issued to directors have been approved by shareholders. All options issued were issued without monetary consideration, therefore there are no amounts unpaid with respect to these options. There are no performance criteria attached to any of the options granted during the year (2010: nil).

Modifications to terms and conditions of options granted

There has been no modification to any terms and conditions of options during the current and previous financial years.

Options held by key management personnel that were exercised during the year:

	Exercise Price $	Exercise Date	Number of ordinary shares issued on exercise of options during the year	Value per share at exercise date $*
Key management personnel – directors				
Donal O'Dwyer	USD0.47	20/12/2010	639,784	3.62**
Other Company and Group executives				
Suzanne Lipe	1.00	04/05/2011	60,000	7.71
Jenni Pilcher	2.13	15/12/2010	100,000	2.54
Jenni Pilcher	1.58	24/03/2011	80,000	5.43
Jenni Pilcher	1.00	18/03/2011	160,000	5.62
Paul Rennie	USD0.44	20/12/2010	511,827	3.65**
Paul Rennie	2.13	24/12/2010	250,000	2.45
Paul Rennie	1.58	27/04/2011	60,000	6.58
Paul Rennie	1.00	27/04/2011	100,000	7.16
Michael Schuster	USD0.05-USD0.44	20/12/2010	1,567,470	3.80**
Michael Schuster	1.20	04/05/2011	100,000	7.42
Donna Skerrett	USD0.05-USD0.44	20/12/2010	1,439,513	3.80**
Donna Skerrett	1.20	15/12/2010	100,000	3.32
Donna Skerrett	2.13	15/12/2010	200,000	1.65
Donna Skerrett	1.00	15/12/2010	80,000	3.52

** The value of options that were granted as part of remuneration and were exercised during the year as been determined as the intrinsic value (the "in-the-money" premium) of the options at exercise date, based on the sale price of those shares if sold within 30 days of exercise.*

*** Options were exercised upon the acquisition of Angioblast and sold as part of a facility on 20 December 2010. The value per share is the weighted average value of those options that were exercised and sold on the same day as part of this facility.*

Value of options held by key management personnel and other Company and Group executives that vested and/or lapsed during the year

	No. of options vested during the year	No. of options lapsed during the year
Key management personnel – directors		
Brian Jamieson	225,000	-
Donal O'Dwyer	1,439,511*	-
Other Company and Group executives		
Suzanne Lipe	60,000	-
Jenni Pilcher	194,000	-
Paul Rennie	194,000	-
Paul Rennie	511,827*	-
Michael Schuster	200,000	-
Michael Schuster	1,567,470*	-
Donna Skerrett	80,000	-
Donna Skerrett	1,439,513*	-
Michael Warman	94,000	-
Michael Warman	447,848*	-

** originally Angioblast options which were vested on acquisition of Angioblast and converted to Mesoblast options*

Value of options yet to vest after the end of the current financial year

	Year of Grant	Vested during the year %	Forfeited during the year %	Subsequent financial years in which options may vest	Maximum total value of grant not yet expensed $
Directors					
Brian Jamieson	2010	75	-	2012	14,861
Other Company and Group executives					
Graeme Kaufman	2011	-	-	2012/13/14	781,958
Suzanne Lipe	2011	-	-	2012/13/14	137,165
Suzanne Lipe	2009	33	-	2012	-
Jenni Pilcher	2011	-	-	2012/13/14	781,958
Jenni Pilcher	2010	33	-	2012/13	35,586
Jenni Pilcher	2009	33	-	2012	-
Paul Rennie	2011	-	-	2012/13/14	137,165
Paul Rennie	2010	33	-	2012/13	26,690
Paul Rennie	2009	33	-	2012	-
Donna Skerrett	2011	-	-	2012/13/14	498,107
Donna Skerrett	2009	33	-	2012	-
Michael Schuster	2011	-	-	2012/13/14	1,007,673
Michael Schuster	2010	33	-	2012/13	35,586
Michael Schuster	2009	33	-	2012	-
Michael Schuster	2008	33	-	-	-
Michael Warman	2011	-	-	2012/13/14	1,099,231
Michael Warman	2010	33	-	2012/13	13,345
Michael Warman	2009	33	-	2012	-

The maximum total value of the grant not yet expensed also represents the maximum total value of the grant yet to vest. The minimum value of the grant yet to vest is nil on the assumption that if the vesting conditions were not satisfied the options would not vest.

This report is made in accordance with a resolution of the directors.

Mr Brian Jamieson
Chairman
31 August 2011, Melbourne

Auditor's Independence Declaration

As lead auditor for the audit of Mesoblast Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mesoblast Limited and the entities it controlled during the period.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
31 August 2011

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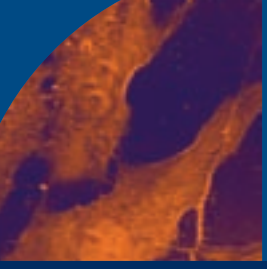
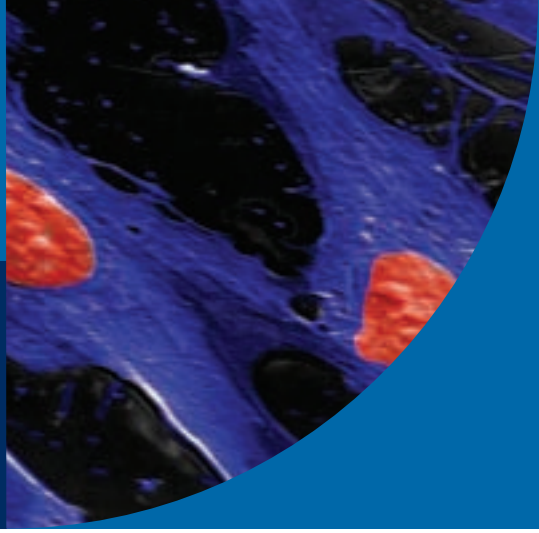




Corporate Governance

Mesoblast Limited (the Company) and its board of directors (the board) are committed to implementing and achieving the highest standards of corporate governance.

The board will continue to ensure that the corporate governance framework is relevant, efficient and cost effective. The company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's corporate governance practices is set out below. All of these practices, unless otherwise stated, were in practice for the entire year. They comply with the August 2007 *ASX Principles of Good Corporate Governance and the Best Practice Recommendations,* including the 2010 Amendments (ASXCGC). The following report has been laid out according to those recommendations.

Further information on corporate governance can be found on the company's website at www.mesoblast.com (Mesoblast website).

Principle 1. Lay solid foundations for management and oversight

The board is responsible for, and has authority to determine, all matters relating to the policies, practices, management and operations of the Group.

Specifically the board's functions include:

- contributing to, and approving, corporate strategies, objectives and plans for the Group to assist with the achievement of its goals;
- reporting to shareholders on the Group's strategic direction and performance including constructive engagement in the development, execution and modification of the Group's strategies;
- ensuring risks to the business are identified, and approving systems and controls to manage these risks and monitor compliance;
- reviewing, ratifying and monitoring systems of risk management and internal control, and legal compliance.
- approving the Group's major human resources (HR) policies, including the code of conduct, and overseeing the development strategies for senior and high performing executives;
- monitoring executive management and business performance in the implementation and achievement of strategic and business objectives;
- ratifying and approving the appointment and removal of senior executives;
- approving and reviewing financial plans, financial results and annual budgets;
- determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- reviewing and approving key management recommendations (such as major capital expenditure, acquisitions, divestments, restructuring and funding); and
- ensuring appropriate resources are available to senior management.

Day to day management of the Group's operations and the implementation of the corporate strategy and policy initiatives are delegated by the board to the Chief Executive Officer and other senior executives.

A performance assessment for the Chief Executive Officer was last completed in September 2011. Performance assessments for other members of Senior Management were completed in August 2011 and will occur annually in July/August. The performance assessment policy is currently being finalized and will be made available on the Mesoblast website in due course.

Principle 2. Structure the board to add value

The board operates in accordance with the broad principles set out in its charter. The charter sets out the board's composition and responsibilities. A copy of the charter is available on the Mesoblast website.

2.1 Independence of directors

Board composition

During the 2011 year, the board of directors comprised of five directors, being one executive and four non-executives (including the Chair).

The term in office held by each director in office as at 30 June 2011 is as follows:

Name	Term as director	Position held at 30 June 2011
Brian Jamieson	3 yrs 7 mths	Independent Chairman
Silviu Itescu	7 yrs 1 mths	Executive Director (CEO)
Donal O'Dwyer	6 yrs 9 mths	Independent Director
Michael Spooner	6 yrs 9 mths	Independent Director
Kevin Buchi (appointed 30 December 2010)	0 yrs 6 mths	Director

Directors are appointed to the board based on the specific governance skills required by the Group and on the independence of their decision making and judgment. The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Each member of the board is committed to spending sufficient time to enable them to carry out their duties as a director of the Group.

Board independence

The board considers that an independent director is a non-executive director who:

- is not a substantial shareholder of the Group or an officer of, or otherwise associated directly with, a substantial shareholder of the Group; or
- within the last three years has not been employed in an executive capacity by the Group, or been a director after ceasing to hold any such employment; or
- is not a material supplier to the Group, or an officer of or otherwise associated directly or indirectly with, a material supplier; or
- has no material contractual relationship with the Group other than as a director of the Group; or
- is independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, materiality is considered from both the Group's and an individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 2% of the Group's gross revenue or expenditure (whichever is the greater). In accordance with the definition of independence above, and the materiality thresholds set by the board, the following directors of Mesoblast were considered to be independent:

- Brian Jamieson (Chairman)
- Donal O'Dwyer (Deputy Chairman and Chairman of the Nomination and Remuneration Committee)
- Michael Spooner (Chairman of the Audit and Risk Committee)

Kevin Buchi is the nominated representative on the board for Cephalon, Inc., who hold 19.9% of the total shareholding of the Mesoblast Limited. Silviu Itescu is currently CEO, consequently these directors are not considered by the board to be independent.

Independent professional advice

In order to facilitate director independence, there are procedures in place to enable Directors, in furtherance of their duties, to seek independent professional advice at the Group's expense (subject to approval by the board).

2.2 Independent Chairman

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Group's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder their effective performance in the role of Chair. The Chair is an independent director.

2.3 Role of the Chair and Chief Executive Officer (CEO)

At the date of this annual report, the role of CEO for the Group is not held by the Chairman, which is in accordance with the ASXCGC recommendations. The CEO is responsible for implementing company strategies and policies as approved by the board.

2.4 Board committees

The following committees have been established to assist the board in the effective discharge of its duties:

- Nomination and remuneration committee
- Audit and risk committee

Each committee is comprised of entirely non-executive directors. The committee structure and membership is reviewed on an annual basis. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the Mesoblast website.

Remuneration and nomination committee

The board has established a remuneration and nomination committee comprising three directors as follows:

Name	Position held during the year
Donal O'Dwyer	Independent Chairman
Michael Spooner	Independent member
Brian Jamieson	Independent member

Details of meetings attended are found in the Directors' Report.

The remuneration and nomination committee provides an efficient mechanism for examination of the selection, appointment, and remuneration practices and policies of the Group. The main responsibilities of the nomination committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the Group and to make recommendations on board composition and appointments
- conduct an annual review of and conclude on the independence of each director
- propose candidates for board vacancies
- oversee the annual performance assessment program
- assess and make recommendations annually on remuneration levels for the board and senior executives
- oversee the review of board succession plans
- assess the effectiveness of the induction process

Commitments of directors

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the Group and are reviewed each year.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Group.

2.5 Performance of the directors

Board appointments

Directors receive a formal letter of appointment setting out the key terms, conditions and expectations of their appointment.

The induction provided to new directors and senior executives enables them to actively participate in board decision-making as soon as possible. The induction includes being presented with key strategic, financial and relevant operational documents, and the facilitation of meetings with existing directors and senior executives to ensure all relevant and material information is explained thoroughly. The induction also includes an explanation of the existing human resources structure of the Group, and roles and responsibilities of key senior executives are explained.

Access to information

The board is given board papers, prepared by senior management, for every board meeting held. These papers include, but are not limited to, a CEO update, an operational update, financial reporting package, investor relations update, and other topical strategic document relevant to the Group's operations and performance.

Directors are entitled to request any additional information from management where they consider such information necessary to make informed decisions.

