
mesoblast
the regenerative medicine company
Annual
Report
2015

Contents

Message from the Chairman

It is a great pleasure to present the 2015 Mesoblast Annual Report. This year's many achievements are the result of careful and prudent long-term strategic planning and our strong commitment to bring our distinctive adult stem cell assets to market.

During the 2015 financial year, your Board and management continued to focus on asset prioritization and the allocation and management of our financial resources in a well-considered and strategic manner. Good governance is an essential part of our long-term success. The varied skills of the Board and its experience drawn from the pharmaceutical industry and business community provided significant input to the Company's judicious allocation of capital, as well as guiding and monitoring performance against strategy.

The Board is pleased with the progress and the performance of the Mesoblast team. Chief Executive Silviu Itescu and his team have made a significant contribution to advancing our clinical programs and operational capabilities, as well as building our partnerships with key industry leaders. The Board continues to work cohesively and constructively to ensure the Mesoblast management team has the resources to execute on our global growth plans now and into the future.

We believe our strategy of forming effective international relationships and partnerships will enhance our opportunity for long-term success worldwide. In this regard, we are particularly pleased by the recent news that our Japanese partner, JCR Pharmaceuticals, has been formally recommended to receive approval in Japan for JR-031, an allogeneic mesenchymal stem cell-based product for acute graft versus host disease, licensed from Mesoblast. If successful, this development will represent a significant step for our business in our transition from an R&D company to a revenue-generating company with an approved stem cell product in a major healthcare market.

As our business grows, we benefit from a committed workforce located across United States, Europe, Asia and Australia, and providing the necessary expertise, insights and innovation required to remain successful in a global environment.

With growing clinical and scientific evidence and an advanced pipeline, the Board believes our business is exceptionally positioned for long-term sustainable growth, delivering both clinical and financial value.

The progress achieved in 2015 will be carried forward into the year ahead and beyond with a focus on delivering on the value and opportunity our technology holds. We look to this coming year as another year of progress as we pursue our goal of making a meaningful difference in the lives of people worldwide.

Brian Jamieson

Chairman

Chief Executive's Report

I am pleased to report on our corporate strategic direction following the 2015 financial year and, further to the Directors' Report of August 2015, provide you with an update on our considerable progress over the past year, and the outlook for the Company.

2015 Financial Year Summary

The 2015 financial year reinforced Mesoblast's position as a global leader in the development of cell-based regenerative medicine. Notably, two additional Phase 3 clinical programs were initiated – in chronic low back pain due to degenerative disc disease (CLBP), and steroid-refractory acute graft versus host disease (GVHD) in children. We now have three Tier 1 product candidates, including our heart failure therapy, in active Phase 3 recruitment. Furthermore, based on encouraging Phase 2 results in diabetic kidney disease announced during the 2015 financial year, we elevated our product candidate for inflammatory and immune-mediated conditions to Tier 1 status, reflecting our belief that it represents a major new opportunity for the Company.

Mesoblast is focusing its predominant resources on these four advanced product candidates. In addition, we continue to invest in a strong and valuable pipeline of products that will be prioritized depending on newly-generated data, market opportunity or partnering options.

Corporate Strategy

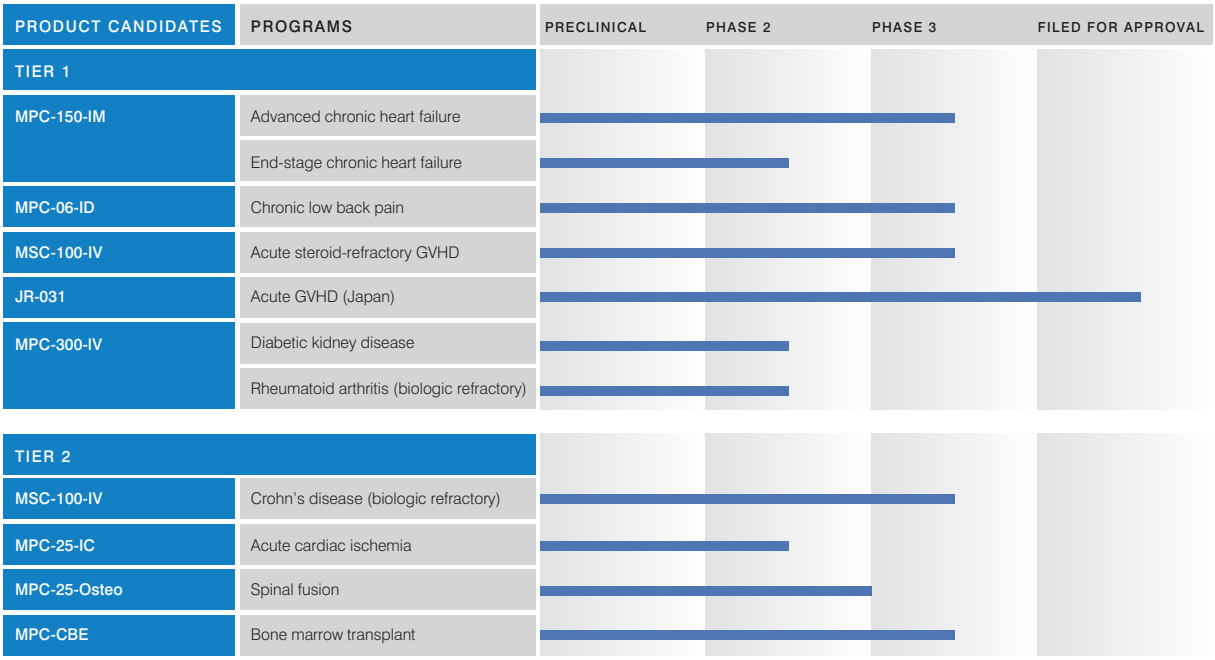
Our corporate strategy drives the business and has the following objectives:

1. Continue to innovate and optimize our disruptive technology platform for cell-based therapeutics
2. Develop a portfolio of clinically distinct products
3. Focus on bringing late-stage products to market and portfolio prioritization
4. Enable manufacturing scale-up to meet demands of the portfolio
5. Leverage talent base to continue to establish a culture of shared leadership and accountability
6. Continue to build strategic partnerships
7. Continue to invest in our substantial and robust intellectual property estate

Disruptive Technology Platform and Robust Intellectual Property Estate

Our proprietary mesenchymal lineage adult stem cell (MLC) platform allows us to develop product candidates that have the potential to significantly improve the treatment outcomes of a number of serious and debilitating conditions due to the ability of MLCs to secrete biomolecules that induce tissue repair through multiple diverse mechanisms. Regenerative medicines aim to restore affected cells and tissues, and therefore may have broad applicability in treating diseases where current standards of care are often inadequate or where no approved therapy currently exists.

The Company has a strong intellectual property position which underpins this technology platform and which we believe provides substantial competitive advantages for the commercialization of our regenerative medicine products. Our extensive patent estate encompasses more than 650 patents across 67 patent families. In the reporting period, we had 33 new patents granted including nine in the United States (US), six in Japan, five in China and 13 in other jurisdictions.



This chart is figurative and does not purport to show individual trial progress within a clinical program. For product registration purposes, Phase 3 programs may require more than one trial.

We are committed to the ongoing expansion, broadening and development of our intellectual property portfolio to protect our technologies, products and manufacturing processes across all major healthcare markets.

A Prioritized Portfolio of Clinically-Distinct and Late-Stage Product Candidates

Each of our product candidates has its own distinct characteristics, target indications, individual reimbursement strategy, separate commercialization potential, and unique partnering opportunities.

We have prioritized our portfolio into tiers based on stage of development, largest market opportunities and anticipated time to market. Tier 1 programs represent our lead programs where we focus the majority of our time and resources. Tier 2 programs are also in development and may advance to Tier 1 depending on the merit of newly generated data, market opportunity or partnering options. Additionally, we have a significant pipeline of earlier-stage programs.

The development of our Tier 1 product candidates remains the primary focus for our resources. The progress in these product candidates is summarized below.

MPC-150-IM for Chronic Heart Failure

MPC-150-IM is in development for patients with advanced chronic heart failure (CHF) in conjunction with our development and commercialization partner for this product, Teva Pharmaceutical Industries Ltd. We are pleased with the recruitment rate in multiple sites across North America, and believe MPC-150-IM will be well positioned to fill the significant treatment gap in patients with advanced CHF.

The Phase 3 CHF program for MPC-150-IM was recently streamlined following a meeting between Teva and the United States Food and Drug Administration (FDA). As a result, there is a potential to achieve early completion of the current Phase 3 trial, and an earlier filing for regulatory approval.

Pursuant to the FDA meeting, the total number of subjects to be recruited for the ongoing Phase 3 trial was reduced from approximately 1,730 to 1,165, with a time to first event analysis of heart failure-related major adverse cardiovascular events (HF-MACE) as the primary endpoint. An interim analysis will be performed in the ongoing Phase 3 trial when 50% of the HF-MACE have occurred, which will include a test for superiority allowing for the possibility of stopping of the trial early based on overwhelming efficacy. A second, confirmatory study is planned to be conducted in parallel in an identical patient population of approximately 500 subjects using recurrent HF-MACE as the primary endpoint. Significantly, the clinical data from these two studies will be supportive to each other for product approval.

The use of recurrent HF-MACE as a primary endpoint in the confirmatory study is supported by a new analysis of the completed Phase 2 trial, where patients treated with MPC-150-IM had no HF-MACE over 36 months of

follow-up, compared with 11 recurrent HF-MACE in the control group ($p<0.001$, log rank test). This analysis is due to be presented in full at an upcoming cardiovascular scientific meeting.

A Phase 2b trial of MPC-150-IM in patients with end-stage CHF requiring mechanical support, such as implantation of a left ventricular assist device, is actively recruiting in the US. This 120-patient trial is being funded by the US National Institutes of Health. Patients with end-stage CHF represent a serious unmet medical need.

MPC-06-ID for Chronic Low Back Pain due to Degenerative Disc Disease

MPC-06-ID is a Tier 1 product candidate for the treatment of CLBP, using a unit dose of 6 million mesenchymal precursor cells (MPCs) injected directly into a targeted damaged disc in an outpatient procedure. This dose is being trialled in a randomized, placebo-controlled Phase 3 program for patients with CLBP, aiming to confirm the positive outcomes seen in the Company's Phase 2 clinical trial where MPC-06-ID demonstrated the potential to provide improvement in pain and function for at least 24 months.

The Phase 3 trial for MPC-06-ID was initiated in the 2015 financial year and is currently recruiting well across North American sites. During the reporting year, we received positive feedback from discussions with the European Medicines Agency and expect to expand the program to European sites.

MSC-100-IV/JR-031 for Acute Graft Versus Host Disease

Our Japanese partner JCR Pharmaceuticals Co. Ltd. filed for approval of its mesenchymal stem cell-based product, JR-031, for acute life-threatening GVHD in children and adults in Japan in September 2014. This product was granted orphan drug priority review and on 2 September 2015, JR-031 was recommended for approval at a meeting organized by the Committee on Regenerative Medicine Products and Biological Technology of Pharmaceutical Affairs and Food Sanitation Council of the Japan Ministry of Health, Labour and Welfare. If successful, JR-031 will be the first allogeneic cell-based product and regenerative medicine fully approved in Japan. Under our agreement with JCR, Mesoblast is entitled to receive milestone payments on JR-031 product regulatory approvals, as well as royalties and other payments at pre-defined thresholds of cumulative net sales.

Through a meeting with the FDA in the 2015 financial year, we identified a pathway to accelerated US approval for our mesenchymal stem cell product candidate for steroid-refractory acute GVHD in children. An open-label Phase 3 study of approximately 60 children has been initiated in the 2015 financial year and is enrolling patients in the US, with a view to supporting a US Biologics License Application.

MPC-300-IV for Immune Mediated and Inflammatory Conditions

Our intravenously delivered product candidate MPC-300-IV has the potential to be a major new opportunity for our Company, with strong advances made during the reporting year in this emerging portfolio targeting inflammatory and immune-mediated diseases. The lead indications for MPC-300-IV are diabetic kidney disease and biologic-refractory rheumatoid arthritis.

The diverse and potent anti-inflammatory properties of MPCs are the foundation for their usefulness in immune-mediated diseases, where monocytes, macrophages and activated pro-inflammatory T cells play a very active and destructive role in disease pathogenesis through activation of multiple pro-inflammatory cytokine pathways. More specifically, MPC-300-IV was designed for intravenous delivery to treat systemic and localized conditions of excessive inflammation, whereby our MPCs can counteract inflammatory processes by downregulating the production of pro-inflammatory cytokines, increasing production of anti-inflammatory cytokines, and enabling recruitment of anti-inflammatory cells to involved tissues.

During the reporting year, positive clinical results obtained in patients with diabetic kidney disease were presented at the late-breaking scientific sessions of the 75th American Diabetes Association Annual Meeting.

The results of the Phase 2 trial in diabetic kidney disease demonstrated that a single infusion of MPC-300-IV was well tolerated and resulted in preservation or improvement in renal function over at least 24 weeks, relative to controls. In addition, the results supported an anti-inflammatory mechanism of action and identified biomarkers to be further investigated as predictors of treatment response. Clinical trial design planning is underway for a Phase 2b/3 study.

The first cohort of a 48-patient Phase 2 trial for patients with biologic-refractory rheumatoid arthritis has completed enrollment, with the second cohort actively recruiting across multiple sites in the US.

Scalable Manufacturing

Our manufacturing, translational and clinical activities are structured to meet stringent criteria set by regulatory agencies in all jurisdictions in which we operate. Our manufacturing capabilities are designed to enable us to have a robust source of readily available standardized products for clinical and commercial use.

Manufacturing scale-up is a key priority for the Company in order to meet projected commercial demands and to reduce supply costs. Substantial advances were made in the 2015 financial year in the development of consistent high yield manufacturing processes to improve efficiency and yields in large commercial-grade bioreactors. Additionally, an in-house proprietary serum-free media has been identified, and is being developed to deliver step-change yield improvements.

Our People

Our management team, through prior employment at leading drug development companies and regulatory agencies, has substantial experience in the clinical development, manufacturing, regulatory management and commercialization of biopharmaceuticals.

Strategic Partnerships

We have established strategic relationships with several industry leaders, including Teva, Lonza and JCR, to support the development and potential commercialization of our product candidates. Our collaborators provide clinical development, manufacturing and commercial capabilities as well as financial support to enhance the potential for the success of our product candidates, which mitigates our capital obligations and commercial risk.

Positive Outlook

We will continue to focus our financial and human resources over the 2016 financial year to execute on the development and commercialization of our Tier 1 product candidates in the world's largest established healthcare markets: the US, Japan and Europe.

We also intend to work closely with our existing Japanese partner, JCR, in order to ensure a successful launch of JR-031, our first licensed stem cell product in a major established market. Japan is the world's second largest healthcare market and it will continue to be a substantial focus for us, due in part to the changes in law during the 2015 financial year that established a framework for expedited approval for certain regenerative medical products.

Additionally, we intend to expand our strategic alliances in order to enhance the likelihood of successful product commercialization across our portfolio.

Silviu Itescu

Chief Executive

Corporate Governance

Mesoblast Limited and its Board of Directors are committed to implementing and achieving an effective corporate governance framework to ensure that the Company is managed effectively and in an honest and ethical way.

The Company's Corporate Governance statement for the financial year ending 30 June 2015 has been approved by the Board and is available on our website at **http://www.mesoblast.com/about-us/corporate-governance**

Directors' Report (incorporating Remuneration 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 2015. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report the following information:

Review of Operations and Activities

Principal Activities

Mesoblast, a global leader in regenerative medicine, is committed to delivering innovative cell-based therapeutics.

The Company's portfolio of therapeutic products is being developed using its proprietary technology platforms, which include specialized cells known as mesenchymal lineage adult stem cells (MLCs), to treat conditions with significant unmet medical needs including cardiac diseases, spine and musculoskeletal disorders, oncology and hematology diseases, and immune-mediated and inflammatory conditions. Five programs are in active Phase 3 clinical studies or Phase 3-ready. Additionally, Mesoblast has a strong pipeline of products for additional indications.

Publicly listed on the Australian Securities Exchange (ASX:MSB), Mesoblast also has a Level 1 American Depositary Receipt (ADR) program facility trading in the Over-The-Counter (OTC) market in the United States (USOTC:MBLTY).

Review of Operations

2015 Highlights

During the year, we made substantial progress in the development of our clinically advanced portfolio of regenerative cell-based product candidates, in line with our timelines and objectives as we move towards product commercialization. In addition, we significantly advanced our commercial manufacturing processes and made important headway in our corporate objectives.

The following table outlines 2015 achievements:

2015 Highlights	
MPC-150-IM **Chronic Heart Failure (CHF)**	• The Phase 3 trial in advanced CHF patients is recruiting well across North American sites. • Our development and commercial partner Teva Pharmaceutical Industries Ltd recently met with the USA Food and Drug Administration (FDA) and important changes to the Phase 3 program have been agreed. • The Phase 2b NIH-funded trial in end-stage CHF patients requiring LVAD support has been initiated and is actively recruiting.
MPC-06-ID **Chronic Discogenic Low Back Pain (CDLBP) Due to Degenerative Disc Disease**	• The Phase 3 program in CDLBP has been initiated and is actively recruiting across North American sites. • Positive feedback from discussions with the European Medicines Agency and Health Technology Assessment expected to result in expansion to European sites.

MSC-100-IV **Acute Graft Versus Host Disease (GVHD)**	• An open-label Phase 3 study of ~60 children has commenced and is actively recruiting in the USA. • Japanese partner, JCR Pharmaceuticals Co. Ltd., has filed for Japanese approval of its culture-expanded Mesenchymal Stem Cell (MSC)-based product, JR-031, for acute GVHD in children and adults in Japan. • A potential pathway to accelerated USA approval was clarified through the FDA.
MPC-300-IV **Diabetic Kidney Disease** **Biologic Refractory Rheumatoid Arthritis (RA)**	• MPC-300-IV has been elevated to our Tier 1 product portfolio based on clinical results in diabetic kidney disease. **Type 2 Diabetes and Kidney Disease** • A Phase 2 trial in diabetic kidney disease completed enrollment with results demonstrating preservation or improvement in renal function over at least 24 weeks. • Clinical trial design planning for a Phase 2b/3 study is underway. **Biologic Refractory RA** • The first cohort of a 48-patient Phase 2 trial in patients with biologic refractory RA has completed enrollment, with the second cohort actively recruiting across multiple sites in the United States.
Peer Reviewed Publications and Presentations	• Phase 2 CHF results were published in the American Heart Association journal, *Circulation Research*. • Phase 2 trial results in CDLBP were presented at the North American Spine Society Annual Meeting. • Results of 160 pediatric patients with steroid-refractory acute GVHD were presented at the 2015 American Society for Blood and Marrow Transplantation Meeting. • Phase 2 diabetic kidney disease trial results were presented at the 75th American Diabetes Association 2015 late-breaking scientific sessions. • Phase 2 results for glucose control in Type 2 diabetes patients were published in the American Diabetes Association journal, *Diabetes Care*. • Results of a preclinical RA study were published in the *PLOS One* journal.
Corporate	• Active discussions are being undertaken with multiple potential strategic partners. • Celgene acquired a 4.5% equity stake in Mesoblast. • Mesoblast was selected by the Japan External Trade Organization to receive assistance for a specially tailored market and incentive roadmap across all levels of government in Japan.
Manufacturing	• Substantial advances were made in the commercial scale 3D manufacturing process. • A proprietary serum-free media was developed with potential to greatly improve yields.
Intellectual Property	• 33 new patents granted including nine in the United States, six in Japan, five in China and 13 in other jurisdictions. • New Japanese patent covering the use of MPCs for the formation and repair of blood vessels in ischemic tissues. • New US patent covering the use of MPCs in the treatment of degenerated intervertebral discs.