Performance evaluation

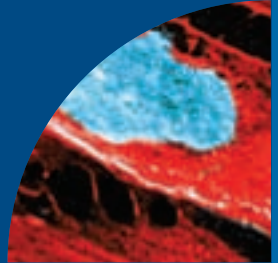
A description of the process for performance evaluation for the board and senior executives has been finalized and is available on the Mesoblast website.

The board is in the process of completing a formal review of its members for the financial year ended 30 June 2011.

2.6 Website disclosures

The following information relating to the board's structure can be found on the Mesoblast website .

- Charter of the remuneration and nomination committee



Principle 3. Promote ethical and responsible decision-making

3.1 Code of conduct

As part of its commitment to recognizing the legitimate interests of stakeholders, the Group has established a code of conduct to guide all employees, particularly Directors, the CFO and other senior executives in respect of ethical behavior expected by the Group.

The code of conduct covers conflicts of interest, confidentiality, fair dealing, protection of assets, compliance with laws and regulations, whistle blowing, security trading and commitments to stakeholders. In summary, the code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

3.2 Trading policy applied to directors, officers and employees

"Designated Persons", which include directors, employees and key consultants, are not permitted to trade in the Company's securities during the period from 1 July until the preliminary announcement of the Group's annual financial results.

Before any Designated Person deals in securities of the Company (at any time), they must first obtain approval from the company secretary or CFO (one of whom must obtain approval from the Chair and the CEO).

This obligation operates at all times.

- In advance of trading in the Company's securities, Designated Persons must request for approval to trade, in writing, and include a statement that the Designated Person is not in possession of any material non-public information;
- Designated Persons must not deal in securities of the Company (including shares issued as a consequence of the exercise of options) until approval has been given by the company secretary or chief financial officer, evidenced in writing (email is acceptable).
- If approval is given, the Designated Person may ordinarily trade within five business days after receiving the approval.
- The Designated Person will be notified if the clearance position changes within those five business days.
- A further application will need to be made if no dealing takes place within the five business days and the Designated Person still wishes to deal.

Designated Persons who have been told that they cannot deal must not communicate this fact to others.

The company secretary is committed to reviewing regularly the contents of the share register, which is currently maintained by Link Market Services Limited. Any significant share trading by officers of the Group is duly noted and shall be reported to the board in a timely manner.

3.3 Diversity Policy

Due to the specialized nature of the industry in which the Group operates within, the range of potential candidates to fill positions is very limited. Therefore, it is difficult to set specific gender targets. The Group employs a policy of hiring staff at all levels based on merit, skills and expertise.

3.4 Website disclosures

A copy of the code of conduct and the share trading policy can be found on the Group's website.

Principle 4. Safeguard integrity in financial reporting

4.1 Audit and risk committee establishment

The board has established an audit and risk committee, to which it has delegated the responsibility for ensuring that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

4.2 Audit and risk committee structure

The board has established an audit and risk committee comprising four directors, the majority of whom are independent, and are as follows:

Name	Position held during the year
Michael Spooner	Independent Chairman
Brian Jamieson	Independent member
Donal O'Dwyer	Independent member
Kevin Buchi	Member

The chairperson of the committee is not the chairperson of the board. All of the directors are financially literate and three of the members, Michael Spooner, Brian Jamieson and Kevin Buchi have accounting qualifications. Further, Michael Spooner, Donal O'Dwyer and Kevin Buchi all have valuable industry experience having served in the industry in senior positions for a number of years. Further details on the members of the audit and risk committee and their qualifications, together with meetings attended, can be found in the Directors' Report.

4.3 Formal charter

The audit and risk committee operates under a formal charter approved by the board.

The main responsibilities of the audit and risk committee are to:

- review, assess and approve the annual full and concise reports, the half-year financial report and all other financial information published by the Group or released to the market
- review, and report to the board, on the effectiveness of management processes supporting external reporting
- assist the board in reviewing the effectiveness of the organization's management internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- determine whether an internal audit function is deemed necessary, and if so, determine its scope, assess its performance and independence, and ensure that its resources are adequate and used effectively
- oversee the effective operation of the risk management framework
- recommend to the board the appointment, removal and remuneration of the external auditors, and implement and enforce procedures governing the rotation of the external audit engagement partner
- review the terms of the external audit engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the board on all matters relevant to the committee's role and responsibilities

4.4 Website disclosure

The charter of the audit and risk committee can be found on the Mesoblast website.

Principle 5. Make timely and balanced disclosure

The board has established a policy governing continuous disclosure and has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the Australian Securities Exchange (ASX) as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Group immediately notifies the ASX of information:

- concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Group posts all information disclosed in accordance with this policy on the Mesoblast website.

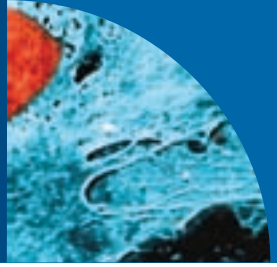
Principle 6. Respect the rights of shareholders

6.1 Communications strategy

The Group respects the rights of its shareholders and to facilitate the effective exercise of those rights the Group is committed to:

- communicating effectively with shareholders through releases to the market via the ASX, the Group's website, information mailed and emailed to shareholders and the general meetings of the Group;
- giving shareholders ready access to balanced and understandable information about the Group and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Group.

The Group also makes available a telephone number (+61 3 96396036) and e-mail address (info@mesoblast.com) for shareholders to make enquiries of the Group.



Principle 7. Recognize and manage risk

7.1 Establish policies on risk oversight and management and internal control

The board, through its audit and risk committee, is responsible for reviewing the Group's policies in relation to risk oversight and management, compliance and internal control systems. These policies are available on the Mesoblast website.

7.2 Establish policies on risk oversight and management

The operation of the Group's risk management and compliance system is managed by the risk management group which will consist of senior executives. This group is still in the process of being established but will be committed to providing regular reports regarding the status and management of relevant material business risks to the audit and risk committee for review.

7.3 Corporate reporting

The CEO and the CFO have made the following certifications to the board:

- the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001; and
- the financial statements, and the notes referred to in section 295(3)(b), of the Corporations Act 2001, for the financial year comply with the accounting standards; and
- the financial statements and notes for the financial year give a true and fair view.

Principle 8. Remunerate fairly and responsibly

8.1 Remuneration committee

Composition and charter

The board has established a remuneration committee. Details of its structure and members can be found in section 2.4 of this report. The committee operates in accordance with a charter which can be found on the Mesoblast website.

Responsibilities

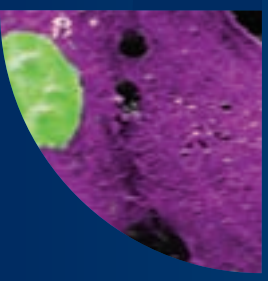
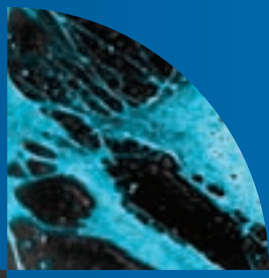
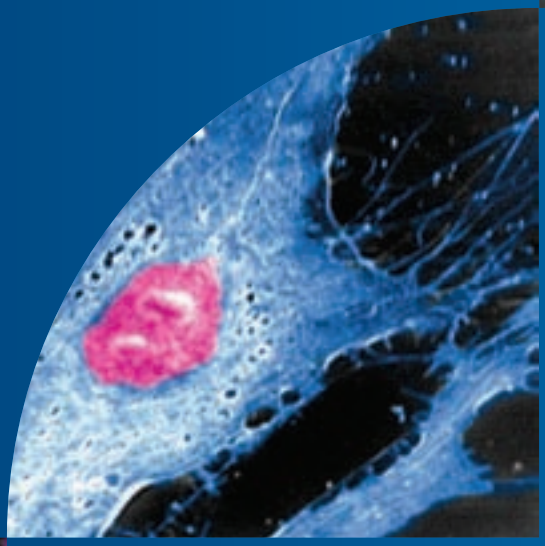
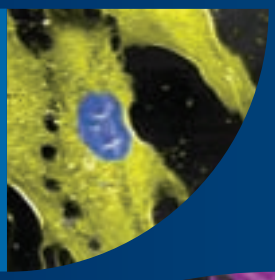
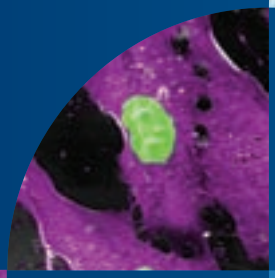
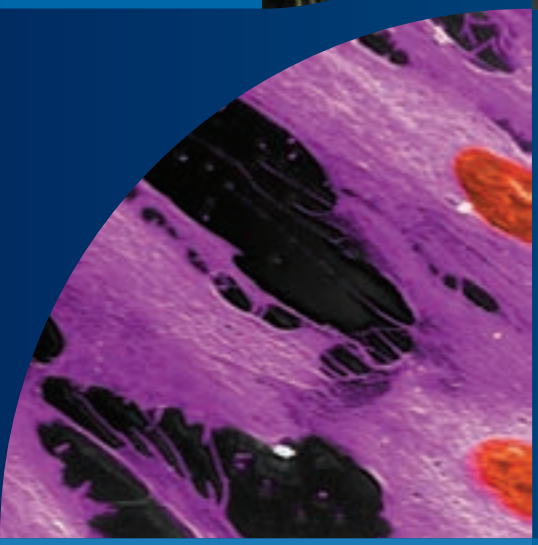
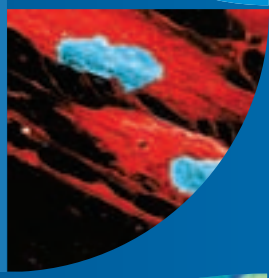
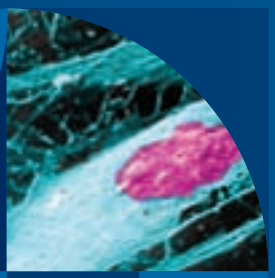
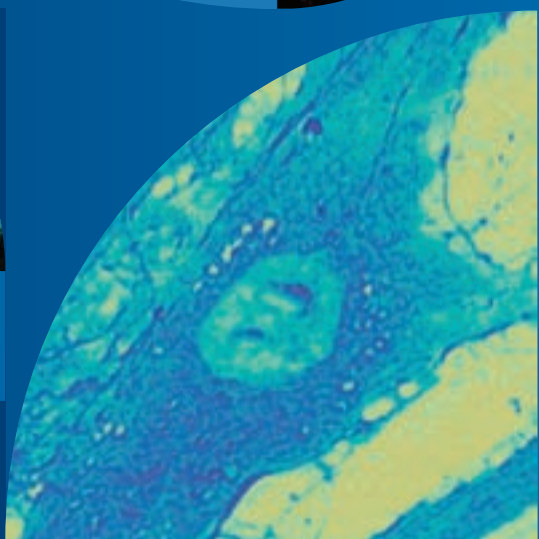
The responsibilities of the remuneration committee include providing a review and recommendation to the board of:

- senior executive remuneration and incentive policies
- specifics for remuneration packages of senior executives and non-executive directors
- the Group's recruitment, retention and termination policies and procedures for senior executives
- superannuation arrangements

The committee is also responsible for overseeing management succession planning, including the implementation of appropriate executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Remuneration policies

Details of the nature and amount of each element of remuneration, including principles of remuneration, for each director and both the Company and the Group's five highest-paid executives during the year can be found in the remuneration report section of the Directors' Report.

Financial Statements

for the year ended 30 June 2011

Consolidated Income Statement
for the year ended 30 June 2011

	Note	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Revenue from continuing operations	2(a)	19,257,822	739,786
Other income	2(b)	101,663,463	25,129
		120,921,285	764,915
Expenses from continuing operations	2(c)		
Research and development		(15,314,548)	(7,566,050)
Management and administration		(11,844,976)	(3,585,713)
Interest expense		(14,912)	-
Share of losses of equity accounted associates		(1,505,345)	(4,394,047)
		(28,679,781)	(15,545,810)
Profit/(loss) before income tax		92,241,504	(14,780,895)
Income tax expense	4	(1,634,914)	-
Profit/(loss) for the year		90,606,590	(14,780,895)
Profits/(losses) per share from continuing operations attributable to the ordinary equity holders of the Group:		Cents	Cents
Basic – earnings per share	6	41.79	(10.51)
Diluted – earnings per share	6	39.78	(10.51)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	*Consolidated* 30 June 2011 $	*Parent* 30 June 2010 $
Profit/(loss) for the year		90,606,590	(14,780,895)
Other comprehensive income			
Exchange differences on translation of share of losses of foreign associates	11(b)	1,704,870	401,860
Foreign exchange balance written back on acquisition of a previously held associate	11(b)	(2,124,874)	-
Exchange differences on translation of foreign operations	18	(21,915,730)	-
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income/(loss) for the period, net of tax		(22,335,734)	401,860
Total comprehensive income/(loss) for the period		68,270,856	(14,379,035)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

Parent	Note	Issued Capital $	Share Option Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Total $
Balance at 1 July 2009		62,460,236	4,156,507	18,144	(40,844,925)	25,789,962
Profit/(Loss) for the year as reported in the 2010 financial statements		-	-	-	(14,780,895)	(14,780,895)
Other comprehensive income		-	-	401,860	-	401,860
Total comprehensive profit/(loss) for the period		-	-	401,860	(14,780,895)	(14,379,035)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs	17	25,489,080	-	-	-	25,489,080
Fair value of share-based payment		-	1,019,253	-	-	1,019,253
		25,489,080	1,019,253	-	-	26,508,333
Balance at 30 June 2010		87,949,316	5,175,760	420,004	(55,625,820)	37,919,260
Consolidated						
Profit for the year		-	-	-	90,606,590	90,606,590
Other comprehensive income		3,519,335	(3,519,335)	(22,335,734)	-	(22,335,734)
Total comprehensive profit/(loss) for the period		3,519,335	(3,519,335)	(22,335,734)	90,606,590	68,270,856
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		126,093,410	-	-	-	126,093,410
Equity issued on acquisition of Angioblast Systems Inc.		235,361,526	33,091,753	-	-	268,453,279
	17	361,454,936	33,091,753	-	-	394,546,689
Share options (at fair market value) issued on acquisition of Angioblast Systems, Inc. exercised and converted to equity		24,191,394	(24,191,394)	-	-	-
Tax effect of options deductible for tax		-	11,806,925	-	-	11,806,925
Fair value of share-based payments		-	3,300,443	-	-	3,300,443
		385,646,330	24,007,727	-	-	409,654,057
Balance at 30 June 2011		477,114,981	25,664,152	(21,915,730)	34,980,770	515,844,173

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet
as at 30 June 2011

	Note	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Assets			
Current Assets			
Cash and cash equivalents	7	263,227,585	32,049,327
Trade and other receivables	8	2,100,945	1,375,679
Prepayments		165,536	93,284
Total Current Assets		265,494,066	33,518,290
Non-Current Assets			
Property, plant and equipment	9	609,849	223,695
Deferred tax asset	10	21,820,392	-
Investments accounted for using the equity method	11	-	5,334,241
Intangible assets	12	475,326,200	438,544
Total Non-Current Assets		497,756,441	5,996,480
Total Assets		763,250,507	39,514,770
Liabilities			
Current Liabilities			
Trade and other payables	13	3,665,407	1,580,563
Deferred revenue	14	27,129,937	-
Total Current Liabilities		30,795,344	1,580,563
Non-Current Liabilities			
Deferred revenue	14	81,334,137	-
Deferred tax liability	15	127,817,393	-
Provisions	16	7,459,460	14,947
Total Non-Current Liabilities		216,610,990	14,947
Total Liabilities		247,406,334	1,595,510
Net Assets		515,844,173	37,919,260
Equity			
Issued capital	17	477,114,981	87,949,316
Reserves	18	3,748,422	5,595,764
Retained earnings/(accumulated losses)		34,980,770	(55,625,820)
Total Equity		515,844,173	37,919,260

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
for the year ended 30 June 2011

	Note	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Cash Flows from Operating Activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(22,488,270)	(9,663,162)
Commercial milestones received		130,708,000	-
Government grants and other income received		9,143	5,500
Net cash inflows/(outflows) in operating activities	19 (b)	108,228,873	(9,657,662)
Cash Flows from Investing Activities			
Interest received		2,790,056	707,689
Interest paid		(98)	-
Cash acquired on acquisition of subsidiary		3,448,299	-
Investment in fixed assets		(461,549)	(87,113)
Loan advanced to associate company		(1,061,990)	(964,024)
Net cash inflows/(outflows) in investing activities		4,714,718	(343,448)
Cash Flows from Financing Activities			
Proceeds from issue of shares		126,863,724	26,798,337
Payments for share issue costs		(770,314)	(1,261,255)
Net cash inflows by financing activities		126,093,410	25,537,082
Net increase in cash and cash equivalents		239,037,001	15,535,972
Cash and cash equivalents at beginning of year		32,049,327	16,526,278
FX losses on the translation of foreign bank accounts		(7,858,743)	(12,923)
Cash and cash equivalents at end of year	19 (a)	263,227,585	32,049,327

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
for the year ended 30 June 2011

INTRODUCTION

The financial report covers Mesoblast Limited ("Mesoblast"), a Group limited by shares whose shares are publicly traded on the Australian stock exchange. Mesoblast is incorporated and domiciled in Australia and has its registered office and principal place of business as follows:

Registered office	Principal place of business
Level 2	Level 39
517 Flinders Lane	55 Collins Street
Melbourne	Melbourne

The principal activity of the economic entity during the financial year was the commercialization of unique intellectual property associated with the isolation, culture and scale-up of adult stem cells referred to as Mesenchymal Precursor Cells ("MPC").

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001,* Australian Accounting Standards and Urgent Issue Group Interpretations, and complies with other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were authorized for issue by the Board of Directors of Mesoblast on the date shown on the Directors' Declaration attached to the Financial Statements. The directors have the power to amend and reissue the financial statements.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

Critical accounting judgments and key assumptions

In the application of the Group's accounting policies, which are described below, management is required to make judgments, estimates and assumptions concerning the future. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Income taxes

The Group is subject to income taxes in Australia and the United States of America. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group has recognized deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized. The Group expects that these losses will be able to utilized.

ii. Revenue recognition

The total upfront cash received under the development and commercialization agreement is US$130,000,000. The Group has recognized revenue in the current year for this payment of AU$14,609,186 on the basis that the revenue will be earned through-out the life of the development of those products pertaining to that payment. The development lives of those products are estimates at this stage.

iii. Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy stated in notes 1(i) and 1(n).

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Standards arising from Interpretation 19,* and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project.*

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

Early adoption of standards

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2010:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* None of the items in the financial statements had to be reinstated as the result of applying this standard.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mesoblast Limited ("Company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the period then ended. Mesoblast Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which the parent has the ability to exercise control over its subsidiary, even if it does not hold a shareholding of more than one half of the voting rights. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker(s) who make strategic decisions for the Group.

(c) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Mesoblast Limited's functional and presentation currency.

Translations and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or attributable to part of the net investment in a foreign operation.

Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non monetary assets such as equities classified as available for sale financial assets are recognized in other comprehensive income.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheets presented are translated at the closing rate at the date of that balance sheets;
- income and expenses for the statements of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to the statement of comprehensive income, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized for the major business activities as follows:

Commercialization revenue
Commercialization revenue refers to upfront and milestone payments received under development and commercialization agreements. Upfront milestone payments which are typically received upon (or near) the signing of these agreements are recognized as revenue over the development life of the agreement. Milestone payments are recognized on an accruals basis when the development milestone has been reached.

Interest revenue
Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(e) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statement of comprehensive income over the period necessary to match them on a systematic basis with the costs that they are intended to compensate.

Government grants whose primary condition is for the Group to purchase property, plant and equipment are included in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight line basis over the expected lives of the related assets.

(f) Research and development

Research and development expenditure is expensed as incurred. To the extent that future recoverability is probable and can be reliably measured, these costs are recognized as intangible assets. Intangible assets are amortized from the point at which the asset is ready for use on a straight line basis over the period in which the related benefits are expected to be realized.

The carrying value of development cost is reviewed for impairment annually when the asset is not yet in use or when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non controlling interest in the acquiree either at fair value or at the non controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

(i) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets, including goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

An impairment loss is recognized for the amount by which the assets' carrying amount exceeds its recoverable amount. 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment of goodwill cannot be subsequently reversed.

(j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term deposits with an insignificant risk of change in value.

Bank overdrafts, if applicable, are shown within borrowing in current liabilities in the balance sheet. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts (if any).

(k) Trade and other receivables

Trade receivables and other receivables represent the principal amounts due at balance date less, where applicable, any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable and there is objective evidence of impairment. Debts which are known to be uncollectible are written off in the statement of comprehensive income. All trade receivables and other receivables are recognized at the value of the amounts receivable, as they are due for settlement within 60 days and therefore do not require re-measurement.

(l) Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The statement of comprehensive income reflects the Group's share of the results of operations of the associate.

Where there has been a change recognized directly in the associate's equity, the Group recognized its share of any change and disclosed this, when applicable, in the statement of changes in equity.

The carrying amount of an investment accounted for using the equity method is assessed annually to determine whether there is any indication that the asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(m) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives using the straight line method. The expected useful lives are between two and nine years, with the majority being depreciated over four years.

Gains and losses on disposal of plant and equipment are taken into account in determining the profit for the year.

(n) Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortized. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 3).

Trademarks and licenses
Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight line method to allocate the cost of trademarks and licenses over their estimated useful lives, which are 20 years.

Intellectual property
Other intellectual property is amortized from the point at which the asset is ready for use on a straight line basis over its useful life. The useful life is typically the life of the patent.

(o) Trade and other payables

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. Liabilities for payables and other amounts are carried at cost which approximates fair value of the consideration to be paid in the future for goods and services received, whether or not billed. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Provisions

Provisions are recognized when the Group has a present obligation (legal and 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the resent value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

Provisions are recorded on acquisition of a subsidiary, to the extent they relate to a subsidiaries contingent liabilities, if the amounts can be reliably measured and it relates to a past event, regardless of whether it is probable the amount will be paid.

(q) Employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave.

Liabilities recognized in respect of employee benefits which are expected to be settled within 12 months, are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(r) Share-based payments

Share-based payments are provided to employees, directors and consultants via the Mesoblast Employee Share Option Plan.

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at grant date. Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations. It does not make any allowance for the impact of any service and non-market performance vesting conditions. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 24.

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 management's estimate of shares that will eventually vest, with a corresponding increase in equity. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(s) Contributed equity

Ordinary shares are classified as equity.

Transaction costs arising on the issue of equity instruments are recognized directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(t) Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing:

- the profit or loss attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Goods and services tax (GST)

Revenues, expenses and assets are recognized net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognized as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the statement of cash flow on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(v) Changes in accounting policies

There have been no significant changes in accounting policies during the reporting period.

(w) Comparative figures

Comparatives have been reclassified where necessary so as to be consistent with the figures presented in the current year. The current year amounts include the results for the subsidiary since acquisition date and are accordingly presented on a consolidated basis. The prior year amounts presented are for the parent company only.

(x) New and revised accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

i. AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013).

   In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact.

ii. Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

   In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures.* It is effective for accounting period beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognized in the financial statements.

iii. AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013).

   On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under the framework, a two-tier differential reporting regime applies to all entries that prepare general purpose financial statements. Mesoblast Group is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

iv. AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitize, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

v. AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

(y) Parent entity financial information

The financial information for the parent entity, Mesoblast Limited, disclosed in note 21 has been prepared on the same basis as the consolidated financial statements. In the prior year, the investment in associate was carried at cost and adjusted for the Company's share of the associate's profits or losses.

	30 June 2011 $	30 June 2010 $
2. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS		
(a) Revenue from continuing operations		
Commercialization revenue^	14,609,186	-
Interest revenue	4,648,636	739,786
	19,257,822	739,786

^ During the year, the Group signed a development and commercialization agreement with Cephalon Inc., a major global biopharmaceutical company. The Group received US$130m as a non-refundable upfront fee. This revenue is being recognized over the collaboration period in the agreement, with any unrecognized portion being recorded as deferred revenue (refer note 14).