Product Development and Commercialization

As noted in our 2014 annual report, our product candidates have been prioritized into two tiers. Tier 1 represents our high priority lead programs where the majority of resources are focused. Tier 2 programs are continually evaluated, and have the potential to advance to Tier 1 depending on newly-generated data, market opportunity or partnering options. Based on encouraging Phase 2 results in diabetic kidney disease, intravenous product candidate MPC-300-IV was elevated to Tier 1 status this year.

Tier 1 Product Candidates

MPC-150-IM – Intra-myocardial Delivery of MPCs for the Treatment of Advanced Chronic Heart Failure (CHF)

Lead Indication	Advanced CHF
Development Phase	Phase 3
Secondary Indication	End-stage CHF with Mechanical Support
Development Phase	Phase 2b
Partnering Status	Product candidate is partnered with Teva Pharmaceutical Industries (Teva)

MPC-150-IM is a Tier 1 product candidate which consists of 150 million mesenchymal precursor cells (MPCs) administered by direct cardiac injection in patients suffering from CHF and progressive loss of heart function. MPC-150-IM is being developed by Mesoblast's development and commercial partner, Teva.

Advanced CHF – Lead Indication

Disease Indication and Patient Population

CHF is a condition characterized by an enlarged heart and insufficient blood flow to the organs and extremities of the body. The condition progresses over time and can be caused by many factors that put an excess demand on the heart muscle, including high blood pressure, incompetent valves, infections of the heart muscle or valves, or congenital heart problems.

The American Heart Association reports 5.7 million adults in the United States with diagnosed CHF, or about 2% of the adult population, with 825,000 new cases diagnosed each year. CHF prevalence is expected to grow 46% by 2030, affecting more than 8 million Americans. The estimated annualized cost for CHF care in the United States is approximately USD31 billion, and is projected to grow to approximately USD70 billion by 2030.

We believe patients with advanced disease continue to represent the greatest unmet medical need despite recent advances in new therapeutic agents for heart failure.

Completed Phase 2 Trial

The primary objective of the Phase 2 study was to evaluate the safety and tolerability of three increasing doses (25, 75, or 150 million cells) of MPCs in patients with heart failure due to left ventricular systolic dysfunction of either ischemic or non-ischemic etiology. The secondary objectives were to look at efficacy via multiple parameters, and to identify an optimal effective dose and the optimal target population for MPC treatment.

Key results of the 60-patient, placebo-controlled trial were as follows.

Primary Endpoint of Safety

- Transendocardial injections of allogeneic MPCs into the hearts of patients with either ischemic or non-ischemic heart failure due to left ventricular systolic dysfunction were feasible and safe, with a similar incidence of adverse events across all control and treatment groups.
- Treatment of patients with allogeneic MPCs was not associated with any clinically significant immune response.

Secondary Efficacy Endpoints

- Patients treated with the highest dose, MPC 150M, showed the greatest improvement in left ventricular remodeling compared to controls. This was evidenced by significant reductions in Left Ventricular End Systolic Volume (LVESV), $p=0.015$, and Left Ventricular End Diastolic Volume (LVEDV), $p=0.02$, at month 6 post treatment relative to controls.
- Parallel improvements in both LVESV and LVEDV in the MPC-treated patients may have accounted for the observed non-significant changes in ejection fraction.

- Patients treated with the highest dose, MPC 150M, showed the greatest improvement in functional exercise capacity compared to controls (6 minute walk test: p=0.062) at month 12 post treatment.

Major Adverse Cardiovascular Events (MACE)

- In a post-hoc analysis after all patients had completed 36 months of follow up, treatment with MPC 150M was shown to be associated with a significantly lower incidence of heart failure-related major adverse cardiovascular events (HF-MACE) compared to the control group (0% vs 33% HF-MACE by Kaplan-Meier, p=0.026 by log-rank).
- Patients treated with MPC-150-IM had no HF-MACE over 36 months of follow-up, compared with 11 recurrent HF-MACE in the control group (p<0.001, log rank test).

Ongoing Phase 3 Trial

Teva is conducting a double-blinded, 1:1 randomized, placebo-controlled Phase 3 trial to evaluate a single dose of MPC-150-IM in advanced CHF patients across multiple sites in North America. The enrollment criteria for this trial, including a prior heart failure hospitalization within the previous 9 months and high levels of NT-proBNP, a protein used in diagnosis and screening of CHF, are expected to result in enrichment for patients with substantial left ventricular contractile abnormality, advanced heart failure and higher risk of recurrent hospitalizations and death. The ongoing Phase 3 trial continues to recruit well.

A recent meeting between Teva and the FDA was held and resulted in important changes to this Phase 3 clinical program. Key conclusions regarding the ongoing Phase 3 trial were:

- There will be a reduction in the total number of subjects to be recruited for the ongoing Phase 3 trial, whose primary endpoint is a time to first event analysis of HF-MACE, from approximately 1,730 to 1,165.
- An interim analysis will be performed in the ongoing Phase 3 trial when 50% of the HF-MACE have occurred, which will include a test for superiority allowing for the possibility of stopping of the trial early based on overwhelming efficacy.

A second, confirmatory study in an identical patient population of approximately 500 subjects is planned to be conducted in parallel using recurrent HF-MACE as the primary endpoint. The use of recurrent HF-MACE as a primary endpoint in the confirmatory study is supported by the new analysis of the completed Phase 2 trial, as shown above.

The clinical data from these two studies will be supportive to each other for product approval.

End-Stage CHF with Mechanical Support – Secondary Indication

Ongoing Phase 2b Trial

A Phase 2b trial in patients with end-stage heart failure whose circulation is supported mechanically by a left ventricular assist device, or LVAD, has commenced enrollment. This 120-patient trial is being conducted by a multi-center team of researchers within the United States National Institutes of Health (NIH)-funded Cardiothoracic Surgical Trials Network (CTSN), led by Icahn School of Medicine at Mount Sinai, New York.

The double-blind, placebo-controlled, 2:1 randomized trial, is being conducted across multiple North American sites. The primary objectives of this trial are to evaluate the safety and efficacy of injecting 150 million MPCs into the native myocardium of LVAD recipients. The primary efficacy endpoint of this study is survival over six months, and the co-primary endpoint is functional status, while temporarily weaned from LVAD support, over the six months post randomization.

MPC-06-ID – Intra-discal Injection of MPCs for the Treatment of Chronic Discogenic Low Back Pain (CDLBP)

Lead Indication	Chronic discogenic low back pain due to moderate intervertebral disc degeneration of the lumbar spine
Development Phase	Phase 3

MPC-06-ID is a Tier 1 product candidate for the treatment of CDLBP. It consists of a unit dose of 6 million MPCs injected directly into a targeted damaged disc in an outpatient procedure.

Disease Indication and Patient Population

Over four million patients in the United States alone suffer from CDLBP. After failure of conservative measures (medication, injections, physical therapy, etc.), there is no treatment that prevents progression of disc degeneration, reduces pain and improves function over a sustained period of 6 to 12 months. When disc degeneration has progressed to a point that pain

and loss of function can no longer be managed by conservative means, major invasive surgery such as spinal fusion is the only remaining option.

All therapies for progressive, severe and debilitating pain due to degenerating intervertebral discs treat the symptoms of the disease, but are not disease-modifying and thus do not address the underlying cause of the disease. Surgical intervention is not always successful in addressing the patient's pain and functional deficit. Surgeons estimate that between 50% to 70% of patients ultimately fail back surgery, with failure defined as either not achieving at least a 50% reduction of symptoms within four months or experiencing new-onset pain and spasm. Total costs of low back pain are estimated to be between USD100 billion and USD200 billion annually with two thirds attributed to patients' decreased wages and productivity.

As a result, we believe that the most significant unmet need and commercial opportunity in the treatment of CDLBP is a therapy that has the ability to reverse, halt or slow the progression of the disease.

Completed Phase 2 Trial

The study evaluated intra-discal injection of two separate doses: 6 million MPCs, which is MPC-06-ID, and 18 million MPCs with both MPC doses administered with hyaluronic acid (HA), and compared to saline (placebo control) or HA alone (vehicle control) injection.

With respect to the primary endpoint of safety, allogeneic MPC treatment, including MPC-06-ID, was well tolerated with the most frequently reported adverse event, back pain, occurring across all patient groups.

With respect to secondary efficacy endpoints, the FDA has provided guidelines on how to evaluate patient response, utilizing a composite endpoint based on achieving minimally important clinical differences (MICD) in both pain and function from baseline. Such a composite endpoint for restorative or replacement disc therapies is different than that typically used for pharmacologic agents developed solely for palliative improvement in symptoms, such as analgesics, where short term improvement in mean pain scores between groups is sufficient to support a label for short term pain reduction.

Highlights of the clinical results were:

Improvement in chronic low back pain: At both 6 and 12 months, a reduction in pain from baseline of 50% or more, without any additional intervention, was seen in 59.3% of the MPC-06-ID group, 44.8% of the 18 million MPC group, 18.8% of the saline group, and 15.8% of the HA group, as measured by visual analog scale, or VAS ($p = 0.006$ across all four groups, $p<0.05$ for 6 million MPC against each of saline and HA). At 6, 12 and 24 months, 44.4% of the MPC-06-ID group achieved a 50% reduction in back pain without intervention compared with 12.5% of saline controls and 15.8% HA controls ($p=0.05$ and 0.06,respectively).

Improvement in function: Over a 24 month period of follow-up, both MPC dose groups had a greater proportion of patients with 15 point or more improvement in function from baseline, without any additional intervention, compared to control groups, as measured by Oswestry Disability Index (ODI), at 6, 12 and 24 months (MPC-06-ID: 42.3%, 18 million 46.4%, saline 11.8%, HA 22.2%, $p=0.05$ across all four groups; 6 million MPC against saline $p<0.05$; 18 million v. saline, $p<0.05$).

Reduced need for additional surgical and non-surgical interventions: By Kaplan-Meier analysis of time to a first additional treatment intervention, treatment with either MPC-06-ID or 18 million MPC significantly reduced the need for additional interventions compared with saline treatment ($p=0.024$ and $p=0.010$, respectively).

Radiographic measurements: At 12 months, MPC-treated patients demonstrated a reduction in radiographically-determined translational movement of the disc, suggesting a treatment effect on disc degeneration, anatomy, and improved disc stability.

Composite endpoint: Based on precedent and FDA feedback from our end-of-Phase 2 meeting, we developed a composite endpoint requiring at least a 50% improvement in low back pain, 15 point improvement in ODI and no treatment intervention (surgical or injection) that we believe would be sufficient to meet FDA's requirements for product approval. Utilizing this composite endpoint in a post-hoc analysis of Phase 2 data, the MPC-06-ID group, the 18 million MPC group, the HA control and the saline control groups had 44.4%, 37.9%, 15.8% and 11.8% of subjects meet the composite endpoint criteria at both 6 and 12 months (MPC-06-ID vs. saline $p<0.05$). The MPC-06-ID group had nearly three times the proportion of patients achieving treatment success at 6, 12 and 24 months compared with saline controls (32% versus 11%).

Ongoing Phase 3 Trial

Based on an end-of-Phase 2 meeting with the FDA, the first of two Phase 3 clinical trials has commenced and is actively recruiting CDLBP patients across multiple sites in the United States. The two studies will be double-blinded, and include approximately 330 patients each.The composite primary end point of pain relief and improved function

described above (consisting of a 50% reduction in lower back pain as measured by VAS and a 15-point improvement in ODI at both 6 and 12 months, with no intervention at 12 months) will be used in the Phase 3 program.

The Phase 3 program is planned to be international in scope including sites in North America, Australia and potentially Europe.

MSC-100-IV – Intravenous Delivery of MSCs for Steroid Refractory Acute GVHD

Lead Indication	Steroid Refractory Acute GVHD
Development Phase (lead)	Phase 3
Secondary Indication	Biologic Refractory Crohn's Disease
Partnering Status	JCR Pharmaceuticals Co. Ltd. has the license to manufacture and market the culture-expanded MSC product in Japan for acute GVHD in children and adults.

MSC-100-IV is a Tier 1 product candidate comprising 100 million mesenchymal stem cells (MSCs) under investigation for the treatment of steroid refractory acute GVHD following an allogeneic bone marrow transplant (BMT). It can be delivered intravenously in single or multiple dose regimes. MSC-100-IV is designated by the FDA as an orphan drug product candidate.

Steroid Refractory Acute GVHD – Lead Indication

Disease Indication and Patient Population

In patients who have received a BMT, donor cells may provoke an immune response in the person receiving the transplant, causing acute GVHD which is often fatal.

According to the Center for International Blood and Marrow Transplant Research, there are approximately 30,000 allogeneic BMTs globally per year for diseases including hematological cancers, with 25% of all cases in the pediatric population. Nearly 50% of all allogeneic BMT patients develop acute GVHD. Liver or gastrointestinal involvement occur in up to 50% of all patients with acute GVHD and are associated with the greatest risk of death, with mortality rates of up to 85%. The cost of treating patients with steroid refractory GVHD, who represent approximately 50% of all cases, is around USD325,000 per patient.

Currently, there are no approved therapies for steroid-refractory patients with GVHD in the United States, and off-label options have demonstrated mixed efficacy with high toxicity. As such, we believe there is a significant need for effective treatment with a favorable risk/benefit profile.

Product Registration – Japan

During the 2015 financial year, our licensee, JCR Pharmaceuticals Ltd, filed for regulatory approval for its GVHD MSC-based product, JR-031, in children and adults in Japan. JR-031 was granted orphan drug priority review. If successful, it will be the first allogeneic cell-based product approved in Japan.

Ongoing Phase 3 Trial – United States

For the pediatric indication, a 60-patient open label Phase 3 trial was initiated in the 2015 financial year and is enrolling across multiple sites under an accelerated approval pathway.

During the conduct of our pediatric Phase 3 trial, we expect to have discussions with the FDA regarding the trial design for a potential Phase 3 trial to support approval of this product for adults with steroid refractory liver or gut GVHD.

MPC-300-IV – Intravenous Delivery of MPCs for Immune Mediated and Inflammatory Conditions

Lead Indication	Diabetic Kidney Disease
Development Phase	Phase 2
Secondary Indication	Rheumatoid Arthritis (biologic refractory)
Development Phase	Phase 2

MPC-300-IV is a Tier 1 product candidate consisting of up to 300 million MPCs delivered intravenously to treat systemic conditions of excessive inflammation, including diabetic kidney disease (or diabetic nephropathy) and biologic refractory rheumatoid arthritis.

Diabetic Kidney Disease – Lead Indication

Disease Indication and Patient Population

While all classes of current anti-diabetic agents are effective at improving glucose control, they are not effective in preventing or potentially reversing the renal complications in type 2 diabetes, which affect approximately 40 to 50% of people with diabetes. Diabetic kidney disease is the single leading cause of end-stage renal disease, accounting for nearly half of all end-stage renal disease cases in the United States. The prevalence of moderate to severe diabetic kidney disease in 2013 was estimated to be approximately 2.0 million.

The current standard of care of diabetic kidney disease (rennin-angiotensin system inhibition with angiotensin converting enzyme inhibitors of angiotensin II receptor blockers) only slows the rate of progression of the disease to renal failure by 16 to 25%, leaving a large residual risk for end-stage renal disease. For subjects that reach end-stage renal disease the only treatment option is renal replacement (dialysis or kidney transplantation) at high cost in the United States with medical costs of $100,000 for dialysis and $250,000 for kidney transplant. Due to a severe shortage of kidneys, in 2012 approximately 92,000 persons in the United States died while on the renal transplant list. Furthermore, for those on dialysis the mortality rate is high with an approximately 40% fatality rate within 2 years after initiation of dialysis. To the extent MPC-300-IV can be shown to be effective in this population, additional applications may be possible for the over 20 million people in the United States who are estimated to have chronic kidney disease.

Phase 2 Trial

MPC-300-IV was evaluated in a double-blind, randomized, placebo-controlled, dose escalating Phase 2 trial of 30 patients with type 2 diabetes and moderate to severe renal impairment, stage 3b-4 chronic kidney disease who were already on a stable regimen of the standard of care therapy for diabetic nephropathy (renin-angiotensin system inhibition with angiotensin converting enzyme inhibitors or angiotensin II receptor blockers). Patients received a single infusion of 150 million MPCs, 300 million MPCs, or saline control.

Key findings in the MPC-300-IV trial were that the safety profile for MPC treatment was similar to placebo, with no treatment-related infusion or other events, and that efficacy testing showed that MPC-treated subjects had improved renal function relative to placebo, as defined by preservation or improvement in glomerular filtration rate (GFR) at both 12 and 24 weeks. There was a correlation between baseline severity of interleukin-6 (IL-6) levels and improvement at 12 weeks in both serum creatinine and GFR ($r=0.57$, $p=0.008$) in MPC-treated patients. Finally, MPC treatment was associated with a dose-dependent inhibition of IL-6 increase over 12 weeks.

Key study conclusions were:

- Positive response to MPC therapy may be enhanced by the presence of viable, but at-risk, renal tissue and an aberrant pro-inflammatory milieu in the kidney.
- Baseline GFR>30 ml/min/1.73 m2 and high IL-6 levels may be biomarkers that predict efficacy with MPC treatment.
- Reduction in IL-6 levels suggests that the mechanism of action by MPCs may involve reduction of pro-inflammatory M1 monocyte cytokines in the diabetic kidney.
- MPC therapy may have applications in diverse renal conditions where inflammation plays a central role.

Rheumatoid Arthritis (biologic refractory) – Secondary Indication

MPC-300-IV is also being developed for biologic-refractory rheumatoid arthritis (RA).

Disease Indication and Patient Population

RA is a chronic progressive disease causing inflammation in the joints and resulting in painful deformity and immobility, especially in the fingers, wrists, feet, and ankles. It affects approximately 1.7 million people in the United States. The incidence increases with age, climbing from 8.7 per 100,000 for those 18-34 years of age, to 89 per 100,000 for those 65-74 years of age. RA is responsible for up to 250,000 hospitalizations and 9 million physician visits per year.

If left untreated, RA can lead to joint destruction, deformity, disability, and decreased quality of life. Existing biologic therapies have made major inroads to the treatment of RA, however, despite the variety of options available, approximately one third of patients either do not respond or cannot tolerate these therapies. Such patients are in need of effective treatment.

Ongoing Phase 2 Trial

A 48-patient Phase 2 trial to evaluate the safety, tolerability and effectiveness of a single intravenous infusion of either of two MPC dose levels for the treatment of active RA in patients who have failed at least one TNF-alpha inhibitor is being conducted in the United States. The first cohort of patients has been fully enrolled and the second cohort is actively enrolling.

Tier 2 Product Candidates

MSC-100-IV is also being developed for the treatment of biologic refractory Crohn's disease. A Phase 3 trial is ongoing.

MPC-25-IC consists of 25 million MPCs administered by intracoronary infusion into a patient during an angioplasty procedure. This product candidate is being developed in conjunction with Teva. The Phase 2 allogeneic trial for myocardial infarction is actively enrolling patients.

MPC-25-Osteo for spinal fusion is a Phase 3-ready product candidate consisting of 25 million MPCs delivered on a collagen ceramic carrier material into the disc space with stabilizing hardware.