(b) Other income		
Government grant revenue	-	5,500
Gain on revaluation of investment to fair value	86,737,561	-
Share of losses of equity accounted associates written back on acquisition	14,873,899	-
Foreign exchange gains	52,003	19,629
	101,663,463	25,129
(c) Expenses		
Included in expenses from continuing operations are the following items of expenditure:		
Employee benefits		
Salaries and employee benefits	4,644,510	2,990,232
Defined contribution superannuation expenses	123,462	106,656
Share-based payments – employees & directors	2,464,627	640,655
	7,232,599	3,737,543
Depreciation and amortization of non-current assets		
Plant and equipment depreciation	135,153	109,554
Intellectual property amortization	43,731	43,731
	178,884	153,285
Other expenses		
Intellectual property costs (excluding amortization as shown above)	840,782	389,079
Share-based payments – consultants	835,816	378,599
Finance costs	-	-
Foreign exchange losses	217,157	-

3. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments presented here are those that are internally reported on a regular basis to the board of directors, who are ultimately responsible for the allocation of resources to those segments and for making strategic decisions for the Group.

Two reportable operating segments have been identified, the orthopedic and the non-orthopedic (primarily cardiovascular) segments, both which have distinct markets for which the MPC platform technology is currently being developed.

(b) Segment information

	Orthopedic	Cardiovascular & non-orthopedic	Total
	$	$	$
Consolidated			
30 June 2011			
Revenue from external parties	-	14,609,186	14,609,186
Other income	45,530	101,617,933	101,663,463
Total segment revenue	45,530	116,227,119	116,272,649
Net profit/(loss) after tax	(8,752,238)	106,380,432	97,628,194
Net loss after tax includes the following items:			
Research and development	8,797,768	6,516,780	15,314,548
Equity accounted losses	-	1,505,345	1,505,345
Amortization of intellectual property purchased	43,731	-	43,731
Income tax Expense	-	1,634,914	1,634,914
Total segment assets	**433,240**	**496,773,090**	**497,206,330**
Total segment assets include:			
Prepayments	38,427	21,311	59,738
Deferred tax assets	-	21,820,392	21,820,392
Intangible assets	394,813	474,931,387	475,326,200
Total segment liabilities	**1,506,999**	**244,871,301**	**246,378,300**
Total segment liabilities include:			
Trade and other payables	1,457,918	1,187,600	2,645,518
Deferred revenue	-	108,464,074	108,464,074
Deferred tax liability	-	127,817,393	127,817,393
Provisions	49,081	7,402,234	7,451,315

3. SEGMENT INFORMATION CONTINUED

(b) Segment information continued

	Orthopedic	Cardiovascular & non-orthopedic	Total
	$	$	$
Parent			
30 June 2010			
Revenue from external parties	5,500	-	5,500
Total segment revenue	5,500	-	5,500
Net (loss) after tax	(6,827,114)	(4,394,047)	(11,221,161)
Net loss after tax includes the following items:			
Research and development	6,788,883	-	6,788,883
Equity accounted losses	-	4,394,047	4,394,047
Amortization of intellectual property purchased	43,731	-	43,731
Total segment assets	455,015	6,347,914	6,802,929
Total segment assets include:			
Trade and other receivables	-	1,013,673	1,013,673
Prepayments	16,471	-	16,471
Carrying value of investments accounted for using the equity method	-	5,334,241	5,334,241
Intangible assets	438,544	-	438,544
Total segment liabilities	1,133,773	-	1,133,773
Total segment liabilities include:			
Trade and other payables	1,118,826	-	1,118,826
Provisions	14,947	-	14,947

3. SEGMENT INFORMATION CONTINUED

(c) Segment reconciliations

The following table reconciles each of the segment totals to the totals reported for the Group in the statement of comprehensive income and balance sheet. These reconciling items are not considered by the Group to be an operating segment as defined in AASB 8 Operating Segments and therefore are not disclosed as such. They are administrative in nature and relate largely to the running of the Mesoblast head office.

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Total segment revenue	**116,272,649**	**5,500**
Interest revenue	4,648,636	739,786
Other Income	-	19,629
Total revenue	120,921,285	764,915
Total segment net profit/(loss) after tax	**97,628,194**	**(11,221,161)**
Interest revenue	4,648,636	739,786
Other Income	-	19,629
Administration expenses	(9,986,092)	(3,299,895)
Share-based payments	(1,641,729)	(1,019,254)
Foreign exchange losses - unallocated	(27,507)	-
Interest expense	(14,912)	-
Total net profit/(loss) after tax	90,606,590	(14,780,895)
Total segment assets	**497,206,330**	**6,802,929**
Unallocated:		
Property, plant and equipment	609,849	223,695
Interest receivable	1,953,569	153,814
Other receivables	17,740	772
GST receivable	76,539	207,420
Prepayments – administration	158,895	76,813
Cash	263,227,585	32,049,327
Total assets	763,250,507	39,514,770
Total segment liabilities	**246,378,300**	**1,133,773**
Unallocated:		
Trade payables and accruals	1,006,572	340,046
Employee entitlements	80,662	121,691
Provisions	128,146	-
Intersegment eliminations	(187,346)	-
Total liabilities	247,406,334	1,595,510

(d) Other segment information

Transactions between segments are carried out at arm's length.

	Consolidated 30 June 2011 $	Parent 30 June 2010 $
4. INCOME TAX EXPENSE		
(a) Reconciliation of income tax to prima facie tax payable		
Profit/(loss) from continuing operations before income tax	92,241,504	(14,780,895)
Tax at the Australian tax rate of 30% (2010: 30%)	27,672,451	(4,434,269)
Tax effect of amounts which are (not deductible)/taxable in calculating taxable income:		
Share-based payments expense	1,074,610	305,776
Equity accounting loss	451,604	1,318,214
R&D tax concessions	(407,823)	(262,500)
Foreign exchange adjustments on tax charge	(35,748)	3,877
Gain on revaluation of Angioblast	(26,021,268)	-
Share of losses in associate: written back	(4,462,170)	-
Other sundry items	63,798	32,024
Tax credits bought to account	(92,548)	-
Current year tax benefit	(1,757,094)	(3,036,878)
Adjustments for current tax of prior periods	(462,560)	10,091
Tax benefit not recognized	3,621,009	3,026,787
Differences in overseas tax rates	233,559	-
Income tax expense attributable to profit before income tax	1,634,914	-
(b) Income tax expense		
Current tax	1,634,914	-
Deferred tax	-	-
	1,634,914	-
(c) Amounts that would be recognized directly in equity if bought to account		
Share based payments expenses for the year	16,383	209,883
(d) Deferred tax asset not bought to account*		
Tax benefits not recognized	15,901,221	11,159,229
Share based payments	537,616	521,233
Other temporary differences	(234,833)	226,494
Tax losses	16,204,004	11,906,956

** Deferred tax assets for tax losses carried forward, share issue expenses and other temporary differences all relate to the Australian entity, and have not been brought to account at 30 June 2011 because the Directors do not consider it probable that sufficient Australian taxable income will become available against which deferred tax assets can be applied to. Any realization of the benefit of tax losses would also be subject to the Group satisfying the conditions for utilizing bought forward tax losses imposed by existing tax legislation.*

	Consolidated 30 June 2011 $	Parent 30 June 2010 $
5. REMUNERATION OF AUDITORS		
(a) PricewaterhouseCoopers		
(i) Audit and other assurance services		
Audit and review of financial reports	296,350	93,000
(ii) Taxation services		
Tax structuring advice	-	71,397
Corporate tax compliance	-	25,000
Employee long term incentive structuring advice	47,500	-
Total taxation services	47,500	96,397
Total remuneration of PricewaterhouseCoopers	343,850	189,397
6. EARNINGS PER SHARE		
Net profit/(loss) used in calculating basic earnings per share	90,606,590	(14,780,895)
Net profit/(loss) used in calculating diluted earnings per share	90,606,590	(14,780,895)
Weighted average number of ordinary shares used in calculating basic earnings per share	216,797,657	140,571,174
Dilutive potential ordinary shares	10,962,597	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	227,760,254	140,571,174
7. CASH AND CASH EQUIVALENTS		
Cash at bank	3,139,378	140,371
Deposit at call	572,245	6,507,246
Term deposits	259,515,962	25,401,710
	263,227,585	32,049,327

Refer note 27 for the Group's exposure to interest rate risk.

8. TRADE AND OTHER RECEIVABLES

Current		
Interest receivable	1,953,569	153,814
Sundry debtors	70,837	772
Goods and services tax recoverable	76,539	207,420
Receivable from Angioblast Systems, Inc. (associate)	-	138,220
Loan to Angioblast Systems, Inc. (associate)*	-	875,453
	2,100,945	1,375,679

** Loan earns 8% interest per annum.*

All trade and other receivable balances are within their due dates and none are considered to be impaired at both 30 June 2011 and 30 June 2010. See note 27 for the impact of credit risk on the Group.

9. PROPERTY, PLANT AND EQUIPMENT

	Total^ $
At 1 July 2009 *parent*	
Cost or fair value	422,263
Accumulated depreciation	(176,126)
Net book value	246,137
Year Ended 30 June 2010 *parent*	
Opening net book value at 1 July 2009	246,137
Additions	87,112
Depreciation charge	(109,554)
Closing net book value	223,695
At 30 June 2010 *parent*	
Cost or fair value	494,855
Accumulated depreciation	(271,160)
Net book value	223,695
Year Ended 30 June 2011 *consolidated*	
Opening net book amount	223,695
Exchange differences	(2,643)
Acquired in acquisition of subsidiary	63,909
Additions	460,041
Depreciation charge	(135,153)
Closing net book value	609,849
At 30 June 2011 *consolidated*	
Cost or fair value	977,982
Accumulated depreciation	(368,133)
Net book value	609,849

^ *Fixed assets are primarily Office Equipment*

10. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:	*Consolidated* 30 June 2011 $	*Parent* 30 June 2010 $
Tax losses	9,621,768	-
Tax deductions available for share option expenses	12,198,624	-
Total deferred tax assets	21,820,392	-
Set-off of deferred tax liabilities pursuant to set-off provisions	-	-
Net deferred tax assets	21,820,392	-
Deferred tax assets expected to be recovered within 12 months	21,820,392	-
Deferred tax assets expected to be recovered after more than 12 months	-	-
	21,820,392	-

Movements	Share option tax deductions $	Net operating losses and tax credits $	Total $
At 30 June 2010	**-**	**-**	**-**
Tax losses acquired on acquisition of subsidiary	-	12,363,353	12,363,353
Tax deductions available for share option expenses^	12,198,624	-	12,198,624
Foreign exchange difference on losses acquired	-	(719,542)	(719,542)
Current year taxable profits – release tax losses	-	(2,130,066)	(2,130,066)
Current year tax credits	-	108,023	108,023
At 30 June 2011	12,198,624	9,621,768	21,820,392

^ *Of this balance, $11,806,925 has been recognized directly in equity reserves. This represents the additional tax deduction allowed on the value of certain U.S. options when they are exercised, over and above the tax deduction relating to amount already expensed for accounting purposes.*

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Country of Incorporation	Principal Activity
Angioblast Systems, Inc.	USA	Adult stem cell research and development for cardiovascular and other non-orthopedic indications

		Ownership Interest	
		Consolidated	*Parent*
(a) Carrying amount		30 June 2011 %	30 June 2010 %
Angioblast Systems, Inc.	Undiluted	100	38.4
	Fully diluted	100	32.3

	Consolidated 30 June 2011 $	*Parent* 30 June 2010 $
Investment in Angioblast Systems, Inc.	-	18,282,791
Share of equity accounted losses	-	(13,368,554)
Foreign exchange difference on translation	-	420,004
	-	5,334,241

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD CONTINUED

(b) Movement in carrying amount

Carrying amount at the beginning of year	5,334,241	9,326,428
Share of losses	(1,505,345)	(4,394,047)
Exchange difference on translation of share of losses	1,704,870	401,860
Carry amount prior to acquisition of associate	5,533,766	5,334,241
Foreign exchange balance written back on acquisition	(2,124,874)	-
Share of losses balance written back on acquisition	14,873,899	-
Investment in Angioblast Systems, Inc. written back on acquisition	(18,282,791)	-
Carrying amount at the end of year	-	5,334,241

The following information has been extracted from the audited report of Angioblast Systems, Inc. and translated at the exchange rate prevailing at year end, with the exception of the Group's share of net loss which has been determined using exchange rates prevailing through-out the year:

	Consolidated	*Parent*
	30 June 2011	**30 June 2010**
Summarised financial information of associates:	**$**	**$**
Financial position		
Total assets	-	4,305,155
Total liabilities	-	(12,723,047)
Net assets/(liabilities)	-	(8,417,892)
Group's share of net assets/(liabilities)	-	(3,232,471)
Financial performance		
Income	-	554,985
Expenses	-	(11,997,815)
Groups's share of associates' loss		
Share of associates' loss before tax	(1,505,345)	(4,394,047)
Share of associates' income tax expense	-	-
Share of associates' loss	(1,505,345)	(4,394,047)

The Directors have followed the guidance of AASB136 in determining whether an investment is impaired. The Directors have made an assessment of the value of this investment in the accounts, reviewing the results to date against the original milestones and work plans and having considered current market conditions and are comfortable to continue to carry it at equity accounted cost. The value of the investment is dependent on its research and development and subsequent commercialization. The Directors are of the view that the investment in Angioblast Systems, Inc. is not impaired at balance date.

The contingent liabilities of the associate are disclosed in Note 23.

12. INTANGIBLE ASSETS

	Goodwill $	License to orthopedic patents, trademarks and other $	Intellectual property acquired $	Total $
Parent				
At 1 July 2009				
Cost	-	690,000	-	690,000
Accumulated amortization and impairment	-	(207,725)	-	(207,725)
Net book value	-	482,275	-	482,275
Year ended 30 June 2010				
Opening net book value	-	482,275	-	482,275
Amortization charge^	-	(43,731)	-	(43,731)
Closing net book value	-	438,544	-	438,544
At 30 June 2010				
Cost	-	690,000	-	690,000
Accumulated amortization and impairment	-	(251,456)	-	(251,456)
Net book value	-	438,544	-	438,544
Consolidated				
Year ended 30 June 2011				
Opening net book value	-	438,544	-	438,544
Acquired on acquisition of subsidiary company^	116,520,265	-	387,760,010	504,280,275
Exchange differences	(6,781,428)	-	(22,567,460)	(29,348,888)
Amortization charge^	-	(43,731)	-	(43,731)
Closing net book value	109,738,837	394,813	365,192,550	475,326,200
At 30 June 2011				
Cost	109,738,837	690,000	365,192,550	475,621,387
Accumulated amortization and impairment	-	(295,187)	-	(295,187)
Net book amount	109,738,837	394,813	365,192,550	475,326,200

^ *Intellectual property acquired is the clinical development program of Angioblast and the patents granted which underpin these programs. The key patents granted are for worldwide exclusivity of the development and commercialization of mesenchymal precursor cells (MPC's) for use in the repair and regeneration of non-orthopedic indications.*

^^ *Intellectual property amortisation expenses are included in research and development expense in the consolidated statement of comprehensive income.*

	Consolidated 30 June 2011 $	Parent 30 June 2010 $
13. TRADE AND OTHER PAYABLES		
Current		
Trade payables	3,038,030	1,071,532
Employee benefits	627,377	141,469
Payable to Angioblast Systems, Inc. (associate)	-	367,562
	3,665,407	1,580,563

(a) Risk Exposure

Information about the Group's exposure to foreign exchange risk with respect to trade and other payables is provided in Note 27.

14. DEFERRED REVENUE

Opening balance	-	-
Commercialization revenue received during the year (note 2)	130,708,000	-
Amount recognized as revenue in the year	(14,609,186)	-
Foreign exchange difference	(7,634,740)	-
Balance at the end of the year	108,464,074	-
Amount expected to be recognized as revenue:		
• in the next twelve months (current deferred revenue)	27,129,937	-
• beyond twelve months (non-current deferred revenue)	81,334,137	-
	108,464,074	-

15. DEFERRED TAX LIABILITIES

(a) Deferred tax liabilities

The balance comprises temporary differences attributable to:		
Intangible assets	127,817,393	-
Total deferred tax liabilities	127,817,393	-
Deferred tax liabilities expected to be settled within 12 months	-	-
Deferred tax liabilities expected to be settled after 12 months	127,817,393	-

(b) Movements	Intellectual Property $	Total $
At 30 June 2010	-	-
Acquired on acquisition of subsidiary	135,716,003	135,716,003
Foreign exchange difference	(7,898,610)	(7,898,610)
At 30 June 2011	**127,817,393**	**127,817,393**

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
16. PROVISIONS		
Provision for long service leave	57,227	14,947
Provisions other[(b)]	7,402,233	-
	7,459,460	14,947

(a) Movements

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Total $
Carrying amount at start of year – 1 July 2010	-
Provisions other[(b)]	7,859,662
Foreign exchange difference	(457,429)
Carrying amount at end of year – 30 June 2011	**7,402,233**

(b) Other provisions

During the ordinary course of business the Group occasionally has disputes with suppliers. This provision allows for those disputes in the event the disputed amounts may become due and payable. Further disclosure is considered to be prejudicial to the Group.

17. ISSUED CAPITAL

	2011 Shares	2010 Shares	2011 $	2010 $
(a) Share capital				
Ordinary shares	280,345,258	154,880,556	477,114,981	87,949,316

17. ISSUED CAPITAL CONTINUED

(b) Movements in ordinary share capital

Date	Details	Shares No.	Issue price	$
1 July 2009	Opening balance	136,174,869		62,460,236
Quarter 3 2009	Exercise of share options	2,093,332	$0.55	1,151,333
Quarter 4 2009	Exercise of share options	1,826,668	$0.55	1,004,667
Quarter 4 2009	Exercise of share options	216,000	$0.65	140,400
Quarter 4 2009	Exercise of share options	30,000	$1.00	30,000
Quarter 1 2010	Exercise of share options	60,000	$1.00	60,000
Quarter 1 2010	Exercise of share options	150,000	$1.20	180,000
Quarter 2 2010	Share issue for Capital Raising	14,020,353	$1.70	23,834,601
Quarter 2 2010	Exercise of share options	109,334	$1.00	109,334
Quarter 2 2010	Exercise of share options	200,000	$1.20	240,000
		18,705,687		26,750,335
	Transaction costs arising on share issues			(1,261,255)
	Movement for the year			25,489,080
30 June 2010	**Closing balance**	**154,880,556**		**87,949,316**
Quarter 3&4 2010	Share issue to institutions and sophisticated investors	7,061,000	$1.70	12,003,700
Quarter 3&4 2010	Exercise of share options	316,000	$1.00	316,000
Quarter 4 2010	Shares issued on acquisition of Angioblast Systems, Inc.	81,722,752	$2.88	235,361,526
Quarter 4 2010	Exercise of share options	9,091,198	$0.33	3,018,746
Quarter 4 2010	Exercise of share options	100,000	$1.20	120,000
Quarter 4 2010	Exercise of share options	90,000	$1.58	142,200
Quarter 4 2010	Exercise of share options	15,000	$1.96	29,400
Quarter 4 2010	Exercise of share options	820,000	$2.13	1,746,600
Quarter 1 2011	Shares issued to Cephalon International^	24,702,056	$4.35	107,453,944
Quarter 1 2011	Exercise of share options	160,000	$0.96	153,600
Quarter 1 2011	Exercise of share options	280,000	$1.00	280,000
Quarter 1 2011	Exercise of share options	180,000	$1.58	284,400
Quarter 1 2011	Exercise of share options	15,000	$2.00	30,000
Quarter 1 2011	Exercise of share options	100,000	$2.13	213,000
Quarter 2 2011	Exercise of share options	67,740	US$0.44	28,155
Quarter 2 2011	Exercise of share options	127,956	US$0.47	56,779
Quarter 2 2011	Exercise of share options	176,000	$1.00	176,000
Quarter 2 2011	Exercise of share options	100,000	$1.20	120,000
Quarter 2 2011	Exercise of share options	60,000	$1.58	94,800
Quarter 2 2011	Exercise of share options	280,000	$2.13	596,400
	Transaction costs arising on share issues			(770,314)
		125,464,702		361,454,936
	Share options reserve transferred to equity on exercise of options			27,710,729
	Movement for the year			389,165,665
30 June 2011	Closing balance	280,345,258		477,114,981

^ *Shares were issued to Cephalon (as approved by shareholders at the Extraordinary General Meeting held 9th February 2011) at $4.35 per share, contributing $107.5m to the Group. This resulted in Cephalon owning 19.9% of the Group. This equity investment was additional to the revenue received as described in note 2.*

17. ISSUED CAPITAL CONTINUED

(c) Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the Group in equal proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares have no par value and the Company does not have a limited amount of authorized capital.

(d) Employee share options

Information relating the Group's employee share option plan, including details of shares issued under the scheme, is set out in note 24.

(e) Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. Refer to note 19(a) for the cash reserves of the Group as at the end of the financial reporting period.

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
18. RESERVES		
(a) Reserves		
Share-based payments reserve	25,664,152	5,175,760
Foreign currency translation reserve	(21,915,730)	420,004
	3,748,422	5,595,764
(b) Reconciliation of reserves		
Share-based payments reserve		
Balance 1 July	5,175,760	4,156,507
Transfer to ordinary shares on exercise of options	(3,519,335)	-
Share option expense for the year	3,300,443	1,019,253
Tax effect of options deductible for tax	11,806,925	-
Fair value of options issued on acquisition of subsidiary	33,091,753	-
Shares exercised and sold on acquisition of subsidiary	(24,191,394)	-
Balance 30 June	25,664,152	5,175,760
Foreign currency translation reserve		
Balance 1 July	420,004	18,144
Currency gain on translation of share of losses from foreign associate	1,704,870	401,860
Write back of foreign currency reserve upon acquisition of Angioblast (an associate prior to acquisition)	(2,124,874)	-
Currency loss on translation of foreign operations net assets	(21,735,999)	-
Currency loss on translation of foreign operations profits and losses for the year	(179,731)	-
Balance 30 June	(21,915,730)	420,004

18. RESERVES CONTINUED

(c) Nature and purpose of reserves

Share-based payment reserve
The share-based payments reserve is used to recognize the fair value of options issued but not exercised.

Foreign currency translation reserve
Exchange differences arising on translation of a foreign controlled entity are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
19. CASH FLOW INFORMATION		
(a) Reconciliation of cash and cash equivalents		
Cash at bank	3,139,378	140,371
Deposit at call	572,245	6,507,246
Term deposits	259,515,962	25,401,710
	263,227,585	32,049,327
(b) Reconciliation of net cash flows used in Operations with loss after income tax		
Profit/(loss) for the year	90,606,590	(14,780,895)
Add/(deduct) profit and loss items as follows:		
Depreciation and amortization	178,884	153,285
Interest received (investing activity)	(4,648,636)	(739,786)
Interest paid (investing activity)	14,912	-
Foreign exchange losses on bank translation	207,999	12,923
Equity settled share-based payment	3,300,443	1,019,254
Equity accounted losses (Angioblast)	1,505,345	4,394,047
Income tax expense	1,634,914	-
Gain on revaluation of Angioblast	(86,737,561)	-
Writeback of share of losses of equity accounted associates on acquisition	(14,873,899)	-
Change in operating assets & liabilities:		
(Increase)/decrease in trade and other receivables	137,349	(122,094)
Increase/(decrease) in trade creditors and accruals	803,719	405,604
Increase/(decrease) in accrued income	116,098,814	-
Net cash inflows/(outflows) used in operations	**108,228,873**	**(9,657,662)**

20. BUSINESS COMBINATION

During the reporting year ending on 30 June 2011, Mesoblast Limited acquired the remaining 67.7% of the issued securities of Angioblast Systems, Inc., a researcher and developer of the Mesenchymal Precursor Cell (MPC) platform technology for use in non-orthopedic applications, for a consideration of AU$268,453,278.

In accordance with AASB 3 (Revised): *Business Combinations* and the Group's policy on principals of consolidation (note 1), Mesoblast Limited has accounted for this business combination from the date on which it had the ability to exercise its control over the operations and financial policies of Angioblast. This date is considered to be 12 November 2010. Prior to this the 32.3% ownership was equity accounted (refer to note 11) and recorded as an associate in the results of the Group. A provisional assessment of the fair value of the deferred tax asset has been made at 30 June 2011. This amount will be subject to a further assessment upon the finalisation of tax returns for Angioblast which will determine the exact amount of carry-forward losses which can be used to offset future taxation payable.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Preliminary Fair value $
Purchase consideration	
Securities allotment (94,590,000 shares and options)	268,453,278
Fair value of previously held investment	105,020,352
Total purchase consideration	373,473,630
The assets and liabilities recognized as a result of the business combination at fair value are as follows:	
Cash and cash equivalents	3,448,299
Prepayments and other receivables	337,321
Property, plant and equipment	63,909
Intangible assets: intellectual property	387,760,010
Payables & provisions	(11,303,524)
Deferred tax assets	12,363,353
Deferred tax liabilities	(135,716,003)
	256,953,365
Add: Goodwill	116,520,265
	373,473,630

The goodwill is attributable to commercialization, manufacturing and operational synergies as a result of owning 100% of the platform technology. No amount of goodwi commercialization ll is expected to be deducted for tax purposes.