MPC-CBE is being evaluated to expand hematopoietic precursors from cord blood for transplantation in hematological cancer patients. A Phase 3 study is actively enrolling patients across multiple sites in the United States.

Pipeline Technologies

In addition to establishing what we believe to be the most advanced regenerative medicine product portfolio in the industry, we have also strategically targeted the acquisition of rights to technologies that are complementary to and synergistic with our MLC platform. The aim of this activity is to maintain what we see as our technology leadership position in the regenerative medicine space, while simultaneously managing the life-cycle of our current lead programs and expanding our targeted disease applications in areas such as immuno-oncology.

Manufacturing Operations

Manufacturing scale-up is a major focus for Mesoblast in order to meet projected commercial demands and reduce costs for supply.

Our manufacturing strategy for our cell-based product candidates is focused on the following objectives.

- Clear product delineation by creating distinct products using discrete manufacturing processes, culture conditions, formulations, routes of administration, and/or dose regimens.
- Establishing proprietary commercial scale-up and supply to meet increasing demand.
- Implementing efficiencies and yield improvement measures.
- Maintaining regulatory compliance with best practice.
- Establishing and maintaining multiple manufacturing sites for product supply risk mitigation.

Mesoblast has developed manufacturing processes employing both two dimensional (2D) cell stack and three dimensional (3D) bioreactor technologies that we expect will enable production at commercial scale with reproducibility, batch-to-batch consistency and well-defined potency and release assays. Our manufacturing processes are designed to meet stringent criteria set by international regulatory agencies.

The main focus and progress in the last 12 months have been in the development of 3D bioreactor manufacturing processes, with greater capacity to improve efficiency and yields, and the development of a proprietary serum-free media that has the potential to greatly enhance the yields achieved in manufacturing of product candidates and to eliminate source material constraints.

Intellectual Property

Mesoblast continued to strengthen and extend the reach of its patent portfolio in the 2015 financial year increasing the number of patent or patent applications to 652 across 67 patent families, covering the major healthcare markets of the United States, Europe and Japan.

In the 2015 financial year, Mesoblast has been granted 33 new patents including nine in the United States, six in Japan, five in China and 13 in other jurisdictions. Among these new patents are:

- a new Japanese patent covering the use of MPCs for the formation and repair of blood vessels in ischemic tissues, and providing exclusive commercial rights in Japan through to at least 29 March 2024 (with potential for patent term extension);
- a new US patent covering the use of MPCs in the treatment of degenerated intervertebral discs, and providing exclusive commercial rights through to June 2029 (with potential for patent term extension).

The intellectual property portfolio includes broad coverage for our product candidates including composition of matter and manufacturing processes (138 patents or patent applications valid through to at least 2024 to 2035), specific therapeutic applications (378 patents or patent applications valid to at least 2035) and complementary technologies and additional candidates (136 patents or patent applications through to at least 2024 to 2032).

We believe our robust intellectual property delivers commercial advantages and long-term protection for our product candidates based on our proprietary technologies. Additionally this supports our corporate strategy to target large, mature and emerging healthcare markets for our exploratory therapeutic product candidates.

Corporate

During the 2015 financial year, we continued to work closely with our strategic partners to support the development and potential commercialization of our numerous product candidates.

We were pleased that Celgene Corporation, a global biopharmaceutical company engaged in the development and commercialization of innovative therapies for the treatment of cancer and immune-inflammatory related diseases, chose to make an investment in Mesoblast. Celgene acquired a 4.5 % stake, purchasing 15.3 million ordinary shares for a consideration of A$58.5 million/USD45 million.

Mesoblast was selected by the Japan External Trade Organization (JETRO) to receive assistance for a specially tailored market and government incentive roadmap aimed at providing a more attractive business environment. Japan is a major market for our cell-based therapeutics and offers near-term potential for product approvals and revenues.

Our People

Fundamental to our business execution strategy are our product-focused, multidisciplinary teams focused on bringing our diverse range of products to market as soon as possible.

Our management team is highly skilled in stem cell biology, clinical development and product commercialization. Through prior employment at leading drug development companies and regulatory agencies, our team has substantial experience in the clinical development, manufacturing, regulatory management and commercialization of biopharmaceuticals.

We are a global organization. Our clinical development center is in the United States, our manufacturing hub in conjunction with our external partner Lonza is in Singapore, and our corporate headquarters is located in Australia.

Additional detail about our people is provided in a section on ‘Our Talent’ within the Remuneration Report.

Financial Review

Loss before income tax

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Loss before income tax	119,368	80,953	38,415
Income tax expense	–	5	(5)
Loss after income tax	**119,368**	**80,958**	**38,410**

Loss after income tax was $119.4m for the year ended 30 June 2015 compared with $81.0m for the year ended 30 June 2014, an increase of $38.4m. This increase reflects the continued clinical development of our programs as they transition to late-stage development and our continued investment in resources to execute our clinical programs. Further detail is explained in the following sections.

Revenue from continuing operations

Revenues were $23.7m for the year ended 30 June 2015, compared with $26.0m for the year ended 30 June 2014, a decrease of $2.3m. The following table shows the movement within revenue for the year ended 30 June 2015 and 2014, together with the changes in those items.

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Commercialization revenue	18,199	16,410	1,789
Milestone revenue	2,284	–	2,284
Interest revenue	3,265	9,570	(6,305)
Revenue from continuing operations	**23,748**	**25,980**	**(2,232)**

The $1.8m increase in commercialization revenue from the year ended 30 June 2015 compared with 30 June 2014 is due to the effect of foreign exchange rate movement. Commercialization revenue is recorded in USD and there has been no change in the underlying USD amount recorded in the year ended 30 June 2015 when compared with the year ended 30 June 2014.

The $2.3m increase in milestone revenue has been recognized upon our partner, JCR, achieving a substantive milestone being the filing for marketing approval of MSC product JR-031 in Japan. No further performance obligations are required of the Group in relation to this revenue.

The $6.3m decrease in interest revenue from the year ended 30 June 2015 compared with 30 June 2014 is driven by a decline in cash reserves and through the Group holding a higher proportion of cash reserves in USD compared with AUD in the year ended 30 June 2015, when compared with the year ended 30 June 2014. These changes in cash reserve holdings decreased revenue as yields on USD cash deposits are lower than yields on AUD cash deposits. The Group increased the proportion of cash reserves held in USD to reduce currency risk. Currency risk is minimized by ensuring the proportion of cash reserves held in for each currency matches the expected rate of spend of each currency.

Other income

Other income was $18.8m for the year ended 30 June 2015, compared with $11.1m for the year ended 30 June 2014, an increase of $7.7m. The following table shows movements within other income for the year ended 30 June 2015 and 2014, together with the changes in those items:

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Foreign exchange gains	12,846	–	12,846
Research & development tax incentive income	5,309	8,595	(3,286)
Other revenue	523	–	523
Rental income	122	–	122
Release of excess provision for services	–	2,524	(2,524)
Other income	**18,800**	**11,119**	**7,681**

$12.8m foreign exchange gains were recognized for the year ended 30 June 2015, compared with nil for the year ended 30 June 2014. For the year ended 30 June 2015 the Group recognized a foreign exchange gain due to movements in exchange rates as the AUD depreciated against the USD during the year ended 30 June 2015. We hold certain cash and term deposit balances in USD, resulting in foreign exchange gains on the revaluation of foreign currency denominated monetary assets and liabilities. As of 30 June 2015, in addition to our AUD cash reserves we held a total of USD70.6m of our cash reserves in USD. For the year ended 30 June 2014 the net result of foreign exchange movements for the Group was a $4.2m loss and this loss was recorded in Other expenses.

Research & development tax incentive income decreased by $3.3m from $8.6m for the year ended 30 June 2014 to $5.3m for the year ended 30 June 2015. We have recognized incentive income pertaining to the eligible expenditure undertaken in each of these periods. At each period end management estimates the refundable tax offset available to us based on available information at the time. This estimate is also reviewed by external tax advisors. Of the $5.3m Research and development tax incentive recorded in other income for the year ended 30 June 2015, $0.6m relates to a change in the original estimate of the Research and development tax incentive income we estimated we would receive from the Australian Government for the year ended June 30, 2014.

Other revenue increased by $0.5m for the year ended 30 June 2015 as we recognized a one-off insurance recovery. Rental income increased by $0.1m for the year ended 30 June 2015 as we entered into a sublease agreement for a portion of the Melbourne office space in December 2014.

For the year ended 30 June 2014, other income includes a one off release of a provision of services that has been settled during the year. The settlement was $2.5m less than the recorded provision.

Expenses from continuing operations

Expenses from continuing operations were $161.9m for the year ended 30 June 2015, compared with $118.1m for the year ended 30 June 2014, an increase of $43.8m. The following table shows the movement within expenses from continuing operations for the year ended 30 June 2015 and 2014, together with the changes in those items.

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Research and development	77,593	55,305	22,288
Manufacturing commercialization	29,206	27,608	1,598
Management and administration	36,172	26,562	9,610
Finance costs	10,529	4,329	6,200
Other expenses	8,416	4,248	4,168
Expenses from continuing operations	**161,916**	**118,052**	**43,864**

Research and development expenses

Research and development expenses were $77.6m for the year ended 30 June 2015, compared with $55.3m for the year ended 30 June 2014, an increase of $22.3m. The $22.3m net increase in Research and development expenses reflects the continued clinical development of the MSC assets acquired from Osiris, the clinical advancement of our MPC programs as they transition to late-stage development, and our continued investment in resources to execute our clinical programs.

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Third party costs	38,583	22,251	16,332
Product support costs	35,711	30,078	5,633
Intellectual property support costs	3,299	2,976	323
Research and development expenses	**77,593**	**55,305**	**22,288**

Third party costs, which consist of all external expenditure on our research and development programs, have increased by $16.3m for the year ended 30 June 2015 compared with the year ended 30 June 2014.

Of this $16.3m, $14.8m of the increase in third party costs for the period relates to the advancement of our Tier 1 products, and in particular the clinical programs for CDLBP and aGVHD. Third party costs for the MPC-150-IM product for CHF are predominantly funded by our collaborators, Teva (advanced heart failure) and the NIH (end-stage heart failure

with mechanical support). Third party costs for our Tier 2 and pipeline products increased by $1.5m for the year ended 30 June 2015, compared with the year ended 30 June 2014 as the ongoing Tier 2 clinical trials and pipeline activities progressed during the period.

Product support costs, which consist primarily of salaries and related overhead expenses for personal in research and development functions, have increased by $5.6m for the year ended 30 June 2015 compared with the year ended 30 June 2014. This increase is across all programs primarily reflecting the costs of the additional resources required to run the MSC-100-IV product late-stage programs acquired in October 2013, together with increased development costs for our MPC-06-ID product for CDLBP as we progress to Phase 3 clinical development. In the year ended 30 June 2015, full time equivalents increased by 18 from 64 for the year ended 30 June 2014 to 82 for the year ended 30 June 2015.

Also included in research and development expenses are intellectual property support costs, which consist of payments to our patent attorneys to progress patent applications and all costs of renewing our granted patents, which have risen by $0.3m in the year ended 30 June 2015 compared with the year ended 30 June 2014. This increase reflects the purchase of MSC patent families from Osiris.

Manufacturing commercialization expenses

Manufacturing commercialization expenses were $29.2m for the year ended 30 June 2015, compared with $27.6m for the year ended 30 June 2014, an increase of $1.6m.

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
MSC-based manufacturing commercialization	14,249	3,615	10,634
MPC-based manufacturing commercialization	10,645	20,171	(9,526)
Manufacturing commercialization support expenses	4,312	3,822	490
Manufacturing commercialization	**29,206**	**27,608**	**1,598**

MSC-based manufacturing commercialization expenses, which consist of fees paid to our contract manufacturing organizations and laboratory supplies used in manufacturing commercialization of our MSC-based products, increased by $10.6m for the year ended 30 June 2015 compared to the year ended 30 June 2014. This increase was due to the MSC assets not being acquired until October 2013 and as a consequence expenditure on the MSC-based manufacturing commercialization expenses only commenced after this date. In the year ended 30 June 2015, expenditure was incurred on production and the manufacturing development process in anticipation of upcoming clinical and commercial production requirements.

This abovementioned increase was offset by a decrease of $9.5m on MPC-based manufacturing commercialization expenses. MPC-based manufacturing commercialization expenses consist of fees paid to our contract manufacturing organizations and laboratory supplies used in manufacturing commercialization of our MPC-based products. The decrease in these expenses was due to a reduction in clinical grade production for MPC-based products as we focused on establishing the manufacturing process for our newly acquired MSC-based products.

Manufacturing commercialization support expenses, which consist primarily of salaries and related overhead expenses for personal in manufacturing commercialization functions, increased by $0.5m for the year ended 30 June 2015 compared with the year ended 30 June 2014 as full time equivalents increased by 2 from 8 for the year ended 30 June 2014 to 10 in the year ended 30 June 2015.

Management and administration

Management and administration expenses were $36.2m for the year ended 30 June 2015, compared with $26.8m for the year ended 30 June 2014, an increase of $9.4m.

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Labour and associated expenses	17,374	13,654	3,720
Corporate overheads	11,921	8,465	3,456
Legal and professional fees	6,877	4,660	2,217
Management and administration	**36,172**	**26,779**	**9,393**

Labour and associated expenses increased as a result of increased full time equivalents during the year ended 30 June 2015. Corporate overheads also increased as a result of increased full time equivalents, rent and depreciation expenses. Full time equivalents increased by 5 from 22 for the year ended 30 June 2014 to 27 for the year ended 30 June 2015.

Legal and professional fees increased on intellectual property management and associated legal, taxation and accounting compliance advice.

Finance costs

Finance costs of $10.5m in the year ended 30 June 2015 represent the change in fair value of contingent consideration financial liabilities pertaining to the acquired MSC assets of Osiris. These costs relate to the unwinding of the risk adjusted discount as the time period shortens between the valuation date and the potential settlement date of the contingent consideration. With respect to future milestone payments, contingent consideration will be payable in cash or shares at our discretion. With respect to commercialization, product royalties will be payable in cash which will be funded from the profits generated.

Other expenses

Other expenses were $8.4m for the year ended 30 June 2015 compared with $4.3m for the year ended 30 June 2014, an increase of $4.1m.

The $8.4m expense recognized in the year ended 30 June 2015 is due to the remeasurement of contingent consideration pertaining to the acquisition of assets from Osiris. This remeasurement expense is as a result of changes to the key assumptions of the contingent consideration valuation such as market population, market penetration, product pricing and developmental timelines. The net result of changes to the key assumptions was an increase in the valuation of contingent consideration payable to Osiris on royalties from sales and on the achievement of certain pre-determined milestones as we draw closer to potential product approval.

The $4.3m expense recognized in the year ended 30 June 2014 relates to foreign exchange losses due to movements in exchange rates as the AUD appreciated against the USD during the year ended 30 June 2014.

Statement of cash flows

	30 June 2015 $'000	30 June 2014 $'000	Movement $'000
Net cash outflows in operating activities	(121,709)	(81,861)	(39,848)
Net cash outflows in investing activities	(5,612)	(40,809)	35,197
Net cash inflows in financing activities	59,413	2,430	56,983
Net decrease in cash and cash equivalents	(67,908)	(120,240)	52,332
Foreign exchange gains on the translation of foreign bank accounts	15,656	1,325	14,331
Decrease in cash and cash equivalents after foreign exchange	**(52,252)**	**(118,915)**	**66,663**

Net cash outflows in operating activities

Net cash outflows for operating activities were $121.7m for the year ended 30 June 2015, compared with $81.9m for the year ended 30 June 2014, an increase of $39.8m. Outflows increased by $21.8m due to an increase in payments to suppliers and employees for the advancement of our clinical programs and manufacturing commercialization costs for our MPC and MSC programs, as they transition to late-stage development and our continued investment in associated resources. Outflows increased by $5.7m due to payments for fair value adjustments to contingent consideration subsequent to the business combination measurement period. Inflows decreased as interest receipts reduced by $9.1m due to a decline in cash reserves and through the Group holding a higher proportion of cash reserves in USD compared with AUD in the year ended 30 June 2015, when compared with the year ended 30 June 2014. Inflows decreased as receipts for the research and development tax incentive reduced by $3.6m due to the receipts of both the FY2012 and FY2013 claims occurring in the year ended 30 June 2014, while only the FY2014 claim was received in the year ended 30 June 2015. Inflows increased by $0.4m due to receipts from other operating revenue items.

Net cash outflows in investing activities

Net cash outflows for investing activities were $5.6m for the year ended 30 June 2015, compared with $40.8m for the year ended 30 June 2014, a decrease of $35.2m. $33.1m of the decrease was due to a reduction in payments for business combinations. $2.1m decrease was due to payments for deposits on commencement of leases in the year 30 June 2014 for our New York and Melbourne offices.

Net cash inflows in financing activities

Net cash inflows for investing activities were $59.4m for the year ended 30 June 2015, compared with $2.4m for the year ended 30 June 2014, an increase of $57.0m. $57.8m of the increase relates to the placement of shares in the year ended 30 June 2015. Celgene Corporation, a global biopharmaceutical company engaged in the development and commercialization of innovative therapies for the treatment of cancer and immune-inflammatory related diseases, bought $58.5 million Mesoblast stock in a share placement agreement. This increase was offset by a $0.8m decrease in receipts from the exercise of the employee share options.

Earnings per share

	30 June 2015 Cents	30 June 2014 Cents
Basic losses per share	(37.20)	(25.34)
Diluted losses per share	(37.20)	(25.34)

Business Strategies and Prospects for Future Years

The Company is focused on five core strategic imperatives:

- Creating clinically differentiated products
- Bringing multiple, late-stage products to market
- Enabling manufacturing scale-up to meet demands
- Enhancing the likelihood of commercial success by building strategic partnerships; and
- Sustaining a culture of shared leadership and accountability.

In future years, we will continue to develop our late-stage programs through to market launch. We will continue to progress our Tier 2 and pipeline portfolios to ensure the Company's products continue to be replenished.

Business Risks

Mesoblast is deeply committed to ensuring the safety of its patients and staff, whilst it continues its development of our MPC platform technology.

The Group is currently a loss-making entity in product development phase. The long-term financial success of the Group will be measured ultimately on the basis of profitable operations. Key to becoming profitable is the successful development and commercialization of our product portfolio, establishment of efficient manufacturing operations, achieving product distribution capability, and overall, the ability to attract funding to support these activities.

The following specific risks have the potential to affect the Group's achievement of the business goals detailed above. This is not an exhaustive list. The Board and management continually review risks of the business and their potential impact.

Product risk

An inherent risk to companies operating in the biotechnology industry is the risk that products being developed are not safe and effective and therefore will not gain approval for sale from various regulatory bodies. To date, the Group has not encountered any safety concerns from the treatment of patients with our products and the Group continues to rigorously test for both safety and efficacy in its clinical trials.

Manufacturing risk

Disruption to manufacturing operations could impact the Group's ability to deliver clinical grade product required for clinical trials and, in the future, MPC and MSC products for commercial sale. The Group has mitigated this risk through increasing the balance of stock on hand and ensuring parallel production of products across approved manufacturing facilities

in various jurisdictions in addition to the enforcement of standard operating procedures and monitoring of the current manufacturing process.

There is a risk that the Group may not be able to manufacture our products in quantities sufficient for development and, if our products are approved, commercialization. To mitigate this risk, additional manufacturing processes are currently being investigated to supplement and optimize the current process.