(i) Acquisition-related costs
Directly attributable acquisition-related costs of approximately $500,000 are included in management and administration expenses in the statement of comprehensive income, and are included in the non-orthopedic operating segment.

(ii) Revenue and profit contribution
Angioblast contributed revenues of $14,708,512 and net profits after tax of $3,226,997 to the Group for the period from 12 November 2010 to 30 June 2011. If the business combination had occurred on 1 July 2010, consolidated revenue from continuing operations and consolidated profits after tax for the year ended 30 June 2011 would have been $19,264,424 and $86,233,408 respectively.

(iii) Business combinations achieved in stages
In accordance with AASB 3 (Revised): Business Combinations, the Group has remeasured its previously held equity interest (32.3% fully diluted) in Angioblast Systems, Inc. at fair value. This revaluation has resulted in a gain on revaluation of $86,737,561 which has been recognized in "other income", in the Consolidated Statement of Comprehensive Income. In addition, the Group wrote back to other income $14,873,899 of equity accounted losses. The total amount recognized in other income totalled $101,611,460.

	Parent 30 June 2011 $	Parent 30 June 2010 $
21. PARENT ENTITY FINANCIAL INFORMATION		
Balance Sheet		
Current assets	263,888,512	33,518,290
Total assets	638,210,255	39,514,770
Current liabilities	115,457,531	1,580,563
Total liabilities	115,514,758	1,595,510
Shareholders' equity		
Issued capital	477,114,981	87,949,316
Reserves		
Share options reserve	13,826,743	5,175,760
Foreign currency translation reserve	-	420,004
Accumulated profit/(loss)	31,753,773	(55,625,820)
	522,695,497	37,919,260
Statement of Comprehensive Income		
Profit/(loss) for the period	87,379,593	(14,780,895)
Total comprehensive income/(loss) for the period	86,959,589	(14,379,035)

22. COMMITMENTS FOR EXPENDITURE

The Group does not consider it has any commitments for future expenditure outstanding as at 30 June 2011 (2010: nil).

23. CONTINGENT ASSETS AND LIABILITIES

(a) Contingent assets

The Group does not consider it has any contingent assets outstanding as at 30 June 2011 (2010: nil).

(b) Contingent liabilities

Mesoblast will be required to make a milestone payment to Medvet of US$250,000 on completion of Phase III (human) clinical trials and US$350,000 on FDA marketing approval. Mesoblast will pay Medvet a commercial arm's length royalty based on net sales by Mesoblast of licensed products each quarter.

(c) Contingent liabilities of Angioblast in relation to Medvet

Angioblast has agreed to pay consideration for certain intellectual property assets assigned to it by Medvet on the basis of future milestones being reached. These milestones will not be reached as part of the current development program which envisages funding through to IND approvals. They represent payments on successful completion of subsequent clinical milestones. If all milestones were to be reached these payments total US$1,500,000. In addition royalties at 2.5% of net sales with stipulated minimum annual royalties scaling up from US$100,000 to US$500,000 over 5 years exist.

24. SHARE-BASED PAYMENTS

The Group has adopted an Employee Share Option Plan to foster an ownership culture within the Group and to motivate directors, senior management and consultants to achieve performance targets of the Group and/or their respective business units. Selected directors, employees and consultants of the Group may be eligible to participate in the Plan at the absolute discretion of the Group's board of directors. Except as outlined in the remuneration report no options or shares will be issued under this Plan to any directors without the prior approval of the Mesoblast shareholders.

The aggregate number of options which may be issued pursuant to the Plan must not exceed 10,000,000 with respect to US incentive stock options, and with respect to Australian residents, that limit imposed under ASIC Class Order [CO 03/184].

In accordance with the Group's current policy, options are issued in three equal tranches, each tranche having an expiry date of five years following grant date. The first tranche typically vests 12 months after grant date, the second tranche 24 months after grant date, and the third tranche 36 months after grant date.

The exercise price is determined by reference to Company policy which is generally the volume weighted market price of a share sold on the ASX on the 5 trading days immediately before the grant date plus a premium determined by the Board (typically 10%).

(a) Reconciliation of outstanding share options

	2011		2010	
Share options over ordinary shares	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of financial year	6,963,000	1.54	9,872,000	1.09
Granted during the year	3,201,300	3.34	2,070,000	1.62
Granted upon acquisition of Angioblast	12,867,190	0.49	-	-
Exercised during the year	(2,692,000)	1.60	(4,685,334)	0.62
Exercised upon acquisition of Angioblast	(9,286,893)	0.33	-	-
Expired or forfeited during the year	(90,000)	1.00	(293,666)	1.81
Balance at end of financial year	**10,962,597**	**1.92**	**6,963,000**	**1.54**
Unvested at end of financial year	5,322,300	2.55	4,574,000	1.46
Exercisable at end of financial year	5,640,297	1.17	2,389,000	1.69
	10,962,597		**6,963,000**	

(b) Existing share-based payment arrangements

The share options outstanding at the end of the financial year have a weighted average remaining contractual life of 3.25 years (2010: 3.08 years) and a range of exercises prices from $0.96 to $3.48.

24. SHARE-BASED PAYMENTS CONTINUED

(i) The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Series	Grant date	Opening balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed /cancelled No. (during the year)
4(b)	23/02/06	150,000	-	(150,000)	-
4(b)	23/02/06	50,000	-	(50,000)	-
6(d)	01/01/07	15,000	-	(15,000)	-
7	27/07/07	2,130,000	-	(1,200,000)	-
8	07/07/08	2,308,000	-	(772,000)	(90,000)
9	19/01/09	240,000	-	(160,000)	-
10	30/11/09	75,000	-	-	-
10	30/11/09	75,000	-	-	-
10	30/11/09	75,000	-	-	-
10	30/11/09	75,000	-	-	-
11	30/11/09	1,680,000	-	(330,000)	-
12(a)	26/02/10	30,000	-	(15,000)	-
12(b)	26/02/10	30,000	-	-	-
12(c)	26/02/10	30,000	-	-	-
13	22/09/10	-	175,000	-	-
13	22/09/10	-	175,000	-	-
13	22/09/10	-	175,000	-	-
14	29/11/10	-	435,800	-	-
14	29/11/10	-	435,800	-	-
14	29/11/10	-	435,800	-	-
14	29/11/10	-	1,368,900	-	-
AGB	07/12/10	-	159,946	(124)	-
AGB	07/12/10	-	1,055,644	(767,741)	-
AGB	07/12/10	-	767,741	(767,741)	-
AGB	07/12/10	-	383,868	(255,912)	-
AGB	07/12/10	-	1,880,258	(1,445,393)	-
AGB	07/12/10	-	127,956	(127,956)	-
AGB	07/12/10	-	639,783	(383,870)	-
AGB	07/12/10	-	2,285,431	(1,535,478)	-
AGB	07/12/10	-	2,751,069	(2,403,221)	-
AGB	07/12/10	-	127,956	-	-
AGB	07/12/10	-	543,814	(543,814)	-
AGB	07/12/10	-	639,784	(639,784)	-
AGB	07/12/10	-	671,772	(415,859)	-
AGB	07/12/10	-	277,389	-	-
AGB	07/12/10	-	277,389	-	-
AGB	07/12/10	-	277,390	-	-
	30 June 2011	6,963,000	16,068,490	(11,978,893)	(90,000)
	30 June 2010	9,872,000	2,070,000	(4,685,334)	(293,666)

** Refer Note 24 (b) (ii) for vesting details.*

Closing balance	Earliest vesting date	Expiry date	Exercise price $	Fair value at grant date $
-	30/06/08	30/06/11	1.20	0.75
-	30/06/08	30/06/11	1.20	0.75
-	01/01/10	01/01/11	1.96	0.873
930,000	01/07/08	30/06/12	2.13	0.74
1,446,000	01/07/09	30/06/13	1.00	0.48
80,000	19/01/10	18/01/14	0.96	0.40
75,000	Milestones*	30/11/14	1.73	0.70
75,000	Milestones*	30/11/14	1.73	0.70
75,000	Milestones*	30/11/14	1.73	0.70
75,000	Milestones*	30/11/14	1.73	0.70
1,350,000	30/11/10	30/11/14	1.58	0.73
15,000	26/02/11	26/02/15	2.00	0.92
30,000	26/02/12	26/02/15	2.00	0.92
30,000	26/02/13	26/02/15	2.00	0.92
175,000	22/09/11	21/09/15	2.64	1.38
175,000	22/09/12	21/09/15	2.64	1.38
175,000	22/09/13	21/09/15	2.64	1.38
435,800	29/11/11	29/11/15	3.48	2.26
435,800	29/11/12	29/11/15	3.48	2.66
435,800	29/11/13	29/11/15	3.48	2.98
1,368,900	29/11/13	29/11/15	3.48	3.47
159,822	07/12/10	30/11/12	0.00	3.32
287,903	07/12/10	07/07/15	USD0.046	3.2905
-	07/12/10	07/12/14	USD0.046	3.2893
127,956	07/12/10	07/12/14	USD0.305	3.0805
434,865	07/12/10	26/10/18	USD0.305	3.1421
-	07/12/10	14/01/09	USD0.305	3.1421
255,913	07/12/10	07/12/14	USD0.340	3.0492
749,953	07/12/10	26/10/19	USD0.340	3.1356
347,848	07/12/10	25/04/17	USD0.444	3.0294
127,956	07/12/10	02/05/17	USD0.444	3.0298
-	07/12/10	07/12/14	USD0.444	2.9726
-	07/12/10	15/07/17	USD0.474	3.0160
255,913	07/12/10	07/12/14	USD0.474	2.9501
277,389	07/12/10	07/12/11	1.20	2.1956
277,389	07/12/10	07/06/12	3.44	1.0000
277,390	07/12/10	07/12/12	3.78	1.0461
10,962,597				
6,963,000				

(b) Existing share-based payment arrangements (continued)

(ii) General terms and conditions attached to each series are as follows:

4. Three equal tranches, each expiring 36 months after vesting. The vesting dates for tranches 1, 2 and 3 are 30 June 2007, 30 June 2008 and 30 June 2009 respectively, and the exercise prices are $0.65, $1.20 and $1.20 respectively. There are no performance conditions attached to these options.

6. Options granted were approved by the Remuneration Committee on 14 February 2007. Options granted were in two equal tranches, the first tranche exercisable in twelve months following grant date, and the second exercisable in 18 months following grant date. Grant dates are equal to commencement of employment/contract and the options have exercise periods of 12 months. There are no performance conditions attached to these options.

7. Options granted were approved by the Remuneration Committee on 27 July 2007. The options were granted in three equal tranches vesting on 1 July 2008, 1 July 2009 and 1 July 2010 respectively. All tranches expire on 30 June 2012.

8. Options granted were approved by the Remuneration Committee on 7 July 2008. The options were granted in three equal tranches vesting on 1 July 2009, 1 July 2010 and 1 July 2011 respectively. All tranches expire on 30 June 2013.

9. Options granted were approved by the Remuneration Committee during January 2010 as per the relevant employment contract. The options were granted in three equal tranches vesting on 19 January 2011, 19 January 2011 and 19 January 2012 respectively. All tranches expire on 18 January 2014.

10. Options granted to the Chairman were approved by shareholders at the Annual General Meeting held on 30 November 2010. The options were granted in four equal tranches vesting on the achievement of certain milestones, being the date on which:

    - Mesoblast signs a commercial partnering contract, e.g. a commercial license to one of its products [vested 9 December 2010];
    - Mesoblast receives IND clearance from the FDA for its first clinical trial for Intervertebral Disc Repair [vested 17 March 2011];
    - Mesoblast completes patient enrolment for its first clinical trial under IND for Intervertebral Disc Repair [not yet vested];
    - Mesoblast obtains a license from the Therapeutics Goods Administration (TGA) for the manufacture [vested 20 July 2010].

All four tranches expire on 30 November 2014.