Commercialization risk

The speed and quality of our clinical trial execution are the primary drivers of our ability to transform into a commercial stage company. In addition, the future profitability of our products depends largely upon the reasonable achievement of various business assumptions, including product price (reimbursement), size of market, availability of raw materials in the manufacturing process, and cost of goods sold.

These drivers and assumptions also underpin the carrying value of our in-process research and development on the Group's balance sheet, and are reviewed regularly when the Group tests for asset impairment. There is a risk that these assumptions prove to be materially incorrect. Mesoblast seeks to mitigate this risk by developing highly efficient manufacturing processes, eliminating scarce resources from manufacturing processes, conducting payor and market research, and engaging with regulators and reimbursement agencies.

Partnering risk

Future product sales in certain indications are dependent on maintaining existing commercial relationships. In addition, future product sales may also be dependent on the ability of the Group to attract new partners, who will in some cases, be required to help development and distribute our products. The Group has ongoing discussions with a variety of potential commercial partners and will proactively seek to broaden strategic alliances when the timing is right.

Funding risk

The Group does not currently earn revenues from product sales. Accordingly, the ability of the company to successfully bring products to market ultimately relies on having access to continued sources of funding, including from partners and investors. The Company ensures it conducts a rigorous annual budget process and has a rolling three-year funding forecast.

Key personnel risk

Execution of the Group's corporate strategy could be impacted if the Group did not retain its present CEO and certain members of staff. To mitigate this risk, the Board of Directors play an active role in directing the business of the organization. In addition, the Group has significantly expanded its human capital in the last two years. As we get nearer to commercialization the dependency on key specialists should lessen as individuals with broad industry expertise are progressively brought into the company.

Intellectual property risk

Future product sales are impacted by the extent to which there is patent protection over the products. Patent coverage risk includes the risk that competitive products do not infringe the Group's intellectual property rights, and also the risk that our products do not infringe on other parties' products. The Group constantly monitors its patent estate and the intellectual property competitive landscape, both internally and through the use of professional specialists.

Regulatory risk

The Group operates in a highly regulated industry. Pharmaceutical products are subject to strict regulations of regulatory bodies in the U.S., Europe, Asia and Australia. In addition our operations may be subject to local laws and regulations, including and not limited to taxation, environmental and anti-corruption laws. Non-compliance with laws and regulatory standards and requirements could disrupt our operations and harm our operating results. The Group has quality assurance processes in place both internally and through the use of external independent professional specialists.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the 2015 financial year.

Matters Subsequent to the End of the Financial Year

There are no events that have arisen after 30 June 2015 and prior to the signing of this financial report that would likely have a material impact on the financial results presented.

Likely Developments and Expected Results of Operations

Our continued progress in clinical development brings our leading products closer to approval and commercial reality. In addition to final development, we are now focusing on a Go-To-Market strategy for these products to maximise commercial returns. These lead indications continue to be underpinned by our innovative core technologies and a robust and growing intellectual property portfolio.

In addition our manufacturing capabilities with our strategic partner have been progressed over the past 12 months to meet clinical and commercial product supply in line with our timing expectations.

Environmental Regulations

Mesoblast's operations are not subject to any significant environmental regulations under either Commonwealth of Australia or State/Territory legislation. 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.

Dividends

No dividends were paid during the course of the financial year. There are no dividends or distributions recommended or declared for payment to members, but not yet paid, during the year.

Information on Directors

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

Name	Position
William M. Burns	Non-Executive Director
Silviu Itescu	Executive Director
Brian Jamieson	Non-Executive Chairman
Donal O'Dwyer	Non-Executive Director
Eric Rose	Non-Executive Director
Michael Spooner	Non-Executive Director
Ben-Zion Weiner	Non-Executive Director

William M. Burns BA

Non-Executive Director

Experience and expertise

Mr Burns has served on the Board of Directors since 2014. He has spent his entire management career at the Beecham Group and F. Hoffmann-La Roche Ltd. Mr Burns was Chief Executive Officer of Roche Pharmaceuticals from 2001 to 2009, when he joined the Board of Directors of F. Hoffmann-La Roche Ltd. until he retired in 2014. He has also served on the Board of Directors of Chugai Pharmaceutical Co. and Genentech from 2002 to 2014, and Crucell from 2010 to 2011. Mr Burns is also a member of the Oncology Advisory Board of the Universities of Cologne/Bonn. He is the Chairman of the Board of Directors of Biotie Therapies Corp. and is a Non-Executive Director of Shire PLC. In October 2014, Mr Burns was appointed a trustee of the Institute of Cancer Research, London, UK.

Other current directorships of listed public companies

Chairman, Biotie Therapeutics (Finland) (since 2014)

Non-Executive Director, Shire (UK) (since 2010)

Former listed public company directorships in the last 3 years

Director, Roche Holdings AG (2010-2014)

Director, Chugai Pharmaceuticals (2002-2014)

Special responsibilities

Member of the Science & Technology Committee

Silviu Itescu MBSS FRACP, FACP, FTSE

CEO (Executive Director)

Experience and expertise

Dr Itescu has served on the Board of Directors since the Company's founding in 2004, was Executive Director from 2007, and became Chief Executive Officer and Managing Director in 2011. Prior to founding Mesoblast in 2004, he established an international reputation as a physician scientist in the fields of stem cell biology, autoimmune diseases, organ transplantation, and heart failure. Dr Itescu has been a faculty member of Columbia University in New York, and the University of Melbourne and Monash University in Australia. In 2013, Dr Itescu received the inaugural Key Innovator Award from the Vatican's Pontifical Council for Culture for his leadership in translational science and clinical medicine in relation to adult stem cell therapy. In 2011, he was named BioSpectrum Asia Person of the Year. Dr 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 life sciences companies.

Other current directorships of listed public companies

None

Former listed public company directorships in the last 3 years

None

Special responsibilities

Chief Executive Officer

Member of the Science & Technology Committee

Information on Directors (continued)

Brian Jamieson FCA

Non-executive Chairman

Experience and expertise

Mr Jamieson has served on the Board of Directors as Chairman since 2007. He was Chief Executive of Minter Ellison Melbourne and a partner of the Minter Ellison Revenue Group from 2002 to 2005. Mr Jamieson retired as Chief Executive of Minter Ellison Melbourne on December 31, 2005. Prior to joining Minter Ellison, he was Chief Executive Officer at KPMG Australia from 1998 to 2000, Managing Partner of KPMG Melbourne and Southern Regions from 1993 to 1998 and Chairman of KPMG Melbourne from 2001 to 2002. Mr Jamieson was also a KPMG Board Member in Australia, and a member of the USA Management Committee. He is Chairman of Sigma Pharmaceuticals Limited and a Non-Executive Director of the Tatts Group Limited. Mr Jamieson is also a Director and Treasurer of the Bionic Ear Institute. He is a fellow of the Institute of Chartered Accountants in Australia and a Member of the Institute of Company Directors.

Other current directorships of listed public companies

Chairman, Sigma Pharmaceuticals Limited (since 2005)

Non-Executive Director, Tatts Group Limited (since 2005)

Former listed public company directorships in the last 3 years

Non-Executive Director, Tigers Realm Coal Limited (2011-2014)

Non-Executive Director, OZ Minerals Limited (2004-2015)

Special responsibilities

Chairman of the Board

Member of the Audit & Risk Committee

Member of the Nomination & Remuneration Committee

Donal O'Dwyer BE, MBA

Non-executive Director

Experience and expertise

Mr O'Dwyer has served on the Board of Directors since 2004. He has over 25 years of 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. Prior to joining Cordis, he worked for 12 years with Baxter Healthcare, rising from plant manager in Ireland to president of the Cardiovascular Group, Europe, now Edwards Lifesciences. He is a qualified civil engineer, has a MBA and is on the Board of Directors of a number of life sciences companies including Cochlear Limited, Atcor Medical Holdings Ltd and Fisher & Paykel Healthcare Ltd.

Other current directorships of listed public companies

Non-Executive Director, Atcor Medical Holdings Limited (since 2004)

Non-Executive Director, Cochlear Limited (since 2005)

Non-Executive Director, Fisher & Paykel Healthcare (since 2013)

Former listed public company directorships in the last 3 years

Non-Executive Director, Sunshine Heart (2004-2013)

Special responsibilities

Chairman of the Nomination & Remuneration Committee

Member of the Audit & Risk Committee

Eric A. Rose MD

Non-executive Director

Experience and expertise

Dr Rose has served on the Board of Directors since 2013. He is currently Chairman and Chief Executive Officer of SIGA Technologies and Executive Vice President, Life Sciences at MacAndrews & Forbes, Inc., the holding company of Ronald O. Perelman. From 2008 through 2012, Dr Rose served as the Edmond A. Guggenheim Professor and Chairman of the Department of Health Evidence and Policy at the Mount Sinai School of Medicine. From 1994 through 2007, he served as Chairman of the Department of Surgery and Surgeon-in-Chief of the Columbia Presbyterian Center of New York Presbyterian Hospital. From 1982 through 1992, Dr Rose led the Columbia Presbyterian heart transplantation program in the United States. He currently sits on the Board of Directors of ABIOMED.

Other current directorships of listed public companies

Chairman, SIGA Technologies (since 2007)

Non-Executive Director, ABIOMED, Inc. (2007-2012, 2014-present)

Former listed public company directorships in the last 3 years

None

Special responsibilities

Chairman of the Science & Technology Committee

Michael Spooner BCOM ACA

Non-executive Director

Experience and expertise

Mr Spooner has served on the Board of Directors since 2004. During this period he has filled various roles including as Chairman from the date of the ASX public listing in 2004 until 2007, Chair of the Audit and Risk Committee as well as a member of the Remuneration Committee. Over the past several years Mr Spooner has served on the Board of Directors in various capacities at several Australian and international biotechnology companies, including BiVacor Pty Ltd (2009-2013), Advanced Surgical Design & Manufacture Limited (2010-2011), Peplin, Inc. (2004-2009), Hawaii Biotech, Inc. (2010-2012), Hunter Immunology Limited (2007-2008), and Ventracor Limited (2001-2003). Prior to returning to Australia in 2001, he spent much of his career internationally where he served in various roles including as a partner to PA Consulting Group, a United Kingdom-based management consultancy and a Principal Partner and Director of Consulting Services with PricewaterhouseCoopers (Coopers & Lybrand) in Hong Kong. In addition, Mr Spooner has owned and operated several international companies providing services and has consulted to a number of American and Asian public companies.

Other current directorships of listed public companies

None

Former listed public company directorships in the last 3 years

None

Special responsibilities

Chairman of the Audit & Risk Committee

Member of the Nomination & Remuneration Committee

Information on Directors (continued)

Ben-Zion Weiner BSc, MSc, PhD

Non-executive Director

Experience and expertise

Dr Weiner has served on our Board of Directors since 2012. In a 37-year career at Teva Pharmaceutical Industries Ltd, he held various senior research and development positions, including Senior Vice President of Global Research and Development. Dr Weiner twice received the Rothschild Prize for industrial innovation – for the development of Copaxone for the treatment of multiple sclerosis, and alpha D3 for kidney and bone disorders. He is on the Board of Directors at Novaremed Ltd., the scientific advisory board at E-QURE Corp. and Breed IT, Corp. and has served on the Board of Directors at Geffen Biomed Investments Ltd (2010-2013), XTL Biopharmaceuticals Limited (2012-2013) and Breed IT, Corp.

Other current directorships of listed public companies

None

Former listed public company directorships in the last 3 years

Director, Gefen Biomed Investments Ltd (2010-2014)

Director, XTL Biopharmaceuticals Ltd (2012-2014)

Director, BreedIT Ltd (2014)

Special responsibilities

Member of the Science & Technology Committee

Company Secretary

Charlie Harrison BA, LLB (HONS)

Mr Harrison joined Mesoblast as a legal counsel in 2013. He was previously a senior associate at the international law firm Allens, working in their Hong Kong and Melbourne offices for nine years as a corporate lawyer. Mr Harrison has an Arts/Law degree from the University of Melbourne. He was appointed Company Secretary in 2014.

Directors' interests

The relevant interest[1] of each director in the share capital of the Company, as notified by the directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Mesoblast Limited ordinary shares	Options over Mesoblast Limited ordinary shares
William Burns	–	80,000
Silviu Itescu	68,244,642	–
Brian Jamieson	610,000	–
Donal O'Dwyer[2]	592,903	511,824
Eric Rose	–	80,000
Michael Spooner	1,050,000	–
Ben-Zion Weiner	–	80,000

(1) As defined by section 608 of the *Corporations Act 2001*.

(2) Donal O'Dwyer exercised 287,903 options after 30 June 2015 (year-end) but prior to the date of this report.

Meetings of Directors

The number of meetings of the Group's directors (including committee meetings of directors) held during the year ended 30 June 2015 and the numbers of meetings attended by each director were:

	Board of directors		Audit & Risk committee		Nomination & Remuneration committee		Science & Technology committee	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
William Burns	12	11	–	–	–	–	3	3
Silviu Itescu	12	12	–	–	–	–	3	3
Brian Jamieson	12	12	12	12	5	5	–	–
Donal O'Dwyer	12	12	12	12	5	5	–	–
Eric Rose	12	10	–	–	–	–	3	3
Michael Spooner	12	12	12	12	5	5	–	–
Ben-Zion Weiner	12	10	–	–	–	–	3	3

A = Number of meetings held during the time the director held office or was a member of the committee.

B = Number of meetings attended by board/committee members.

– = Not a member of the relevant committee.

NB: Certain directors attended various committee meetings by invitation in addition to those shown above.

1. Remuneration Report

The Directors of the Company are pleased to present the 2014/15 Remuneration Report, which forms part of the Directors' report and has been prepared in accordance with the relevant *Corporations Act 2001* (Corporations Act) and accounting standard requirements. 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 Company's key management personnel (KMP) for FY15.

The notable change to the Company's KMP reporting for FY15 is the inclusion of our Chief Financial Officer, Paul Hodgkinson as other executive KMP.

1.1 Our Talent

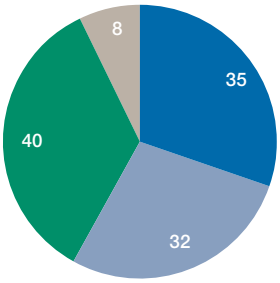
Mesoblast is a pre-revenue company with headquarters and operations in Australia and significant clinical trial and manufacturing operations in the United States and Singapore. Our principal activity is the research and development of our Mesenchymal Lineage Adult Stem Cell (MLCs) technology platform characterized by distinct properties which enable allogeneic or 'off-the-shelf' use. Given our business activity and current development stage, we generate losses each year and are net users of cash.

We operate at the forefront of a highly specialized industry in which our people are the key to developing our proprietary adult stem cell technologies. As we seek to attract and retain established leaders and emerging experts in an innovative field, our remuneration framework is designed to be competitive worldwide and in particular within the United States life sciences industry – where the majority of our employees are based. This remuneration framework also allows us to meet both the expectations of our global shareholder base and the Australian regulatory framework by which the Mesoblast Group is governed.

Employee profile

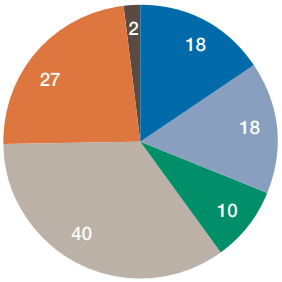
As at 30 June 2015, the Group has 115 (2014: 117) employees globally:

Employees by Education



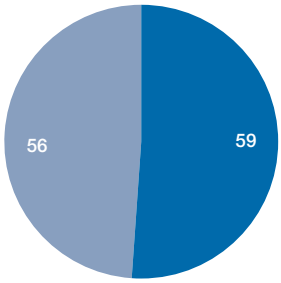
- PhD/MD
- Masters degree
- Bachelors degree
- Other

Employees by Experience



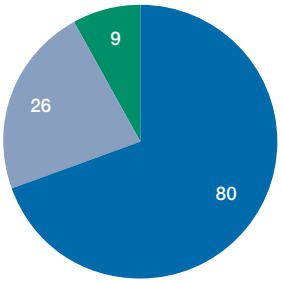
- Academia
- Corporate/Professional
- Other
- Pharma – Big Pharma
- Pharma – Specialty Biotech
- Regulatory/Agencies

Employees by Gender



- Female
- Male

Employees by Region



- USA
- Australia
- Asia/EU

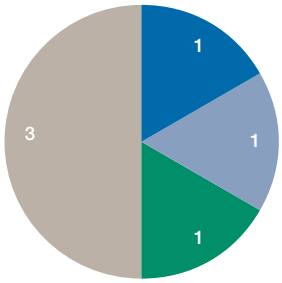
80 (70%) of our employees are based in the United States where the Group's operational activities are concentrated. Australia consists primarily of corporate headquarter activities with 26 (23%) employees, including the CEO and other executive team members.

Of the remaining employees, 8 (7%) are located in Singapore where our research and technology transfer activities are growing and 1 is in Switzerland.

Non-executive director profile

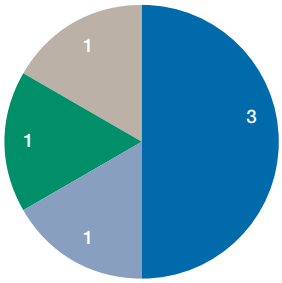
As at 30 June 2015, the Group has six non-executive Directors with diverse industry and regional experience, as the charts below illustrate:

NEDs by Region



- Israel
- Switzerland
- USA
- Australia

NEDs by Experience



- Big Pharma/Medical Tech
- Australian Capital Markets
- Professional Services
- Medical Doctor

1.2 KMP

Mesoblast has evolved to a late stage biopharmaceutical company with five programs in active Phase 3 clinical studies or Phase 3 ready. Throughout this evolution the CEO and our Board have set the strategy and direction of the company. At 115 employees globally, the company has a fairly flat structure with 13 direct reports to the CEO, nine of whom form the executive management team.

In June 2014, Paul Hodgkinson was appointed as Chief Financial Officer, reporting to the CEO. This appointment represents a significant development for Mesoblast through the creation of an executive role responsible for guiding and directing financial strategy, in conjunction with the Board and CEO and as such the Board designated him KMP with effect from 25 August 2014. Mr Hodgkinson has broad and high-level international pharmaceutical experience in all aspects of finance, strategic planning, business development and licensing, manufacturing and supply chain, and procurement. Before joining Mesoblast, Paul served as Chief Financial Officer and had full financial responsibility for the Novartis ANZ Group of companies and divisions comprising Pharmaceuticals, Alcon, Sandoz, Vaccines and Diagnostics, Consumer and Animal Health. Previously, he held a number of leadership roles with AstraZeneca in the United Kingdom, before being appointed Chief Financial Officer for AstraZeneca Australia from 2006 to 2011.

Key management personnel, as defined in the Australian Accounting Standards Board 124 'Related Party Disclosures' and the *Corporations Act 2001*, have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include any director (whether executive or otherwise).