11. Options granted to employees and consultants were approved by the Board of Directors on 30 November 2009. The options were granted in three equal tranches vesting on 30 November 2010, 30 November 2011 and 30 November 2012. All tranches expire on 30 November 2014.

12. Options granted were approved by the Board of Directors as per the relevant employment contract. The options were granted in three equal tranches vesting on 26 February 2011, 26 February 2012 and 26 February 2013 respectively. All tranches expire on 26 February 2015.

13. Options granted to employees and consultants were approved by the Board of Directors on 22 September 2010. The options were granted in three equal tranches vesting on 22 September 2011, 22 September 2012, and 22 September 2013. All tranches expire on 22 September 2015.

14. Options granted to employees and consultants were approved by the Board of Directors on 29 November 2010 and issued 2 March 2011. The options were granted in three equal tranches vesting on 29 November 2011, 29 November 2012 and 29 November 2013. All tranches expire on 29 November 2015.

AGB. As part of the acquisition of Angioblast, Angioblast options were converted to Mesoblast options at a conversion ratio of 63.978. The Angioblast option exercise price per option was adjusted using the same conversion ratio. All options vested on acquisition date (7 Dec 2010), and will expire according to their original expiry dates (with the exception of options held by Directors which were limited to an expiry date not exceeding four years from acquisition).

(iii) Modifications to terms and conditions

There has been no modification to terms and conditions in either the current or previous financial years.

24. SHARE-BASED PAYMENTS CONTINUED

(c) Fair values of share options

The weighted average fair value of options granted (excluding the options awarded under the Angioblast acquisition) during the year was $2.79 (2010: $0.73). The weighted average fair value of all options granted during the year was $2.96 (2010: $0.73).

The fair value of all options granted has been calculated using the Black-Scholes option pricing model. The model requires the Group share price volatility to be measured. The share price volatility has been measured with reference to the historical share prices of the Group, and with earlier options grants with reference to similar companies. An independent measurement of an appropriate share price volatility of the Company was made for options granted on 23 February 2007 and 23 November 2007 which was 55% and 54% respectively. Given the consistency of the two volatility measurements, the highest volatility rate of 55% was used in the valuations of options for 10, 11 and 12. For series 13 and 14 the Company completed its own calculation of the Company's share price volatility, the result was 63%, and 55% after adjusting for years 2008 and 2009 (global financial crisis).

The model inputs for the valuations of options approved and issued during the current and previous financial years are as follows:

Option series	Financial year of grant	Share price at grant date $	Exercise Price $	Expected share price volatility	Option life	Dividend yield	Risk-free interest rate
10	2010	1.44	1.73	55.0%	5 yrs	0%	5.16%
11	2010	1.44	1.58	55.0%	5 yrs	0%	5.16%
12	2010	1.82	2.00	55.0%	5 yrs	0%	5.10%
13	2011	2.40	2.64	55.0%	5 yrs	0%	4.62%
14	2011	5.46	3.48	55.0%	0.75 yrs	0%	4.79%
14	2011	5.46	3.48	55.0%	1.75 yrs	0%	4.92%
14	2011	5.46	3.48	55.0%	2.75 yrs	0%	5.06%
14	2011	5.46	3.48	55.0%	4.75 yrs	0%	5.24%
AGB^	2011	2.88	US0.00	55.0%	2.05 yrs	0%	5.05%
AGB^	2011	2.88	US0.05	55.0%	4 & 4.65 yrs	0%	5.19%
AGB^	2011	2.88	US0.31	55.0%	4 & 8 yrs	0%	5.19 & 5.34%
AGB^	2011	2.88	US0.34	55.0%	9 yrs	0%	5.34%
AGB^	2011	2.88	US0.44	55.0%	4, 4.65 & 6.45 yrs	0%	5.19%
AGB^	2011	2.88	US0.47	55.0%	4 & 6.65 yrs	0%	5.19%

^ *valued on date of acquisition when Angioblast options were deemed to vest into Mesoblast options.*

The closing share market price of an ordinary share of Mesoblast Limited on the Australian Stock Exchange at 30 June 2011 was $8.65 (30 June 2010: $1.85).

24. SHARE-BASED PAYMENTS CONTINUED

(d) Share options exercised during the year

Option series	Number exercised	Exercise date	Share price at exercise date
2011			
AGB	8,526,414	7 December 2010	$4.10
AGB	564,783	30 December 2010	$4.67
AGB	195,696	31 May 2011	$8.03
4(b)	100,000	15 December 2010	$4.52
4(b)	100,000	4 May 2011	$8.62
6(d)	15,000	9 December 2010	$4.87
7	100,000	1 October 2010	$2.52
7	100,000	8 December 2010	$4.11
7	100,000	9 December 2010	$4.88
7	184,919	14 December 2010	$4.67
7	15,081	15 December 2010	$4.52
7	70,000	20 December 2010	$4.53
7	250,000	24 December 2010	$4.58
7	300,000	28 March 2011	$7.95
7	80,000	20 June 2011	$8.26
8	60,000	2 September 2010	$1.88
8	160,000	8 December 2010	$4.04
8	80,000	15 December 2010	$4.52
8	16,000	20 December 2010	$4.35
8	60,000	8 February 2011	$5.58
8	160,000	23 March 2011	$7.31
8	60,000	28 March 2011	$7.95
8	100,000	27 April 2011	$8.16
8	60,000	4 May 2011	$8.71
8	16,000	20 June 2011	$8.61
9	80,000	19 January 2011	$5.65
9	80,000	2 February 2011	$5.52
11	60,000	8 December 2010	$4.11
11	30,000	16 December 2010	$4.46
11	50,000	19 January 2011	$5.65
11	80,000	23 March 2011	$7.31
11	50,000	28 March 2011	$7.95
11	60,000	27 April 2011	$8.16
12	15,000	9 March 2011	$6.64
	11,978,893		

24. SHARE-BASED PAYMENTS CONTINUED

(d) Share options exercised during the year (continued)

Option series	Number exercised	Exercise date	Share price at exercise date
2010			
1(a)	2,093,332	29 September 2009	$1.05
1(b)	1,826,668	16 December 2009	$1.37
4(a)	66,000	16 October 2009	$1.00
4(b)	150,000	23 March 2010	$2.05
4(b)	100,000	8 June 2010	$1.82
4(b)	100,000	23 June 2010	$1.82
5	150,000	23 November 2009	$1.45
8	30,000	16 October 2009	$1.02
8	60,000	28 January 2010	$2.10
8	16,000	8 April 2010	$2.07
8	13,334	13 April 2010	$2.13
8	80,000	15 June 2010	$1.86
	4,685,334		

25. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

The directors and other members of key management personnel of the Group during the current and prior years were:

		Effective Date	
Name	**Position**	**2011**	**2010**
Directors			
Brian Jamieson	Non-executive Chairman	Full Year	Full year
Byron McAllister	Non-executive Director (R)	29 November 2010	Full year
Donal O'Dwyer	Non-executive Director	Full Year	Full year
Michael Spooner	Non-executive Director	Full Year	Full year
Kevin Buchi	Non-executive Director (A)	30 December 2010	-
Silviu Itescu	Executive Director	Full Year	Full year
Other key management personnel			
Jenni Pilcher^	Chief Financial Officer	-	Full year
Roger Brown^	Vice President of Regulatory Affairs	-	Full year
Suzanne Lipe^	Vice President of Operations	-	Full year
Paul Rennie^	Special Projects Consultant	-	Full year
James Ryaby^	Vice President of Clinical Affairs and Research	-	Full year
Kevin Hollingsworth^	Company secretary	-	Full year

(A) Appointed to this position; (R) Resigned from this position

^ Key management personnel for the whole of the prior year only.

25. KEY MANAGEMENT PERSONNEL CONTINUED

(b) Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Short-term employee benefits	1,174,445	1,841,151
Post-employment benefits	34,190	69,208
Long term benefits	32,973	9,285
Share-based payments	87,057	429,677
	1,328,665	2,349,321

Further disclosures regarding key management personnel compensation are contained within the remuneration report.

(c) Key management personnel equity holdings

Options

2011	Balance at 1 July No.	Granted as compensation No.	Exercised No.	Net change other No.*	Balance at 30 June No.	Total vested 30 June No.	Vested and exercisable No.	Unvested No.
Directors								
Brian Jamieson	300,000	-	-	-	300,000	225,000	225,000	75,000
Donal O'Dwyer	-	-	(639,784)	1,439,511	799,727	799,727	799,727	-
2010								
Directors								
Brian Jamieson	-	300,000	-	-	300,000	-	-	300,000
Byron McAllister	-	-	-	-	-	-	-	-
Donal O'Dwyer	150,000	-	(150,000)	-	-	-	-	-
Michael Spooner	-	-	-	-	-	-	-	-
Silviu Itescu	-	-	-	-	-	-	-	-
Other key management personnel^								
Kevin Hollingsworth	200,000	-	-	-	200,000	134,000	134,000	66,000
Roger Brown	240,000	150,000	-	-	390,000	80,000	80,000	310,000
Suzanne Lipe	180,000	-	-	-	180,000	60,000	60,000	120,000
Jenni Pilcher	340,000	240,000	-	-	580,000	146,000	146,000	434,000
Paul Rennie	400,000	180,000	-	-	580,000	216,000	216,000	364,000
James Ryaby	240,000	-	-	-	240,000	80,000	80,000	160,000

** Options received on acquisition of Angioblast Systems, Inc*

^ Key management personnel for the whole of the prior year only.

25. KEY MANAGEMENT PERSONNEL CONTINUED

(c) Key management personnel equity holdings (continued)

Shareholdings

Fully paid ordinary shares held by directors and key management personnel or their personally related parties (as defined by AASB 124):

2011	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net change other No.	Balance at 30 June No.
Directors					
Brian Jamieson*	310,000	-	-	-	310,000
Byron McAllister *(resigned 29 Nov 2010)*	41,315	-	-	-	41,315
Donal O'Dwyer**	578,950	-	639,784	(913,734)	305,000
Michael Spooner***	1,148,255	-	-	(66,920)	1,081,335
Silviu Itescu	37,125,000	-	-	31,119,642	68,244,642
2010					
Directors					
Brian Jamieson*	310,000	-	-	-	310,000
Byron McAllister	41,315	-	-	-	41,315
Donal O'Dwyer**	428,950	-	150,000	-	578,950
Michael Spooner***	1,148,255	-	-	-	1,148,255
Silviu Itescu	37,125,000	-	-	-	37,125,000
Other key management personnel – executives					
Jenni Pilcher^	6,000	-	-	-	6,000

** Brian Jamieson's shareholding includes 275,000 (2010:275,000) shares held by related parties as defined by the accounting standard AASB124 Related Party Disclosures.*

*** Donal O'Dwyer's shareholding includes 5,000 (2010:278,950) shares held by a related party as defined by the accounting standard AASB124 Related Party Disclosures.*

**** Michael Spooner's shareholding includes 31,335 (2010:48,255) shares held related parties as defined by AASB124 Related Party Disclosures.*

^ Key management personnel for the whole of the prior year only.

26. RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is Mesoblast Limited.

(b) Associates and subsidiaries

Details of interests in associates and subsidiaries are disclosed in note 11 to the financial statements.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25 to the financial statements.

(d) Transactions with other related parties

Accounts receivable from, accounts payable to and loans from Angioblast Systems, Inc. as at the end of the financial year have been eliminated on consolidation of the Group. The amounts disclosed as associates relates to pre-acquisition transactions between Mesoblast Limited and Angioblast Systems, Inc., while Angioblast was an associate. The amounts disclosed under the heading of subsidiaries relates to post-acquisition transactions between the two companies. These transactions are fully eliminated in the Group accounts.

Both parties may pay invoices in their local currency on behalf of the other party to facilitate timely payment of suppliers. This results in a loan account between both parties which is settled monthly. The transactions being paid for are described below:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Associates		
Amounts paid on behalf of Angioblast, by Mesoblast		
50% sharing of research and SAB fees	36,112	38,343
50% sharing of cell and antibody manufacturing	39,090	37,621
Intellectual property costs	83,668	141,555
Research and development (Australia based)	-	98,474
Other	-	124,623
	158,870	440,616
Amounts paid on behalf of Mesoblast, by Angioblast		
Employees and consultants (US based)	358,665	1,040,002
Research and development (US based)	96,110	-
Intellectual property costs	5,929	-
Other (US based)	21,855	310,187
	482,559	1,350,189

	Consolidated 30 June 2011 $	Parent 30 June 2010 $
26. RELATED PARTY TRANSACTIONS CONTINUED		
(d) Transactions with other related parties continued		
Subsidiaries		
Amounts paid on behalf of Angioblast, by Mesoblast		
50% sharing of research for the platform and SAB fees	55,850	-
50% sharing of cell and antibody manufacturing	230,972	-
Intellectual property costs	216,960	-
Research and development (Australia based)	169,295	-
Other	116,563	-
	789,640	-
Amounts paid on behalf of Mesoblast, by Angioblast		
Employees and consultants (US based)	499,281	-
Research and development (US based)	199,659	-
Intellectual property costs	6,541	-
Other (US based)	72,352	-
	777,833	-

No allowance has been made for impaired receivables in relation to the above balances, nor has any expense been recognized in the year (2010: nil) in respect of any impaired receivables due from related parties. All transactions were made on normal commercial terms and conditions and at prevailing market rates.

(e) Outstanding balances arising from purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Trade receivables		
Balance due from related party	1,440,770	138,220
Trade creditors		
Balance owing to related party	US57,190	US312,577

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
26. RELATED PARTY TRANSACTIONS CONTINUED		
(f) Loans to/from related parties		
Associates		
Loan to Angioblast Systems, Inc		
Beginning of the year	US750,000	-
Loans advanced	US1,000,000	US750,000
Interest charged	US41,667	-
Amount on Acquisition	(US1,791,667)	-
End of year	-	US750,000
Subsidiaries		
Loan to Angioblast Systems, Inc		
Amount on Acquisition	US1,791,667	-
Loan repayments received	(US1,750,000)	-
Interest charged	US17,111	-
Interest received	(US58,778)	-
End of year	-	-
Subsidiaries		
Loan from Angioblast Systems, Inc		
Loans advanced	US120,063,688	-
End of year	US120,063,688	-

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognized in respect of impaired receivables due from related parties. Outstanding balances are unsecured and are repayable in cash.

(g) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

27. FINANCIAL RISK MANAGEMENT

Financial risks impacting the Group fall into three categories:

- Market risk (includes currency, interest rate and price risks)
- Credit risk
- Liquidity risk

A description of each risk, together with the risk as it relates to the Group, is presented below.

(a) Market risk

(i) Currency risk

The Group has certain clinical, regulatory and manufacturing activities in the United States of America. As a result of these activities, the Group has certain amounts owing to both external creditors and Angioblast Systems, Inc. (prior to acquisition) which are denominated in US dollars (USD). It also has a USD bank account and an intercompany loan made to Angioblast denominated in USD. All of these USD balances give rise to a currency risk, which is the risk of the exchange rate moving, in either direction, and the impact it may have on the Group's financial performance.

The Group manages the currency risk by evaluating the trend of the US dollar in comparison to the Australian dollar and making decisions whether to purchase US dollars in advance for the purposes of settling these liabilities. The Group has a USD bank account for this purpose. The Group has not entered into any forward currency contracts for the current or previous financial year.

The balances held at the end of the year that give rise to currency risk exposure are presented in the table below, together with a sensitivity analysis which assesses the impact that a change of +/-20% (2010: +/-20%) in the exchange rate as at 30 June would have had on the Group's reported net profits/(losses) and/or equity balance. The AUD:USD rate prevailing as at 30 June 2011 was 1.06 (2010: 0.8567).

	Foreign currency balance held	+20%		-20%	
		Profit/(Loss) AU$	Equity AU$	Profit/(Loss) AU$	Equity AU$
Consolidated					
30 June 2011					
Bank accounts*	USD120,120,552	(18,891,960)	-	22,670,352	-
Bank accounts	AUD419,648	(69,941)		94,252	
Trade and other receivables	USD20,329	(3,197)	-	3,837	-
Trade payables & accruals	(USD409,229)	64,362	-	(77,234)	-
Trade payables & accruals	(AUD1,377,511)	243,295	-	(291,954)	-
Trade payables & accruals	(Euro4,800)	1,086	-	(1,303)	-
Trade payables & accruals	(GBP4,800)	1,209	-	(1,451)	-
Intercompany loan*	(USD120,063,688)	18,883,016	-	(22,659,620)	-
Net assets	-	(227,870)	-	263,121	-

**The USD bank account relates to monies owned by the US subsidiary, which have been lent to Corporate to centrally manage the investment, therefore the FX exposure is mitigated through the intercompany loan balance.*

27. FINANCIAL RISK MANAGEMENT CONTINUED

(a) Market risk continued

	Foreign currency balance held	+20%		-20%	
	US$	Profit/(Loss) AU$	Equity AU$	Profit/(Loss) AU$	Equity AU$
Parent					
30 June 2010					
Bank accounts	47,439	(9,229)	-	13,843	-
Amount due from Angioblast Systems, Inc.	868,413	(168,945)		253,418	
Trade payables	(131,769)	25,635	-	(38,452)	-
Amounts owing to Angioblast Systems, Inc.	(314,891)	61,260	-	(91,890)	-
	469,192	(91,279)	-	136,919	-

**The USD bank account relates to monies owned by the US subsidiary, which have been lent to Corporate to centrally manage the investment, therefore the FX exposure is mitigated through the intercompany loan balance.*

(ii) Interest rate risk

The Group has exposure to interest rate movements from the interest income it earns on its term deposits and deposits at call. The interest income derived from these balances can fluctuate due to interest rate changes. This interest rate risk is managed by spreading our deposits across various maturity periods and by keeping deposits subject to floating interest rates at a level where they can be used for managing the cash flows of the Group. The balances held which derive interest revenue are described in the table below, together with the maximum and minimum interest rates being earned at 30 June 2011. The effect on profit is shown if interest rates change by 10%, in either direction, is as follows:

	2011			2010		
AUD	**Low**	**High**	**AU$**	**Low**	**High**	**AU$**
Funds invested at 30 June	5.90%	6.20%	146,164,610	4.40%	6.11%	31,901,429
Interest rate increase by 10%	6.49%	6.82%	887,918	4.84%	6.72%	28,599
Interest rate decrease by 10%	5.31%	5.58%	(887,918)	3.96%	5.50%	(28,599)
USD	**Low**	**High**	**US$**	**Low**	**High**	**US$**
Funds invested at 30 June	0.10%	0.66%	120,120,120	-	-	-
Interest rate increase by 10%	0.11%	0.73%	36,436	-	-	-
Interest rate decrease by 10%	0.09%	0.59%	(36,436)	-	-	-

(iii) Price risk

Price risk is the risk that future cashflows derived from financial instruments will be altered as a result of a market price movement, other than foreign currency rates and interest rates. The Group does not consider it has any exposure to price risk other than those already described above.

27. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause financial loss to the other party. As the Group is non-revenue generating it generally does not have trade receivables. Its receivables are typically due from the government in the form of GST and government grants, and from its related party prior to it being acquired. The credit risk to the Group is detailed below:

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
Cash and cash equivalents		
Cash and cash equivalents (note 7) – minimum A rated	263,227,585	32,049,327
Trade receivables		
Receivable from Australian Government (GST)	76,539	207,420
Receivable from minimum A rated bank deposits (interest)	1,953,569	153,814
Receivable from related party (Angioblast)	-	1,013,673
Receivable from other parties (non-rated)	70,837	772

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to pay its debts as and when they fall due. The Group has had no borrowings to date and the directors ensure that cash on hand is sufficient to meet the commitments of the Group at all times while it is in a loss making phase of research and development. The going concern basis of preparation of these financial statements is further described in note 1.

All financial liabilities held by the Group at 30 June 2011 and 30 June 2010 are non-interest bearing and mature within 6 months. The total contractual cash flows associated with these liabilities equate to the carrying amount disclosed within the financial statements.

28. SUBSEQUENT EVENTS

There are no events that have arisen after 30 June 2011 and prior to the signing of this financial report that would likely have a material impact on the financial results presented.

Directors' Declaration

In accordance with a resolution of directors of Mesoblast Limited,

In the directors' opinion:

(a) the financial statements and notes set out on pages 38 to 85 are in accordance with the *Corporations Act 2001,* including:

  (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) Giving a true and fair view of the entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and

(b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, and

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

Mr Brian Jamieson
Director

31 August 2011, Melbourne

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Independent auditor's report to the members of Mesoblast Limited

Report on the financial report

We have audited the accompanying financial report of Mesoblast Limited (the company), which comprises the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Mesoblast Limited (the consolidated entity). The consolidated entity comprises the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Independent auditor's report to the members of Mesoblast Limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Mesoblast Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 25 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Mesoblast Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Anton Linschoten
Partner

31 August 2011

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder Information

A. SUBSTANTIAL SHAREHOLDERS

The Company's Holders of Relevant Interests as notified by ASX Substantial Shareholders and the number of shares in which they have an interest as disclosed by notices received under Part 6.7 of the Corporation Act 2001 as at 29 September 2011 are:

Shareholder	Number of ordinary shares held
Professor Silviu Itescu*	68,244,642
Cephalon Inc.	55,785,806
M & G Investment Group	28,156,967
Thorney Holdings Pty Ltd	17,342,093

** includes shares held by related parties.*

B. NUMBER OF HOLDERS OF EQUITY SECURITIES AND VOTING RIGHTS

	Ordinary shares (i)	Share options (ii)
Number of holders	5,275	-

The voting rights attaching to each class of equity securities are:

(i) Ordinary shares

On a show of hands, every member present at a meeting, in person or by proxy, shall have one vote and upon a poll each share shall have one vote.

(ii) Share options

No voting rights.

C. DISTRIBUTION OF EQUITY SECURITIES

Distribution of holders of equity securities as at 29 September 2011

No. of holders	Ordinary shares	Share options
1 – 1,000	2,040	-
1,001 – 5,000	2,049	-
5,001 – 10,000	550	-
10,001 – 100,000	567	13
100,000 and over	69	25
	5,275	38

Number of holders of less than a marketable parcel of shares	116

Shareholder Information
continued

D. TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

The names of the 20 largest shareholders of each class of equity security as at 29 September 2011 are listed below:

Rank	Investor Name	No. of shares held	% of total shares
1	Professor Silviu Itescu	67,751,838	24.15%
2	Cephalon Inc.	55,785,806	19.89%
3	HSBC Custody Nominees (Australia) Limited	44,411,573	15.83%
4	JP Morgan Nominees Australia Limited	18,465,830	6.58%
5	National Nominees Limited	16,689,581	5.95%
6	J P Morgan Nominees Australia Limited	11,177,264	3.98%
7	Dalit Pty Ltd	4,468,839	1.59%
8	J G M Investment Group Pty Ltd	3,645,031	1.30%
9	Citicorp Nominees Pty Limited	3,451,831	1.23%
10	UBS Nominees Pty Ltd	3,389,644	1.21%
11	HSBC Custody Nominees (Australia) Limited – A/C 2	2,596,216	0.93%
12	Trustees of the Columbia University in the City of New York	2,330,096	0.83%
13	Adelaide Health Services Inc	1,953,000	0.70%
14	Avister Pty Ltd	1,919,354	0.68%
15	Tigcorp Nominees Pty Ltd	1,060,000	0.38%
16	Michael Spooner	1,050,000	0.37%
17	AMP Life Limited	843,934	0.30%
18	Moolatan Pty Ltd	700,000	0.25%
19	Hazlaha Investments Limited	597,800	0.21%
20	HSBS Custody Nominees (Australia) Limited-GSCO ECA	580,199	0.21%
		242,867,836	86.58%

Mesoblast Limited ABN 68 109 431 870

Board of Directors and Company Particulars

DIRECTORS
Brian Jamieson (Chairman)
Silviu Itescu
Kevin Buchi
Donal O'Dwyer
Michael Spooner

COMPANY SECRETARY
Kevin Hollingsworth

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COUNTRY OF INCORPORATION
Australia

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STOCK EXCHANGE LISTING
Australian Stock Exchange
(ASX Code: MSB)

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PricewaterhouseCoopers
Freshwater Place
Level 19, 2 Southbank Boulevard
MELBOURNE VIC 3006

SOLICITORS
Middletons Lawyers
Level 25, Rialto Tower
525 Collins Street
MELBOURNE VIC 3000

BANKERS
National Australia Bank Ltd
221 Drummond Street
CARLTON VIC 3053

SHARE REGISTRY
Link Market Services Limited
Level 4
333 Collins Street
MELBOURNE VIC 3000

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