With the above definition in mind, and recognizing the continuing role of the Board and CEO and CFO in guiding and directing strategy, the Board has determined the key management personnel of the Group for FY 2015, as listed in table below:

Name	Position	Change from last year
Non-executive directors		
Brian Jamieson	Chair, Board of Directors Member, Nomination & Remuneration Committee Member, Audit & Risk Committee	No change
William Burns	Non-executive director Member, Science & Technology Committee	Changed committee membership 26 August 2014.
Donal O'Dwyer	Non-executive director Chair, Nomination & Remuneration Committee Member, Audit & Risk Committee	No change
Eric Rose	Non-executive director Chair, Science & Technology Committee	No change
Michael Spooner	Non-executive director Chair, Audit & Risk Committee Member, Nomination & Remuneration Committee	No change
Ben-Zion Weiner	Non-executive director Member, Science & Technology Committee	No change
Executive director		
Silviu Itescu	CEO (executive director)	No change
Other Executive KMP		
Paul Hodgkinson	Chief Financial Officer (CFO)	Appointed as KMP from 25 August 2014

2. Remuneration Governance

2.1 Role of the Board and the Nomination & Remuneration Committee

The Board is responsible for Mesoblast's remuneration strategy and approach. The Board established the Nomination & Remuneration Committee (the Committee) as a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- Board appointments
- Non-executive director fees
- Executive remuneration framework
- Remuneration for executive directors, namely the CEO, and other key executives
- Short-term and long-term incentive awards
- Share ownership plans

The Committee's objective is to ensure remuneration policies are fair and competitive and in line with similar industry benchmarks whilst aligned with the objectives of the Company. The Committee seeks independent advice from remuneration consultants as and when it deems necessary (see below).

Use of remuneration consultants

During FY15, the Nomination & Remuneration Committee engaged KPMG to provide the following remuneration advice to assist the Board in decision making:

- review and benchmarking in relation to the CEO's remuneration;
- review of FY14 Remuneration Report;
- review of fee structure for overseas Non-executive directors;
- advice regarding transition of loan funded share plan for Australian participants; and
- disclosure advice for KMP.

The advice provided by KPMG does not constitute a 'remuneration recommendation' as defined in section 9B of the *Corporations Act 2001* as it relates to the provision of information and/or advice on the taxation, legal or accounting implications of specific elements of the remuneration framework.

3. Non-Executive Director (NED) Remuneration

Our aim is to establish a Board comprised of global expertise in the biopharmaceutical industry and capital markets. Therefore, our NED fees are based on the responsibilities and work involved with directing a company of Mesoblast's technological and geographical complexity, our financial position, regulatory and compliance context, and market practice.

In keeping with our aim to attract Directors with international experience, the Company sought, and obtained, shareholder approval at our Annual General Meeting on 25 November 2014 for a grant of options to three relatively new non-executive Directors. These grants are detailed in the tables in section 6.5.

3.1 NED fees and other benefits

NEDs receive fixed fees for their services, as approved by shareholders at the 2013 Annual General Meeting, not to exceed a maximum fee pool of $1,250,000. Board and Committee fees are structured as outlined below which were adopted on 1 November 2013. This structure reflects advice provided by Towers Watson in October 2012 with reference to companies of comparable size and complexity.

Fees (per annum) FY15	Chair	Member
Board	328,230	128,250
Committee fees		
Audit & Risk Committee	25,000	12,500
Nomination & Remuneration Committee	20,000	10,000
Science & Technology Committee	20,000	10,000

NEDs do not receive performance-related remuneration and are not provided with retirement benefits other than statutory superannuation. NEDs are reimbursed for costs directly related to conducting Mesoblast business. The key terms of NED service are documented in a letter of appointment to the Board.

3.2 Performance review

The Board conducts periodic performance reviews of the Board and its operations as a whole. The last review was conducted in FY14. This review encompassed feedback on the Chairman and individual NEDS as well as consideration of Board succession planning, diversity and the breadth and sufficiency of skills represented on the Board.

4. Executive Remuneration

Mesoblast's executive remuneration framework is designed to attract, reward and retain a highly specialised group of individuals working at the top of their respective fields.

Mesoblast applies the following market and performance-based remuneration framework for all employees. This provides cohesion across our global team through shared objectives and consistent communication.

		Performance-based Remuneration	
	Fixed Pay	**Short-Term Incentive**	**Long-Term Incentive**
Description	Set according to each role's responsibilities, the incumbent's experience and qualifications, their performance in the role and regional market relativities.	Set at a target relative to fixed pay and paid for individual performance against annual corporate and individual key performance indicators (KPIs). Executive KPIs are typically milestone related as befitting a pre-revenue company.	Set at a target relative to fixed pay based on value at the time of grant with consideration to internal relativities. Delivers value to the participant through share price growth. Only available to select roles.
Considerations	Supplemented by statutory and customary benefits relevant to each region (eg, superannuation in Australia; medical and insurance in the US.)	STIs are typically set at a smaller proportion of our total target remuneration than LTIs to conserve cash outflow.	The Board exercises discretion to adjust LTI grants from the target remuneration mix if a decline in share price would produce an incongruous LTI quantum (i.e. number of options).
Review	Reviewed annually for changes in market relativities and the individual's performance and growth in the role.	Annual outcomes are assessed by the CEO (for his direct reports) and the Board (for the CEO) based on Group performance against KPIs.	Grants are reviewed annually based on the nature of the role, its contribution to long-term objectives and individual performance.
Oversight	Individual outcomes are reviewed and approved first by the Nomination & Remuneration Committee and then the Board.		
Delivered as	Cash.	Cash.	Mesoblast equity with a price premium performance hurdle that vests over three years.

4.1 Remuneration Mix

The CEO and CFO are designated as KMP due to the particular nature of their roles in planning, directing and controlling the activities of the Company. Their target remuneration mix is as follows:

		Performance-based Remuneration	
	Base Salary	**Short-Term Incentive**	**Long-Term Incentive**
CEO	50% of Total Reward	50% of Total Reward	nil
CFO	40% of Total Reward	20% of Total Reward	40% of Total Reward

The Board has customised the CEO's remuneration mix in comparison with other executive KMP in recognition that he continues to be Mesoblast's single largest shareholder. The Board believes the CEO has sufficient exposure to the Company's share performance to align his interests in value creation. The Board reviews the CEO's remuneration package annually, including the remuneration mix.

The Nomination & Remuneration Committee retained KPMG to conduct a benchmarking study on CEO remuneration in August 2014. The findings of this exercise show the CEO's overall remuneration package resides between the 25th percentile and the median of the comparison group. The comparison group included Australian-based companies with a similar market capitalization to that of Mesoblast, of between $1bn to $1.5bn.

The CFO's remuneration mix is a more typical executive remuneration package, reflecting a significant emphasis on LTI as befitting a company in the development stage when conserving cash is a priority.

4.2 Performance-based Remuneration

Short-term Incentives (STIs)

To align the organisation around key shorter-term objectives that drive long-term shareholder value, the Board sets annual key performance indicators (KPIs) for the CEO which also serve as the Company's objectives. At the end of the financial year the Board assesses the overall Company performance, and the CEO's individual performance against these KPIs. The achievement of these KPIs is assessed in the context of total corporate performance against budget which ensures cost control is always part of the performance framework and is regularly measured and reported.

The Board approved KPIs for the CEO in the following performance categories for the financial year ended 30 June 2015:

Key Performance Indicator	Weighting %	Achievement
Clinical trial management of Tier 1 and Tier 2 studies – each with individual enrolment and regulatory targets (refer Review of Operations for further details)	40%	Achieved
Manufacturing achievements • Advances in technology transfer • Progress with commercial manufacturing capabilities	25%	Substantially achieved
Financial performance • company performance versus budget • development of strategic and capital market initiatives	25%	Substantially achieved
Organisational development	10%	Achieved

The Board assessed the CEO's performance on these FY15 KPIs as achieving 90% of his target STI. The CFO was assessed as achieving 100% of his target STI. Other executives were assessed between 80% and 100% of their individual STI targets.

The following table outlines a summary of the 2015 Short-Term Incentive Plan (STI)

What is the 2015 STI?	An incentive plan under which eligible employees are (subject to satisfaction of specified performance measures) granted a cash amount, which is based on a percentage of each participant's fixed remuneration (determined according to role and ability to influence the performance of the Group). Performance is assessed against a combination of Group and individual measures.
When is the 2015 STI grant paid to eligible employees?	The STI amount is paid to each participant who satisfies applicable performance measures in August 2015, following assessment of performance against the applicable measures during the 2014/15 performance period.
Who participates in the 2015 STI?	All employees hired on or before 31 March 2015 are eligible for consideration. Employees hired during the year are recognised on a pro-rata basis.

Why does the Board consider the 2015 STI an appropriate incentive?	The STI is a globally recognised form of reward for management, aimed at ensuring focus and alignment with Group goals and strategy. Based on both Group and individual measures, and in conjunction with other factors, the Board believes that it helps encourage and reward high performance.
What are the performance conditions under the 2015 STI?	Individual performance is measured against the achievement of individual key performance indicators, key corporate and budgetary milestones and achievement of strategic goals all of which lead to long-term shareholder value creation.
What is the relationship between Group performance and allocation of STI?	At the end of the financial year our Board of Directors assesses our overall company performance based on the achievement of our CEO's KPIs. This assessment will adjust how much of our bonus pool is eligible for allocation. For example, if we achieve an 85% Company Performance assessment, then 85% of the total bonus pool will be available for allocation to individual employees. People Leaders evaluate individual performance contributions and make recommendations of the bonus amount each employee should receive based on the bonus pool they have available for allocation and with reference to individual target bonus opportunities.
What is the period over which Group performance is assessed?	The assessment period is the financial year preceding the payment date of the STI (i.e. 1 July to 30 June).

4.3 Long-term Incentives (LTIs)

In designing a LTI mechanism that is appropriate to our global team where 70% of our employees are based in the United States, we seek to balance:

- Australian practice and governance expectations, where LTIs are expected to have performance hurdles other than price and employment milestones alone;
- United States practices, where options are a widely distributed remuneration component, typically issued without a price premium, performance hurdles or milestones, and which vest on a more regular basis (eg. rolling monthly basis);
- A strong preference for a single global reward mechanism to maintain executive cohesion and teamwork; and
- Alignment with driving shareholder value.

In view of these factors we issue time based LTIs to executives at a price per share that is typically 10% higher than the five day volume weighted average share price calculated at grant date. We believe this approach is appropriate at this stage and that applying additional performance hurdles to our LTI programme would make it problematic for us to attract and retain the people we need – particularly in the US – and would ultimately be negative for our company. This is an area we continue to review and assess.

In Australia, most LTIs grants made prior to 1 July 2015 were made as limited recourse loan-funded shares of the Company pursuant to the rules of the Loan-Funded Share Plan (LFSP). Changes to the tax treatment of employee share schemes in Australia became effective on 1 July 2015. These changes alter the relevance of using a loan-funded share plan for Australian participants. As a result Mesoblast returned to using a single plan, our Employee Share Option Plan (ESOP), for all participants with effect from the offer made on 10 July 2015. Existing grants under the LFSP will generally remain on foot until the grants vest and the loans have been repaid.

Outside Australia prior to 1 July 2015 and globally thereafter, LTIs consist of options over ordinary shares of the Company under the rules of the ESOP. Both the ESOP and LFSP were approved by shareholders at the AGM held in November 2013. Both plans operate in a similar manner, with the shares/options typically having a purchase/exercise price premium applied and a three-year vesting schedule. Grants made prior to 1 July 2015 had a five year term. Recognising that option grants in the US where the majority of our LTI participants reside typically have a ten year term, the grant made on 10 July 2015 was issued with a seven year term. The Board considers the appropriate term at the time each grant is approved.

Executive LTI allocations are determined with consideration to the nature of the role within our organisation, market value of LTI allocations for comparable roles, previous grants made and the remuneration mix described above where a modified Black-Scholes calculation is used to determine the value of the option. If LTI valuations decline due to a decline in our share price the Board has taken a view that this should not automatically drive an increase in LTI grants to maintain the desired remuneration mix. In recent years LTI grants have remained stable in number of options/loan funded shares reflecting the Board's assessment that this grant size will deliver the desired value to the executives over time.

Loan-funded shares are issued with new equity, and the Company does not buy shares on-market under this plan in an effort to conserve cash.

Summary of the key features of the ESOP and LFSP (LTI Plans):

Why does the Board consider the LFSP/ESOP an appropriate long-term incentive?	The LTI Plans are designed to reward participants for Group performance and to align long-term interests of shareholders, participating employees and the Group, by linking a significant proportion of at-risk remuneration to the Group's future performance, currently assessed over a three-year period from the date of grant of the shares.
In what circumstances are LTI entitlements forfeited?	The LTI will be forfeited upon cessation of employment prior to the conclusion of the performance period in circumstances where a participant breaches any term of the Loan Agreement (in the case of LFSP) or is a bad leaver. Bad leaver is defined as part of the Plan rules and covers serious misconduct. If the Board designate a former employee as a Bad Leaver they forfeits all rights, entitlements and interests in any unexercised Options, both vested and unvested. Otherwise a leaver may retain vested loan funded shares or options subject to repayment of the loan or exercising the option within 60 days of cessation of employment or within a longer period if so determined by the Board.
What are the performance conditions under the LTI Scheme?	Shares and options are issued at a price per share that is typically 10% higher than the five day volume weighted average share price calculated at grant date. In addition participants have to remain in employment with the Company for the LTIs to vest.
Why did the Board choose the above performance conditions/ hurdles?	High volatility makes it difficult to set meaningful performance hurdles other than price premiums, and applying such hurdles may have a severe impact on the competitiveness of remuneration.
What is the relationship between Group performance and allocation of shares/ options?	Equity-based remuneration is an integral part of remuneration in the biotechnology industry as they reward share price growth and seek to conserve cash. The Board believes that share price growth is an appropriate measure of success as it is the prime driver of investment in the biotechnology sector, and is simply and clearly rewarded using equity-based remuneration.
What is the maximum number of shares/options that may be granted to a participant to the LTI scheme?	The maximum number of shares or options that may be granted is determined by the level of equity based remuneration applicable to each applicant.
When do the shares/ options vest?	Shares/options vest in three equal tranches, one year, two years and three years after the date of grant, provided performance conditions are met.
Is the benefit of participation in the LTI scheme affected by changes in the share price?	Yes, participants in the both the ESOP and LFSP will be affected in the same way as all other shareholders by changes in the Company's share price. The value participants receive through participation in the Plans will be reduced if the share price falls during the performance period and will increase if the share price rises over the performance period.

LFSP

What is the LFSP?	An incentive plan under which eligible employees are granted limited recourse, interest free, loan-funded ordinary shares of the Company.
Who participates in the LSFP?	All eligible Australian based employees of the Company, who are in positions to influence achievement of our long-term outcomes and where warranted by market practice for attraction and retention.
What are the key features of the LFSP?	Loan-funded shares are issued with a price per share that is typically 10% higher than the five day volume weighted average share price calculated at grant date. The Loan-Funded shares are subject to a Loan Agreement between the participant and the Company. Once all conditions are met and the participant no longer has any outstanding obligations pursuant to the Loan Agreement, the loan funded shares revert to being fully paid ordinary shares.
How are shares provided to participants under the Loan-Funded scheme?	Shares issued in the LFSP are issued as new equity and Mesoblast does not buy shares on-market under this plan in an effort to conserve cash.

ESOP

What is the ESOP?	An incentive plan under which eligible employees are granted options over ordinary shares of the Company.
Who participates in the ESOP?	All eligible employees of the Company, who are in positions to influence achievement of our long-term outcomes and where warranted by market practice for attraction and retention.
What are the key features of the ESOP?	Options are issued with an exercise price per share that is typically 10% higher than the five day volume weighted average share price calculated at grant date. High volatility makes it difficult to set meaningful performance hurdles and applying such hurdles may have a severe impact on the competitiveness of remuneration.
How are shares provided to participants under the ESOP?	Shares are issued to the participant upon the holder exercising their option and paying the exercise price to the Company (once all vesting conditions are satisfied).

5. Employment Agreements

The employment of our CEO and CFO are formalised in employment agreements, the key terms of which are as follows:

Name	Term	Notice period	Termination benefit
CEO (Silviu Itescu)	Initial term of 3 years commencing 1 April 2014, and continuing subject to a 12 months' notice period	12 months	12 months base salary
CFO (Paul Hodgkinson)	This is an ongoing employment agreement until notice is given by either party.	6 months	6 months base salary

On termination of employment, key management personnel are entitled to receive their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

There is no entitlement to a termination payment in the event of resignation or removal for misconduct.

The employment of the executive team is also formalized in employment contracts. Five members of the executive team have employment contracts with initial terms ranging from 15 months to three years, with notice periods ranging from six to twelve months. The remaining four members have continuous employment contracts with no fixed term and notice periods ranging from 'at will' to twelve months. Two contracts have contractual CPI increases – there are no other contractual increases in remuneration.

6. Key Management Personnel (KMP) Remuneration

6.1 Remuneration details

Details of the remuneration of the Company's key management personnel are set out below:

2015	Short-term benefits					Post-employment benefits	Long-term benefits	Share-based payments	Other	
Name	Salary & fees $	Cash Bonus[1] $	Annual Leave $	Non-monetary benefits $	Other $	Super-annuation $	Long service leave $	Options $	Termination benefits $	Total $
Executive director										
Silviu Itescu (CEO)	960,000	864,000	59,078	–	–	18,783	19,052	–	–	1,920,913
Other executive KMP										
Paul Hodgkinson[2] (CFO)	367,233	212,500	7,968	–	63,128	25,088	690	228,589	–	905,196
Non-executive directors										
William Burns	134,278	–	–	–	–	–	–	37,799	–	172,077
Brian Jamieson	328,320	–	–	–	–	18,783	–	–	–	347,103
Donal O'Dwyer	160,750	–	–	–	–	15,271	–	–	–	176,021
Michael Spooner	163,250	–	–	–	–	15,509	–	–	–	178,759
Ben-Zion Weiner	138,250	–	–	–	–	–	–	37,799	–	176,049
Eric Rose	148,250	–	–	–	–	–	–	37,799	–	186,049
Total	**2,400,331**	**1,076,500**	**67,046**	**–**	**63,128**	**93,434**	**19,742**	**341,986**	**-**	**4,062,168**

(1) STI bonus payable for performance in the year ended 30 June 2015, not paid as at 30 June 2015.

(2) Appointed as KMP on 25 August 2014. Paul Hodgkinson was paid a sign on bonus of $72,000 in July 2014 which has been excluded from the table above as it predated his appointment to KMP.

2014	Short-term benefits					Post-employment benefits	Long-term benefits	Share-based payments	Other	
Name	Salary & fees $	Cash Bonus[5] $	Annual Leave $	Non-monetary benefits $	Other $	Super-annuation $	Long service leave $	Options $	Termination benefits $	Total $
Executive director										
Silviu Itescu (CEO)	960,000	840,000[2]	38,493[3]	–	–	17,775	23,173[4]	–	–	1,879,441
Non-executive directors										
William Burns[1]	44,145	–	–	–	–	–	–	–	–	44,145
Brian Jamieson	325,547	–	–	–	–	17,775	–	–	–	343,322
Donal O'Dwyer	159,667	–	–	–	–	14,769	–	–	–	174,436
Michael Spooner	162,167	–	–	–	–	15,000	–	–	–	177,167
Ben-Zion Weiner	134,667	–	–	–	–	–	–	–	–	134,667
Eric Rose	142,167	–	–	–	–	–	–	–	–	142,167
Total	**1,928,360**	**840,000**	**38,493**	**–**	**–**	**65,319**	**23,173**	**–**	**–**	**2,895,345**

(1) William Burns joined the Board on 6 March 2014.

(2) STI payable for the year ended 30 June 2014. This represents 87.5% of target bonus, and therefore an amount of $120,000 (12.5%) was forfeited.

(3) Annual leave has been amended from what was reported in 2014 to include annual leave of $38,493.

(4) Long service leave has been amended from what was reported in 2014 to include long service leave of $23,173.

(5) STI bonus payable for performance in the year ended 30 June 2014, not paid as at 30 June 2014.

6.2 Relative proportions of fixed vs variable remuneration expenses

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense above:

Table – Relative proportion of fixed vs variable remuneration expenses

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2015 %	2014 %	2015 %	2014 %	2015 %	2014 %
Silviu Itescu (CEO)	55	54	45	46	0	0
Paul Hodgkinson (CFO)	55	N/A	22	N/A	23	N/A

The amount of short-term incentives cash bonus awarded and forfeited for each KMP are set out in the table below. There were no deferred shares granted, vested and forfeited during the 2015 financial year.

6.3 Performance based remuneration granted and forfeited during the year

The following table shows, for each KMP, how much of their STI cash bonus was awarded and how much was forfeited. It also shows the value of options that were granted, exercised and forfeited during FY 2015 The number of options vested/ forfeited for each grant are disclosed in section 6.5 below.

Table – Performance based remuneration granted and forfeited during the year

2015	Total STI bonus Cash[1]			LTI Options		
Name	Total opportunity $	Awarded %	Forfeited %	Value granted[2] $	Value exercised $	Value forfeited $
Silviu Itescu (CEO)	960,000	90%	10%	–	–	–
Paul Hodgkinson (CFO)	212,500	100%	–	455,283	–	–

(1) No deferred shares are issued.

(2) The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

6.4 Terms and conditions of the share-based payment arrangements

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Vesting date	Expiry date	Exercise price	Value per option at grant date	% vested
25/11/2014	one third – 25/11/2015 one third – 25/11/2016 one third – 25/11/2017	24/11/2019	$4.02	$1.30	–
25/03/2015[1]	25/03/2015	23/07/2019	$4.71	$0.92	100

(1) These options have vested and are held in escrow. As of 30 June 2015, none of the options have reached the end of the escrow period, and therefore they may not be exercised until the escrow period concludes.

The number of options over ordinary shares in the company provided as remuneration to key management personnel is shown in the following table in section 8(iv) below. The options carry no dividend or voting rights. See section 4.3 above for the conditions that must be satisfied for the options to vest.

When exercisable, each option is convertible into one ordinary share of Mesoblast Limited. The exercise price of options is determined by reference to the Company policy which is the volume weighted market price of a share sold on the Australian Securities Exchange on the 5 trading days immediately before the board of directors' approval date plus

generally a premium determined by the Company's board of directors. The board of directors' policy is not to issue options at a discount to the market price.

6.5 Reconciliation of options and ordinary shares held by KMP

a. Options

The table below shows a reconciliation of options held by each key management personnel from the beginning to the end of the 2015 financial year. All vested options at the start of the year were exercisable.

	Balanced at the start of the year	Granted as compen-sation	Vested		Exercised	Forfeited		Other changes	Balance at the end of the year		
Name	Vested		Number	%		Number	%		Vested and exercisable	Vested and unexercisable	Unvested
Silviu Itescu (CEO)											
–	–	–	–	–	–	–	–	–	–	–	–
William Burns											
25/11/2014[1]	–	80,000	–	–	–	–	–	–	–	–	80,000
Brian Jamieson											
30/11/2009	150,000	–	150,000	100	(150,000)	–	–	–	–	–	–
Donal O'Dwyer											
07/12/2010	287,903	–	–	–	–	–	–	–	287,903	–	–
07/12/2010	127,956	–	–	–	–	–	–	–	127,956	–	–
07/12/2010	127,956	–	–	–	–	–	–	–	127,956	–	–
07/12/2010	127,956	–	–	–	–	–	–	–	127,956	–	–
07/12/2010	127,956	–	–	–	–	–	–	–	127,956	–	–
Michael Spooner											
–	–	–	–	–	–	–	–	–	–	–	–
Ben–Zion Weiner											
25/11/2014[1]	–	80,000	–	–	–	–	–	–	–	–	80,000
Eric Rose											
25/11/2014[1]	–	80,000	–	–	–	–	–	–	–	–	80,000
Paul Hodgkinson[2]											
25/03/2015	–	450,000	450,000	100	–	–	–	–	–	450,000	–

(1) Grants to Non-Executive Directors: At the Board's recommendation, shareholders approved the issue of options to three non-executive directors at the AGM on 25 November 2014.

(2) 300,000 of these options were originally granted on 8 August 2014 under the loan funded share plan. On 25 March 2015 Mesoblast changed the form of the arrangement from loan funded shares to options. There were no changes made to the terms pertaining to the exercise price or the expiry date during this modification.

The amounts paid per ordinary share on the exercise of options at the dates of exercise were as follows:

Grant date	Exercise Date	Amount paid per share
30/11/2009	27/10/2014	$1.73
30/11/2009	20/11/2014	$1.73

b. Shareholdings

The table below shows a reconciliation of ordinary shares held by each KMP from the beginning to the end of the 2015 financial year in accordance with the Corporations Regulations (section 18).

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balances at the end of the year
Silviu Itescu (CEO)	68,244,642	–	–	68,244,642
William Burns	–	–	–	–
Brian Jamieson	460,000	150,000	–	610,000
Donal O'Dwyer	305,000	–	–	305,000
Michael Spooner[1]	1,081,335	–	–	1,081,335
Ben-Zion Weiner	–	–	–	–
Eric Rose	–	–	–	–
Paul Hodgkinson	–	–	–	–

(1) Of this balance, Michael Spooner has a relevant interest (as defined by section 608 of the *Corporations Act 2001*) over 1,050,000 ordinary shares.

7. Relationship between performance and executive KMP remuneration

Mesoblast is pre-revenue and in development phase. When assessing company performance in light of remuneration, traditional financial metrics, such as profitability, total shareholder return (TSR), short-term share price movements, and earnings per share (EPS) are not meaningful, nor do they accurately reflect the performance of the company. Our long term value creation occurs through progressive achievement of well-defined milestones that are critical for achieving product approval and commercialization, in a timely fashion and within budget. Annually the Board prioritises the milestones for the coming year as outlined in the discussion on STIs. These milestones form the CEO's KPIs which establish the basis for all STI payments.

The Group remains well-funded with $144.1m cash on hand as at 30 June 2015. To date the Group has not utilized any debt financing and our sources of funding for the programs have predominantly been through capital raisings from institutional and sophisticated investors, the signing of a key collaboration with Teva Pharmaceutical Industries, the signing of a share placement agreement with Celgene Corporation and to a small extent government grants and research and development tax credits. Mesoblast reached an agreement with Celgene Corporation in April 2015 in which Celgene purchased 15.3 million ordinary shares in Mesoblast Limited for a consideration of A$58.5 million/USD45 million at a price of A$3.82 per share.

The table and chart below detail Company performance on a market capitalization basis, against executive key management personnel at-risk compensation:

	2015	2014	2013	2012	2011	2010
Share price (ASX:MSB)						
– closing at 30 June	$3.76	$4.47	$5.30	$6.19	$8.65	$1.85
– high for the year	$5.88	$6.80	$7.49	$10.04	$9.95	$2.26
– low for the year	$3.17	$4.18	$4.22	$5.44	$1.72	$0.78
– share price volatility (annual)	46%	36%	39%	47%	52%	53%
Market capitalization at 30 June	$1,267m	$1,437m	$1,677m	$1,770m	$2,425m	$286m
– increase/(decrease) – $	($170m)	($240m)	($93m)	($655m)	$2,139m	$173m
– increase/(decrease) – %	(12%)	(14%)	(5%)	(27%)	748%	153%
Short-term incentives – % of target paid to CEO	90%	87.5%	85%	65%	100%	100%
Short-term incentives – % of base salary paid to CEO	90%	87.5%	85%	65%	42%	40%
Short-term incentives – % of target paid to CFO	100%	n/a	n/a	n/a	n/a	n/a
Short-term incentives – % of base salary paid to CFO	50%	n/a	n/a	n/a	n/a	n/a

8. Voting and comments made at the Company's 2014 Annual General Meeting (AGM)

Mesoblast Ltd received 98.9% of the proxy votes in favour of adopting the 2013/2014 remuneration report, and the same resolution was passed on a show of hands at the meeting. Three individual proposals to issue options to three NEDs were endorsed by 89% of votes and passed on a show of hands at the meeting.

End of Remuneration Report.

Share Options

Options granted as remuneration

The following table presents options that have been granted over unissued shares during or since the end of the year ended 30 June 2014, to any of the Directors or any of the five most highly remunerated officers (excluding Directors) of the company, as part of their remuneration. Included in these options are options granted as remuneration to officers who are among the five highest remunerated officers of the company and the group (other than Directors), that are not designated as key management personnel and hence are not disclosed in the remuneration report:

Name of Officer	Exercise price	Grant Date	Number of shares under option
Silviu Itescu	–	–	–
William Burns[1]	4.02	25/11/2014	80,000
Eric Rose[1]	4.02	25/11/2014	80,000
Ben-Zion Weiner[1]	4.02	25/11/2014	80,000
Peter Howard[2,3]	5.00	25/03/2015	850,000
Peter Howard[2,3]	4.46	25/03/2015	600,000
Michael Schuster[2]	4.71	05/09/2014	200,000
Michael Schuster[2]	4.22	10/07/2015	200,000
Donna Skerrett[2]	4.71	05/09/2014	200,000
Donna Skerrett[2]	4.22	10/07/2015	200,000
Darin Weber[2]	4.71	05/09/2014	200,000
Darin Weber[2]	4.22	10/07/2015	200,000

(1) Non-executive directors.

(2) Five most highly paid officers, but not designated as key management personnel.

(3) On 25 March 2015, the Company repurchased and correspondingly cancelled 1,450,000 loan-funded shares that had previously been granted to Mr Howard (including 600,000 that were issued on 5 September 2014). As compensation for the repurchase and cancellation of these loan-funded shares, replacement share options were issued in accordance with the Company's ESOP. The changes to Mr Howard's options were consistent with changes made to all options issued to Australian based executives.

Shares under option

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

Issue Date	Exercise price of options AUD	Expiry date of options	Number of shares under option
22/09/2010	$2.64	21/09/2015	135,000
29/11/2010	$3.48	29/11/2015	1,453,350
22/12/2011	$7.99	30/06/2016	1,903,334
24/02/2012	$8.48	23/02/2017	170,000
09/07/2012	$6.69	08/07/2018	200,000
21/09/2012	$6.70	30/06/2017	1,693,333
25/01/2013	$6.29	24/01/2018	50,000
24/05/2013	$6.36	23/05/2018	765,000
03/09/2013	$5.92	09/02/2018	2,315,000
04/09/2013	$6.28	27/08/2018	175,000
19/11/2013	$6.20	10/10/2018	50,000

Issue Date	Exercise price of options AUD	Expiry date of options	Number of shares under option
17/12/2013	$6.25	16/12/2018	145,000
24/02/2014	$6.38	31/12/2018	650,000
01/07/2014	$5.80	06/04/2019	15,000
04/08/2014	$4.60	03/08/2019	50,000
08/08/2014	$4.71	23/07/2019	215,000
25/08/2014	$4.67	24/08/2019	75,000
05/09/2014	$4.71	30/06/2019	2,855,000
09/10/2014	$4.54	08/10/2019	210,000
25/11/2014	$4.02	24/11/2019	240,000
12/12/2014	$4.51	31/10/2019	50,000
16/03/2015	$4.73	16/02/2020	60,000
25/03/2015	$5.00	30/06/2018	650,000
25/03/2015	$5.00	25/01/2018	235,000
25/03/2015	$5.00	20/01/2019	135,000
25/03/2015	$5.00	25/01/2019	300,000
25/03/2015	$5.00	25/01/2018	165,000
25/03/2015	$5.00	25/01/2019	200,000
25/03/2015	$4.71	23/07/2019	300,000
25/03/2015	$4.71	30/06/2019	400,000
25/03/2015	$4.46	30/06/2019	600,000
25/03/2015	$4.71	23/07/2019	150,000
27/04/2015	$4.73	16/02/2020	20,000
12/05/2015	$4.30	16/02/2020	400,000
10/07/2015	$4.22	30/06/2022	4,800,000
Sub-total			**21,830,017**
	Exercise price of options USD		
07/07/2010	USD 0.305	26/10/18	154,064
07/07/2010	USD 0.340	26/10/19	447,848
07/07/2010	USD 0.444	25/04/17	127,956
07/07/2010	USD 0.444	02/05/17	127,956
Sub-total			**857,824**
Grand Total			**22,687,841**

No option holder has any right under the options to participate in any other share issues of the Group.

Shares issued on exercise of options during the year

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

Grant Date	Number of shares issued	Issue Price	Amount unpaid per share
30/11/2009	480,000	1.58	–
30/11/2009	150,000	1.73	–
29/11/2010	115,950	3.48	–
Total	**745,950**		

Grant Date	Number of shares issued	Issue Price USD	Amount unpaid per share
07/07/2010	41,935	0.305	–
07/07/2010	255,913	0.340	–
07/07/2010	287,903	0.046	–
Total	**585,751**		

Indemnification of Officers

During the financial year, the Group paid premiums in respect of a contract insuring the directors and company 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 in accordance with advice received from the audit committee, 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 both the current and prior financial years, no 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.

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 2015 is included on page 46 of the annual report.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Directors' Resolution

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

Mr Brian Jamieson
Chairman

Dr Silviu Itescu
Chief Executive Officer

16 August 2015, Melbourne

pwc

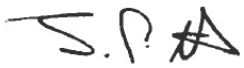
Auditor's Independence Declaration

As lead auditor for the audit of Mesoblast Limited for the year ended 30 June 2015, 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.



Jon Roberts
Partner
PricewaterhouseCoopers

Melbourne
16 August 2015

Financial Statements

for the year ended 30 June 2015

The financial statements cover the Group consisting of Mesoblast Limited ('Mesoblast' or the 'Company') and its subsidiaries, a company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX). A list of major subsidiaries is included in Note 13.

The financial statements are presented in Australian dollars ('AUD'), unless otherwise noted, including certain amounts that are presented in U.S. dollars ('USD').

Mesoblast is incorporated and domiciled in Australia and has its registered office and principal place of business as follows:

Mesoblast Limited
Level 38, 55 Collins Street
Melbourne VIC 3000

The Group is primarily engaged in the development of regenerative medicine products. The Company's primary proprietary regenerative medicine technology platform is based on specialised cells known as mesenchymal lineage adult stem cells.

The financial statements were authorized for issue by the directors on 16 August 2015. The directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available on our website: www.mesoblast.com

Consolidated Income Statement

	Note	30 June 2015 $'000	30 June 2014 $'000
Revenue from continuing operations	3(a)	23,748	25,980
Other income	3(b)	18,800	11,119
		42,548	**37,099**
Expenses from continuing operations	3(c)		
Research and development		(77,593)	(55,305)
Manufacturing commercialization		(29,206)	(27,608)
Management and administration		(36,172)	(26,562)
Finance costs		(10,529)	(4,329)
Other expenses		(8,416)	(4,248)
		(161,916)	**(118,052)**
Loss before income tax		**(119,368)**	**(80,953)**
Income tax expense	4	–	(5)
Loss attributable to the owners of Mesoblast Limited		**(119,368)**	**(80,958)**
Losses per share from continuing operations attributable to the ordinary equity holders of the Group:		Cents	Cents
Basic – losses per share	20	(37.20)	(25.34)
Diluted – losses per share	20	(37.20)	(25.34)

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

Consolidated Statement of Comprehensive Income

	Note	30 June 2015 $'000	30 June 2014 $'000
Loss for the year		**(119,368)**	**(80,958)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations	7(b)	90,831	(6,620)
Income tax relating to these items		–	–
Other comprehensive income/(loss) for the period, net of tax		**90,831**	**(6,620)**
Total comprehensive loss attributable to the owners of Mesoblast Limited		**(28,537)**	**(87,578)**

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

Consolidated Statement of Changes in Equity

	Note	Issued Capital $'000	Share Option Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total $'000
Balance as of 1 July 2013		**654,458**	**49,129**	**24,506**	**(97,827)**	**630,266**
Loss for the year		–	–	–	(80,958)	(80,958)
Other comprehensive loss		–	–	(6,620)	–	(6,620)
Total comprehensive loss for the year		**–**	**–**	**(6,620)**	**(80,958)**	**(87,578)**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		19,611	–	–	–	19,611
	7(a)	**19,611**	**–**	**–**	**–**	**19,611**
Transfer exercised options		3,018	(3,018)	–	–	–
Fair value of share-based payments	18	–	9,419	–	–	9,419
Balance as of 30 June 2014		**677,087**	**55,530**	**17,886**	**(178,785)**	**571,718**
Loss for the year		–	–	–	(119,368)	(119,368)
Other comprehensive income		–	–	90,831	–	90,831
Total comprehensive income/(loss) for the year		**–**	**–**	**90,831**	**(119,368)**	**(28,537)**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		59,402	–	–	–	59,402
	7(a)	**59,402**	**–**	**–**	**–**	**59,402**
Transfer exercised options		771	(771)	–	–	–
Fair value of share-based payments	18	-	8,567	-	-	8,567
Reclassification of modified options to liability		-	(1,791)	-	-	(1,791)
Balance as of 30 June 2015		**737,260**	**61,535**	**108,717**	**(298,153)**	**609,359**

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

Consolidated Balance Sheet

	Note	30 June 2015 $'000	30 June 2014 $'000
Assets			
Current assets			
Cash and cash equivalents	5(a)	144,142	196,394
Trade and other receivables	5(b)	5,172	6,098
Prepayments	5(b)	10,139	1,257
Total current assets		**159,453**	**203,749**
Non-current assets			
Property, plant and equipment	6(a)	5,727	4,683
Available-for-sale financial assets	5(c)	2,995	–
Other non-current assets	5(d)	3,082	2,978
Intangible assets	6(b)	846,668	687,904
Total non-current assets		**858,472**	**695,565**
Total assets		**1,017,925**	**899,314**
Liabilities			
Current liabilities			
Trade and other payables	5(e)	36,774	20,723
Deferred revenue	6(c)	19,537	15,928
Derivative financial instruments	10(a)	–	337
Provisions	6(d)	6,720	5,687
Total current liabilities		**63,031**	**42,675**
Non-current liabilities			
Deferred revenue	6(c)	29,303	39,818
Deferred tax liability	6(e)	194,514	158,585
Provisions	6(d)	121,718	86,518
Total non-current liabilities		**345,535**	**284,921**
Total liabilities		**408,566**	**327,596**
Net assets		**609,359**	**571,718**
Equity			
Issued capital	7(a)	737,260	677,087
Reserves	7(b)	170,252	73,416
Accumulated losses		(298,153)	(178,785)
Total equity		**609,359**	**571,718**

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

Consolidated Statement of Cash Flows

	Note	30 June 2015 $'000	30 June 2014 $'000
Cash flows from operating activities			
Milestone payment received		2,366	–
Research and development tax incentive received		5,768	9,340
Payments to suppliers and employees (inclusive of goods and services tax)		(128,092)	(106,310)
Payments for fair value adjustments to contingent consideration subsequent to the business combination measurement period		(5,720)	–
Interest received		3,454	12,578
Rent received		71	–
Other income received		519	–
Income taxes (paid)/refunded		(75)	2,531
Net cash (outflows) in operating activities	8(b)	**(121,709)**	**(81,861)**
Cash flows from investing activities			
Payments for financial derivatives		(939)	(1,483)
Payments for business combination	12(c)	(2,331)	(35,585)
Payments for licenses		(248)	(468)
Proceeds/(payments) for rental deposits		374	(1,728)
Investment in fixed assets		(2,468)	(1,865)
Receipts from repayments of loans from employees		–	320
Net cash (outflows) in investing activities		**(5,612)**	**(40,809)**
Cash flows from financing activities			
Proceeds from issue of shares		59,999	2,476
Payments for share issue costs		(586)	(46)
Net cash inflows by financing activities		**59,413**	**2,430**
Net (decrease) in cash and cash equivalents		(67,908)	(120,240)
Cash and cash equivalents at beginning of year		196,394	315,309
FX gains on the translation of foreign bank accounts		15,656	1,325
Cash and cash equivalents at end of year	8(a)	**144,142**	**196,394**

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

Contents of the Notes to the consolidated financial statements

Notes to the Financial Statements

Mesoblast Limited (the 'Company') and its subsidiaries (the 'Group') are primarily engaged in the development of regenerative medicine products. The Company's primary proprietary regenerative medicine technology platform is based on specialised cells known as mesenchymal lineage adult stem cells. The Company was formed in 2004 as an Australian company and has been listed on the Australian Securities Exchange (the 'ASX') since 2004.

These financial statements are presented in Australian dollars ('$' or 'AUD'), unless otherwise noted, including certain amounts that are presented in U.S. dollars ('USD').

1. Significant changes in the current reporting period

The financial position and performance of the Group was not particularly affected by any significant changes in the year ended 30 June 2015.

The financial position and performance of the Group was particularly affected by the following transaction during the year ended 30 June 2014:

- The acquisition of the entire culture-expanded mesenchymal stem cell ('MSC') business of Osiris Therapeutics, Inc. on 11 October 2013 ('Osiris') (see Note 12) which resulted in a recognition of in-process research and development acquired and goodwill (see Note 6(b)).

How numbers are calculated

2. Segment information
3. Revenue and expenses from continuing operations
4. Income tax expense
5. Financial assets and liabilities
6. Non-financial assets and liabilities
7. Equity
8. Cash flow information

2. Segment information

Operating segments are identified on the basis of whether the allocation of resources and/or the assessment of performance of a particular component of the Company's activities are regularly reviewed by the Company's chief operating decision maker as a separate operating segment. By these criteria, the activities of the Company are considered to be one segment being the development of adult stem cell technology platform for commercialization, and the segmental analysis is the same as the analysis for the Company as a whole. The chief operating decision maker (Chief Executive Officer) reviews the consolidated income statement, balance sheet, and statement of cash flows regularly to make decisions about the Company's resources and to assess overall performance.

3. Revenue and expenses from continuing operations

	Note	30 June 2015 $'000	30 June 2014 $'000
(a) Revenue from continuing operations			
Commercialization revenue[1]	6(c)	18,199	16,410
Milestone revenue[2]		2,284	–
Interest revenue		3,265	9,570
		23,748	**25,980**
(b) Other income			
Foreign exchange gains		12,846	–
Research and development tax incentive[3]		5,309	8,595
Other revenue		523	–
Rental income		122	–
Release of excess provision for services	6(d)	–	2,524
		18,800	**11,119**
(c) Expenses from continuing operations			
Clinical trial research and development		**42,638**	**20,812**
Manufacturing production and development		**20,822**	**22,932**
Employee benefits			
Salaries and employee benefits		37,602	28,897
Defined contribution superannuation expenses		525	408
Share-based payment transactions[4]		8,567	9,419
Total employee benefits		**46,694**	**38,724**
Depreciation and amortization of non-current assets			
Plant and equipment depreciation	6(a)	1,801	974
Intellectual property amortization	6(b)	154	146
Total depreciation and amortization of non-current assets		**1,955**	**1,120**
Other management and administration expenses			
Overheads and administration		12,977	10,698
Consultancy		7,094	6,831
Legal, patent and other professional fees		7,789	5,522
Intellectual property expenses (excluding the amount amortized above)		3,002	2,836
Total other management and administration expenses		**30,862**	**25,887**

	Note	30 June 2015 $'000	30 June 2014 $'000
Other expenses			
Foreign exchange losses		–	3,980
Remeasurement of contingent consideration		8,416	268
Total other expenses		**8,416**	**4,248**
Finance costs			
Provisions: unwinding of discount	6(d)(ii)	10,529	4,329
Total finance costs		**10,529**	**4,329**
Total expenses from continuing operations		**161,916**	**118,052**

(1) Commercialization revenue

In November 2010, the Group signed a development and commercialization agreement with Cephalon Inc., a major global biopharmaceutical company.

The total upfront cash received under the development and commercialization agreement was USD 130,000k. For the years ended 30 June 2015 and 2014, the Group has recognized revenue of $18,199k and $16,410k, respectively, for this payment on the basis that the revenue will be earned through-out the life of the development of those products pertaining to that payment. The Group continuously monitors and reviews the development timelines of the products with no changes being made in the current year.

(2) Milestone revenue

For the year ended 30 June 2015, the Group recognized milestone revenue of $2,284k. This revenue was recognized on achievement of a substantive milestone being the filing for marketing approval (Japan) for MSC product JR-031. No further performance obligations are required of the Group in relation to this revenue.

(3) Research and development tax incentive

The Group's research and development activities are eligible under an Australian Government tax incentive for eligible expenditures from 1 July 2011. Management has assessed these activities and expenditures to determine which are likely to be eligible under the incentive scheme. At each period end management estimates the refundable tax offset available to the Group based on available information at the time. This estimate is also reviewed by external tax advisors. For the years ended 30 June 2015 and 2014, the Group has recognized income of $5,309k and $8,595k, respectively. See Note 22(e)(iii).

Of the $5,309k research and development tax incentive recorded in other income for the year ended 30 June 2015, $588k relates to a favourable change in the original estimate of the research and development tax incentive income the Group estimated it would receive from the Australian Government for the year ended 30 June 2014.

Of the $8,595k research and development tax incentive recorded in other income for the year ended 30 June 2014, $3,400k relates to research and development tax incentive income the Group received from the Australian Government for the year ended 30 June 2013 following a favourable change in the original estimate. The change in estimate was due to the fact that research and development tax incentives were dependent upon the level of qualifying research and development expenditure and as such we estimated amounts we deemed probable of collection in the year ended 30 June 2013, until we had better information related to the implementation of the relevant regulations with the assistance of our tax advisors.

(4) Share-based payment transactions

For the years ended 30 June 2015 and 2014, share-based payment transactions have been reflected in the consolidated Income Statement functional expense categories as follows: research and development $3,692k and $5,063k, respectively, manufacturing commercialization $877k and $865k, respectively, and management and administration $3,998k and $3,491k, respectively.

4. Income tax expense

	30 June 2015 $'000	30 June 2014 $'000
(a) Reconciliation of income tax to prima facie tax payable		
Loss from continuing operations before income tax	(119,368)	(80,953)
Tax benefit at the Australian tax rate of 30% (2014: 30%)	(35,811)	(24,286)
Tax effect of amounts which are not deductible/(exempt) in calculating taxable income:		
Share-based payments expense	2,540	2,776
Research and development tax concessions	1,665	3,771
Contingent consideration	5,506	–
Other sundry items	1,613	4,732
Current year tax benefit	**(24,487)**	**(13,007)**
Adjustments for current tax of prior periods	4,506	2,485
Differences in overseas tax rates	14,298	(1,489)
Tax benefit not recognized	5,683	12,011
USA City and State tax benefit/(charge)	(401)	(2,836)
USA City and State tax benefit – not recognized	401	2,841
Income tax expense attributable to loss before income tax	**–**	**5**
(b) Income tax expense		
Current tax	–	5
Deferred tax	–	–
	–	5
(c) Amounts that would be recognized directly in equity if brought to account		
Aggregate current and deferred tax arising in the reporting period and not recognized in net loss or other comprehensive income but which would have been directly applied to equity had it been brought to account:		
Current tax recorded in equity (if bought to account)	(178)	(157)
Deferred tax recorded in equity (if bought to account)	672	454
	494	**297**

	30 June 2015 $'000	30 June 2014 $'000
(d) Amounts recognized directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognized in net loss or other comprehensive income but debited/credited to equity:		
Current tax recorded in equity	–	–
Deferred tax recorded in equity	–	–
(e) Deferred tax assets not brought to account		
Unused tax losses		
Potential tax benefit at local tax rates	91,054	60,529
Other temporary differences		
Potential tax benefit at local tax rates	21,494	26,693
Total potential tax benefit at local tax rates	**112,548**	**87,222**

Temporary differences have been brought to account only to the extent that it is foreseeable that they are recoverable against future tax liabilities.

(a) Significant estimates

The Group is subject to income taxes in Australia, Singapore, Switzerland, the United Kingdom 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 consulted professional tax advisers to estimate 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 to the extent that it is probable that the asset will be utilized either through the application of carry back rules or the utilization of 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. As of 30 June 2015 and 2014, the Group has recorded deferred tax assets of $Nil due to the Company's plans to consolidate certain intellectual property assets and therefore taxable temporary differences will not be available to offset deferred tax assets in the same jurisdictions.

5. Financial assets and liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the Group;
- specific information about each type of financial instrument;
- accounting policies; and
- information used to determine the fair value of the instruments, including judgments and estimation uncertainty involved.

The Group holds the following financial instruments:

Financial assets	Notes	Assets at FVOCI[1] $'000	Assets at FVTPL[2] $'000	Assets at amortized cost $'000	Total $'000
2015					
Cash and cash equivalents	5(a)	–	–	144,142	144,142
Trade and other receivables	5(b)	–	–	5,172	5,172
Available-for-sale financial assets	5(c)	2,995	–	–	2,995
Other non-current assets	5(d)	–	–	3,082	3,082
		2,995	**–**	**152,396**	**155,391**
2014					
Cash and cash equivalents	5(a)	–	–	196,394	196,394
Trade and other receivables	5(b)	–	–	6,098	6,098
Other non-current assets	5(d)	–	–	2,978	2,978
		–	**–**	**205,470**	**205,470**

(1) Fair value through other comprehensive income.

(2) Fair value through profit or loss.

Financial liabilities	Notes	Liabilities at FVOCI[1] $'000	Liabilities at FVTPL[2] $'000	Liabilities at amortized cost $'000	Total $'000
2015					
Trade and other payables	5(e)	–	–	36,774	36,774
Contingent consideration	5(f)	–	119,647	–	119,647
Derivative financial instruments	10(a)	–	–	–	–
		–	**119,647**	**36,774**	**156,421**
2014					
Trade and other payables	5(e)	–	–	20,723	20,723
Contingent consideration	5(f)	–	86,249	–	86,249
Derivative financial instruments	10(a)	–	337	–	337
		–	**86,586**	**20,723**	**107,309**

(1) Fair value through other comprehensive income.

(2) Fair value through profit or loss.

The Group's exposure to various risks associated with the financial instruments is discussed in Note 10. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

(a) Cash and cash equivalents

	30 June 2015 $'000	30 June 2014 $'000
Cash at bank	27,507	3,827
Deposits at call[1]	116,635	192,567
	144,142	**196,394**

(1) As of 30 June 2015 and 2014, interest-bearing deposits at call include an amount of $6.1m (2014: $6.1m) held as security against future foreign exchange deals and is restricted for use.

(i) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss in interest. See Note 22(k) for the Group's other accounting policies on cash and cash equivalents.

(b) Trade and other receivables and prepayments

	30 June 2015 $'000	30 June 2014 $'000
Income tax and tax incentives recoverable	4,812	5,254
Sundry debtors	177	11
Interest receivables	110	296
Other recoverable taxes (goods and services tax and value-added tax)	73	132
Other receivables	–	405
Trade and other receivables	**5,172**	**6,098**
Clinical trial research and development expenditure	4,525	533
Prepaid insurance and subscriptions	826	442
Other prepayments	4,788	282
Prepayments	**10,139**	**1,257**

(i) Classification as trade and other receivables

Interest receivables are amounts due at maturity of term deposits. All trade and other receivable balances are within their due dates and none are considered to be impaired at both 30 June 2015 and 30 June 2014. The Group's impairment and other accounting policies for trade and other receivables are outlined in Notes 10(c) and 22(l) respectively.

(ii) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

(iii) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

(iv) Impairment and risk exposure

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 10(b) and (c).

Notes to the Financial Statements

(c) Available-for-sale financial assets

Available-for-sale financial assets include the following classes of financial assets:

	30 June 2015 $'000	30 June 2014 $'000
Unlisted securities:		
Equity securities	2,995	–
	2,995	**–**

(i) Classification of financial assets as available-for-sale

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Impairment indicators for available-for-sale financial assets

A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. See Note 22(m)(v) for further details about the Group's impairment policies for financial assets.

(iii) Amounts recognized in other comprehensive income

For the years ended 30 June 2015 and 2014, there were no gains/(losses) recognized in other comprehensive income.

(iv) Fair-value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value is provided in Note 5(f) below. None of the available-for-sale financial assets are either past due or impaired.

All available-for-sale financial assets are denominated in USD and presented in AUD.

(d) Other non-current assets

	30 June 2015 $'000	30 June 2014 $'000
Bank guarantee	960	960
Letter of credit	2,122	2,018
	3,082	**2,978**

(i) Classification of financial assets as other non-current assets

Bank guarantee

These funds are held in an account named Mesoblast Limited at National Australia Bank according to the terms of a Bank Guarantee which is security for the sublease agreement for our occupancy of Level 38, 55 Collins Street, Melbourne, Victoria, Australia. The Bank Guarantee is security for the full and faithful performance and observance by the subtenant of the terms, covenants and conditions of the sublease. The Bank Guarantee continues in force until it is released by the lessor.

Letter of credit

These funds are held in an account named Mesoblast, Inc. at the Bank of America according to the terms of two irrevocable standby letters of credit which are security for the sublease agreement for our occupancy of 505 Fifth Avenue, New York, New York, United States of America. The letters of credit are security for the full and faithful performance and observance by the subtenant of the terms, covenants and conditions of the sublease. The letters of credit are deemed to automatically extend without amendment for a period of one year at each anniversary but will not automatically extend beyond the final expiration of 31 July 2021 (USD 1,186k) and 30 May 2021 (USD 443k).

(ii) Impairment and risk exposure

No other non-current assets are either past due or impaired.

(e) Trade and other payables

	30 June 2015 $'000	30 June 2014 $'000
Trade payables and other payables	36,774	20,723
	36,774	**20,723**

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

(f) Recognized fair value measurements

(i) Fair value hierarchy

The following table presents the Group's financial assets and financial liabilities measured and recognized at fair value as of 30 June 2015 and 30 June 2014 on a recurring basis, categorized by level according to the significance of the inputs used in making the measurements:

As of 30 June 2015	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets					
Available-for-sale financial assets					
Equity securities – biotech sector		–	–	2,995	2,995
Total financial assets	5(c)	**–**	**–**	**2,995**	**2,995**
Financial liabilities					
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	10(a)	–	–	–	–
Contingent consideration	6(d)	–	–	119,647	119,647
Total financial liabilities		**–**	**–**	**119,647**	**119,647**

As of 30 June 2014	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities					
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	10(a)	–	337	–	337
Contingent consideration	6(d)	–	–	86,249	86,249
Total financial liabilities		**–**	**337**	**86,249**	**86,586**

There were no transfers between any of the levels for recurring fair value measurements during the year.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, foreign exchange contracts) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for provisions (contingent consideration) and equity securities (unlisted).

(ii) Valuation techniques used.

The Group used the following techniques to determine the fair value measurements:

Notes to the Financial Statements

5. Financial assets and liabilities (continued)

– Level 2: The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

– Level 3: The fair value is determined using discounted cash flow analysis.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 30 June 2015 and 30 June 2014:

	Notes	Contingent consideration provision $'000
Opening balance – 1 July 2013		–
Initial recognition	12(b)	81,660
Charged/(credited) to consolidated income statement		
Unwinding of discount[1]		4,329
Exchange difference		260
Closing balance – 30 June 2014		**86,249**
Opening balance – 1 July 2014		86,249
Amount used during the year		(8,051)
Allocated to goodwill		
Remeasurement[2][3]		2,331
Charged/(credited) to consolidated income statement		
Unwinding of discount[1]		10,529
Remeasurement[3]		8,416
Exchange difference		20,173
Closing balance – 30 June 2015		**119,647**

(1) The unwinding of the risk adjusted discount as the time period shortens between the valuation date and the potential settlement date of the contingent consideration.

(2) $2,331k out of period adjustment to goodwill was recognized on finalisation of the MSC business combination of Osiris.

(3) The total amount of remeasurement of contingent consideration pertaining to the acquired MSC assets of Osiris was $10,747k.

(iv) Valuation inputs and relationship to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

	Fair value as at				Range of inputs (weighted average)		
Description	30 June 2015 $'000	30 June 2014 $'000	Valuation technique	Unobservable Inputs*	30 June 2015 $'000	30 June 2014 $'000	Relationship of unobservable inputs to fair value
Contingent consideration provision	119,647	86,249	Discounted cash flows	Risk adjusted discount rate	11%-13% (12.5%)	11%-13% (12.5%)	A change in the discount rate by 0.5% would increase/decrease the fair value by 3% 2014: A change in the discount rate by 0.5% would increase/decrease the fair value by 3%
				Expected unit revenues	n/a	n/a	A 10% increase in the price assumptions adopted would increase the fair value by 8% 2014: A 10% increase in the price assumptions adopted would increase the fair value by 5%

*There were no significant inter-relationships between unobservable inputs that materially affect fair values.

(v) Valuation processes

In connection with the Osiris acquisition, on 11 October 2013 (the 'acquisition date'), an independent valuation of the contingent consideration was carried out by an independent valuer.

For the year ended 30 June 2015, the Group has adopted a process to value contingent consideration internally. This valuation has been completed by the Group's internal valuation team and reviewed by the Chief Financial Officer (the 'CFO'). The valuation team is responsible for the valuation model. The valuation team also manages a process to continually refine the key assumptions within the model. This is done with input from the relevant business units. The key assumptions in the model have been clearly defined and the responsibility for refining those assumptions has been assigned to the most relevant business units. The remeasurement charged to the consolidated income statement was a result of changes to key assumptions such as market population, market penetration, product pricing and development timelines.

For the year ended 30 June 2014, an independent valuation was undertaken. The CFO and the internal valuation team reviewed the independent valuation and determined there was no material change to the inputs supporting the fair value that was recorded at the acquisition date. A key reason for this determination is that the independent valuation was completed during the financial year ended 30 June 2014 and no significant events have occurred since it was completed that would lead to the valuation changing.

Notes to the Financial Statements

The fair value of contingent consideration

	As of 30 June 2015 $'000	As of 30 June 2014 $'000
Fair value of cash or stock payable, dependent on achievement of future late-stage clinical or regulatory targets	31,098	25,032
Fair value of royalty payments from commercialization of the intellectual property acquired	88,549	61,218
	119,647	**86,249**

The main level 3 inputs used by the Group are evaluated as follows:

Risk adjusted discount rate: The discount rate used in the valuation has been determined based on required rates of returns of listed companies in the biotechnology industry (having regards to their stage of development, their size and number of projects) and the indicative rates of return required by suppliers of venture capital for investments with similar technical and commercial risks.

Expected unit revenues: Expected market sale price based on independent expert's review of the most comparable products currently available in the market place.

6. Non-financial assets and liabilities

This Note provides information about the Group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability
  - – property, plant and equipment (Note 6(a));
  - – intangible assets (Note 6(b));
  - – deferred revenue (Note 6(c));
  - – provisions (Note 6(d));
  - – deferred tax liability (Note 6(e));
- accounting policies; and
- information about determining the fair value of the instruments, including judgments and estimation uncertainty involved.

(a) Property, plant and equipment

	Plant and equipment $'000	Office furniture and equipment $'000	Computer hardware and software $'000	Total $'000
Year Ended 30 June 2014				
Opening net book amount	959	879	919	2,757
Additions	2,066	245	624	2,935
Exchange differences	(14)	(15)	(6)	(35)
Depreciation charge	(306)	(128)	(540)	(974)
Closing net book value	2,705	981	997	4,683
As of 30 June 2014				
Cost or fair value	3,248	1,309	2,463	7,020
Accumulated depreciation	(543)	(328)	(1,466)	(2,337)
Net book value	2,705	981	997	4,683
Year Ended 30 June 2015				
Opening net book amount	2,705	981	997	4,683
Additions	1,167	88	775	2,030
Exchange differences	563	177	75	815
Depreciation charge	(990)	(172)	(639)	(1,801)
Closing net book value	3,445	1,074	1,208	5,727
As of 30 June 2015				
Cost or fair value	5,151	1,639	3,476	10,266
Accumulated depreciation	(1,706)	(565)	(2,268)	(4,539)
Net book value	3,445	1,074	1,208	5,727

(i) Depreciation methods and useful lives

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over the estimated useful lives. The estimated useful lives are:

- Plant and equipment 10-15 years
- Office furniture and equipment 5-10 years
- Computer hardware and software 3-4 years

See Note 22(o) for the other accounting policies relevant to property, plant and equipment.

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6. Non-financial assets and liabilities (continued)

(b) Intangible assets

	Goodwill $'000	Acquired licenses to patents $'000	In-process research and development acquired $'000	Total $'000
Year ended 30 June 2014				
Opening net book value	127,687	1,282	418,865	547,834
Additions[1]	14,748	963	132,485	148,196
Exchange differences	(1,918)	(38)	(6,024)	(7,980)
Amortization charge	–	(146)	–	(146)
Impairment charge	–	–	–	–
Closing net book value	140,517	2,061	545,326	687,904
As of 30 June 2014				
Cost	140,517	2,667	545,326	688,510
Accumulated amortization	–	(606)	–	(606)
Accumulated impairment	–	–	–	–
Net book amount	140,517	2,061	545,326	687,904
Year ended 30 June 2015				
Opening net book value	140,517	2,061	545,326	687,904
Additions[2]	2,331	411	–	2,742
Exchange differences	32,221	405	123,550	156,176
Amortization charge	–	(154)	–	(154)
Impairment charge	–	–	–	–
Closing net book value	175,069	2,723	668,876	846,668
As of 30 June 2015				
Cost	175,069	3,533	668,876	847,478
Accumulated amortization	–	(810)	–	(810)
Accumulated impairment	–	–	–	–
Net book amount	175,069	2,723	668,876	846,668

(1) The total additions of In-process research and development recorded in Note 12 is $134,099k which represents the total for the years ended 30 June 2014 and 2013.

(2) An immaterial out of period adjustment to goodwill was recognized on finalisation of the MSC business combination of Osiris.

(i) Carrying value of in-process research and development acquired by product

	30 June 2015 $'000	30 June 2014 $'000
Cardiovascular products	331,186	270,012
Intravenous products for metabolic diseases and inflammatory/immunologic conditions	92,096	75,085
Ophthalmic product	40,482	33,004
Bone marrow transplantation	40,142	32,727
Mesenchymal stem cells (MSC)	164,970	134,498
	668,876	**545,326**

For all products the above balances are reported in AUD; however the underlying currency of the item recorded is USD. Apart from the MSC product which was acquired during the year ended 30 June 2014, the year on year movement in each balance is due to the movement between the AUD and USD exchange rate.

(ii) Amortization methods and useful lives
The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

- Acquired licenses to patents 7-16 years

See Note 22(p) for the other accounting policies relevant to intangible assets and Note 22(j) for the Group's policy regarding impairments.

(iii) Significant estimate: Impairment of goodwill and assets with an indefinite useful life
The Group tests annually whether goodwill and its assets with indefinite useful lives have suffered any impairment in accordance with its accounting policy stated in Note 22(j). The recoverable amounts of these assets and cash-generating units have been determined based on fair value less costs to dispose calculations, which require the use of certain assumptions.

(iv) Impairment tests for goodwill and intangible assets with an indefinite useful life
In-process research and development acquired is considered to be an indefinite life intangible asset on the basis that it is incomplete and cannot be used in its current form (see Note 22(p)(iii)). The carrying value of in-process research and development (AUD 669m : USD 514m) is a separate asset which has been subject to impairment testing at the cash generating unit level, which has been determined to be at the product level.

For the purpose of impairment testing, goodwill is monitored by management at the operating segment level. The Group is managed as one operating segment, being the development of adult stem cell technology platform for commercialization. The carrying value of goodwill has been allocated to the appropriate operating segment for the purpose of impairment testing.

The recoverable amount of both goodwill and in-process research and development was assessed as of 31 May 2015 based on the fair value less costs to dispose.

(v) Key assumptions used for fair value less costs to dispose calculations
In determining the fair value less costs to dispose we have given consideration to the following indicators:

- the valuation of the Company that was applicable to the recent (13 April 2015) equity placement undertaken with Celgene Corporation (NASDAQ: CELG) through issuing of the Company's securities on the Australian Securities Exchange;
- the market capitalisation of the Company on the ASX (ASX:MSB) on the impairment testing date of 31 May 2015;
- the valuation of the Company that was applicable to the 25 March 2013 capital raising undertaken through issuing of the Company's securities to investors on the Australian Securities Exchange;
- the amount of time that has elapsed since the goodwill acquisition of MSC assets from Osiris in October 2013 and of certain other products from Angioblast in December 2010;
- discounted expected future cash flows of programs; and
- the scientific results and progress of the trials since acquisition.

Costs of disposal were assumed to be immaterial.

Discounted cash-flows used a real pre-tax discount rate range of 15.4% to 17.4%, and include estimated real cash inflows and outflows for each program through to patent expiry, at which point a terminal value is assigned to the program. The assessment showed the recoverable amount of goodwill and in-process research and development exceeds the carrying amounts, and therefore there is no impairment.

In relation to cash outflows consideration has been given to cost of goods sold, selling costs and clinical trial schedules including estimates of numbers of patients and per patient costs. Associated expenses such as regulatory fees and patent maintenance have been included as well as any further preclinical development if applicable.

The assessment of goodwill showed the recoverable amount of the Group's operating segment, including goodwill and in-process research and development, exceeds the carrying amounts, and therefore there is no impairment.

There are no standard growth rates applied, other than our estimates of market penetration which increase initially, plateau and then decline.

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The assessment of the recoverable amount of each product has been made in accordance with the discounted cash-flow assumptions outlined above. The assessment showed that the recoverable amount of each product exceeds the carrying amount and therefore there is no impairment.

(vi) Impact of possible changes in key assumptions

Due to the significant excess value of the recoverable amount over the carrying value, a reasonably possible change in the key assumptions would not cause the carrying amount of the segment to exceed its recoverable amount.

Whilst we note there is no impairment the key sensitivities in the valuation remain the continued successful development of our technology platform.

(c) Deferred revenue

	30 June 2015 $'000	30 June 2014 $'000
Opening balance	55,746	72,793
Amount recognized as revenue in the year	(18,199)	(16,410)
Foreign exchange difference	11,293	(637)
Balance as of the end of the year	**48,840**	**55,746**
– To be recognized in the next twelve months (current deferred revenue)	19,537	15,928
– To be recognized beyond twelve months (non-current deferred revenue)	29,303	39,818
Balance as of the end of the year	**48,840**	**55,746**

(d) Provisions

	Year ended 30 June					
	2015			2014		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Contingent consideration	–	119,647	119,647	–	86,249	86,249
Employee benefits	6,720	2,071	8,791	4,891	269	5,160
Other	–	–	–	796	–	796
	6,720	**121,718**	**128,438**	**5,687**	**86,518**	**92,205**

(i) Information about individual provisions and significant estimates

Contingent consideration

The contingent consideration provision relates to the Group's liability for certain milestones and royalty achievements pertaining to the acquired MSC assets from Osiris Therapeutics Inc. Further disclosures can be found in Note 12 and Note 6(f)(iii).

Employee benefits

The provision for employee benefits relates to the Group's liability for annual leave, short-term incentives and long service leave.

Employee benefits include accrued annual leave. As of 30 June 2015 and 2014, the entire amount of the accrual was $710k and $590k, respectively, and is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group expects all employees to take the full amount of the accrued leave or require payment within the next 12 months.

Other

During the ordinary course of business the Group occasionally has disputes with service providers. 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.

(ii) Movements

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

	Note	Contingent consideration $'000	Other $'000	Total $'000
Carrying amount at start of the year – 1 July 2013		–	9,266	9,266
Initial recognition on business combination	12(b)	81,660	–	81,660
Amount used during the year		–	(5,922)	(5,922)
Charged/(credited) to consolidated income statement				
Unwinding of discount[1]		4,329	–	4,329
Unused amount reversed		–	(2,524)	(2,524)
Foreign exchange difference		260	(24)	236
Carrying amount as of 30 June 2014		**86,249**	**796**	**87,045**
Carrying amount at start of period – 1 July 2014		86,249	796	87,045
Amount used during the year		(8,051)	(914)	(8,965)
Allocated to goodwill				
Remeasurement[2][3]	5(f)(iii)	2,331	–	2,331
Charged/(credited) to consolidated income statement				
Unwinding of discount[1]		10,529	–	10,529
Remeasurement[1]		8,416	–	8,416
Foreign Exchange difference		20,173	118	20,291
Carrying amount as of 30 June 2015		**119,647**	**–**	**119,647**

(1) The unwinding of the risk adjusted discount as the time period shortens between the valuation date and the potential settlement date of the contingent consideration.

(2) $2,331k out of period adjustment to goodwill was recognized on finalisation of the MSC business combination of Osiris.

(3) The total amount of remeasurement of contingent consideration pertaining to the acquired MSC assets of Osiris was $10,747k.

(e) Deferred tax balances

	30 June 2015 $'000	30 June 2014 $'000
(i) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Deferred tax liabilities related to intangible assets	194,514	158,585
Deferred tax liabilities expected to be settled within 12 months	–	–
Deferred tax liabilities expected to be settled after 12 months	194,514	158,585

Movements	Intellectual Property $'000	Total $'000
As of 30 June 2013	146,038	146,038
Foreign exchange difference	(2,201)	(2,201)
Acquisition of in-process research and development	14,748	14,748
As of 30 June 2014	**158,585**	**158,585**
Foreign exchange difference	35,929	35,929
As of 30 June 2015	**194,514**	**194,514**

7. Equity

(a) Contributed equity

	2015 Shares	2014 Shares	2015 $'000	2014 $'000
Contributed equity				
(i) Share capital				
Ordinary shares	336,997,729	321,640,094	737,260	677,087
Less: Treasury Shares	(3,500,000)	(4,485,000)	–	–
Total Contributed Equity	**333,497,729**	**317,155,094**	**737,260**	**677,087**

(ii) Movements in ordinary share capital

Details	Shares No.	Issue price	$'000
Opening Balance as of 1 July 2013	316,468,901		654,458
Exercise of share options	230,000	$1.58	363
Exercise of share options	150,000	$1.73	260
Exercise of share options	310,000	$2.64	818
Exercise of share options	297,300	$3.48	1,035
Consideration for In-process research and development acquired (Note 12)	2,948,729	$5.69	16,764
Consideration for Acquired licenses to patents	70,164	$5.96	417
Placement of shares under LSFP[1]	900,000	$5.92	–
Placement of shares under LSFP[1]	100,000	$6.28	–
Placement of shares under LSFP[1]	165,000	$6.70	–
	5,171,193		19,657
Transaction costs arising on share issues			(46)
Contribution of equity (net of transaction costs)			19,611
Share options reserve transferred to equity on exercise of options			3,018
Movement for the year			22,629
Balance as of 30 June 2014	**321,640,094**		**677,087**

Details	Shares No.	Issue price	$'000
Opening balance – 1 July 2014	321,640,094		677,087
Exercise of share options	41,935	US $0.31	14
Exercise of share options	255,913	US $0.34	111
Exercise of share options	480,000	$1.58	758
Exercise of share options	150,000	$1.73	260
Exercise of share options	115,950	$3.48	404
Placement of shares under LSFP(1)	600,000	$4.46	–
Placement of shares under LSFP(1)	25,000	$4.54	–
Placement of shares under LSFP(1)	150,000	$4.66	–
Placement of shares under LSFP(1)	1,225,000	$4.71	–
Placement of shares under a share placement agreement(2)	15,298,837	$3.82	58,442
Share buy-back of LFSP(3)	(600,000)	$4.46	–
Share buy-back of LFSP(3)	(700,000)	$4.71	–
Share buy-back of LFSP(3)	(500,000)	$5.92	–
Share buy-back of LFSP(3)	(135,000)	$6.36	–
Share buy-back of LFSP(3)	(400,000)	$6.70	–
Share buy-back of LFSP(3)	(650,000)	$7.99	–
	15,357,635		59,988
Transaction costs arising on share issues			(586)
Contribution of equity (net of transaction costs)			59,402
Share options reserve transferred to equity on exercise of options			771
Movement for the year			60,173
Balance as of 30 June 2015	**336,997,729**		**737,260**

(1) Initially these shares are issued and held in trust. Therefore there is no dollar movement recorded in ordinary share capital at this time. If the shares are purchased in accordance with the conditions of the Loan Funded Share Plan ('LFSP') a dollar movement will be recorded at that date.

(2) These shares were issued to Celgene Corporation (NASDAQ: CELG) under a placement agreement pursuant to which Celgene purchased Mesoblast Limited securities and received a six-month right of refusal to certain disease fields.

(3) Repurchase of shares held in trust under LFSP by the Company. Therefore there is no dollar movement recorded in ordinary share capital.

(iii) 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.

(iv) 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 18.

Notes to the Financial Statements

7. Equity (continued)

(b) Reserves

	30 June 2015 $'000	30 June 2014 $'000
(i) Reserves		
Share-based payments reserve	61,535	55,530
Foreign currency translation reserve	108,717	17,886
	170,252	**73,416**
(ii) Reconciliation of reserves		
Share-based payments reserve		
Opening balance	55,530	49,129
Transfer to ordinary shares on exercise of options	(771)	(3,018)
Fair value of share-based payments	8,567	9,419
Reclassification of modified options to liability	(1,791)	–
Closing balance	**61,535**	**55,530**
Foreign currency translation reserve		
Opening balance	17,866	24,506
Currency (loss)/gain on translation of foreign operation's net assets	90,831	(6,620)
Closing balance	**108,717**	**17,886**

(iii) Nature and purpose of reserves

Share-based payment reserve

The share-based payments reserve is used to recognize:

– the grant date fair value of options issued but not exercised; and

– the grant date fair value of deferred shares granted but not yet vested.

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.

8. Cash flow information

	30 June 2015 $'000	30 June 2014 $'000
(a) Reconciliation of cash and cash equivalents		
Cash at bank	27,507	3,827
Deposit at call	116,635	192,567
	144,142	**196,394**
(b) Reconciliation of net cash flows used in operations with loss after income tax		
Loss for the year	(119,368)	(80,958)
Add/(deduct) net loss for non-cash items as follows:		
Commercialization revenue	(18,199)	(16,410)
Depreciation and amortization	1,955	1,120
Foreign exchange (gains)/losses	(13,141)	4,016
Finance costs	10,529	4,329
Remeasurement of contingent consideration	2,639	–
Release of excess provision for services	–	(2,524)
Equity settled share-based payment	8,567	9,419
Change in operating assets and liabilities:		
Decrease in trade and other receivables	252	2,911
(Increase) in prepayments	(8,676)	(271)
Decrease/(increase) in tax assets	459	3,281
(Decrease)/increase in trade creditors and accruals	12,012	(1,362)
(Decrease)/increase in provisions	1,262	(5,412)
Net cash outflows used in operations	**(121,709)**	**(81,861)**

Notes to the Financial Statements

Risk

9. Significant estimates, judgments and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgments is included in Notes 1 to 8 together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

(a) Significant estimates and judgments

The areas involving significant estimates or judgments are:

- recognition of revenue (Note 3);
- fair value of contingent liabilities and contingent purchase consideration in a business combination (Note 12 and Note 5(f));
- fair value of goodwill and other intangible assets including in-process research and development (Note 6(b));
- useful life of intangible asset (Note 6(b));
- estimates of tax payable and current tax expense (Note 4(b));
- accrued research and development and manufacturing commercialization expenses (Note 5(e));
- fair value of share-based payments (Note 18); and
- fair value of available-for-sale financial assets (Note 5(f)).

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

10. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – currency risk	Future commercial transactions Recognized financial assets and liabilities not denominated in AUD	Cash flow forecasting Sensitivity analysis	The future cash flows of each currency are forecast and the quantum of cash reserves held for each currency are managed in line with future forecasted requirements. Cross currency swaps are undertaken as required.
Market risk – interest rate risk	Term deposits at fixed rates	Sensitivity analysis	Vary length of term deposits
Credit risk	Cash and cash equivalents, trade receivables and derivative financial instruments	Aging analysis Credit ratings	Only transact with 'A' rated banks
Liquidity risk	Cash and cash equivalents	Rolling cash flow forecasts	Future cash flows requirements are forecasted and capital raising strategies are planned to ensure sufficient cash balances are maintained to meet the Group's future commitments.

Notes to the Financial Statements

(a) Derivatives

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following derivative financial instruments:

	30 June 2015 $'000	30 June 2014 $'000
Current liabilities		
Forward foreign exchange contracts – held for trading	–	337
	–	**337**

(i) Classification of derivatives

Derivatives are classified as held for trading and accounted for at fair value through profit or loss. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period.

(ii) Change in accounting policy

The Group has applied the new standard on AASB 13 Fair Value Measurement from 1 July, 2013. The adoption of the standard has not affected the measurement of the fair value of certain derivative liabilities.

(iii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives please refer to Note 5(f).

(b) Market risk

(i) Currency risk

The Group has certain clinical, regulatory and manufacturing activities which are being conducted internationally. The main currency exposure to the Group is the clinical trial activities which are primarily occurring in the United States of America and manufacturing activities occurring in Singapore. As a result of these activities, the Group has foreign currency amounts owing primarily in USD and Singapore dollars ('SGD'), as well as some smaller amounts in various other currencies as tabled below. These foreign currency 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 relevant foreign currency rates ('FX rates') to the AUD and making decisions as to the levels to hold in each currency by assessing its future activities which will likely be incurred in those currencies. The Group engages professional advice when considering forward foreign exchange contracts.

As of 30 June 2015, the Group held 64% of its cash in USD, and 36% in AUD. As of 30 June 2015, the Group did not hold any financial derivative contracts.

As of 30 June 2014, the Group held 45% of its cash in USD, and 55% in AUD. 12% of the AUD balance is subject to forward contracts to purchase USD at a predetermined rate in the future. After allowing for financial derivative contracts, the Group held 51% USD and 49% AUD. The Group utilized financial derivative contracts to take advantage of enhanced interest rates yields available on AUD deposits when compared to USD deposits. The Group sells USD and buys AUD from the bank at a pre-agreed FX rate and agrees to then sell those AUD and buy USD from the bank on maturity also at a pre-agreed rate. As these FX rates are known at the outset there is no currency risk. It should be noted that trading in speculative derivatives is strictly prohibited in accordance with the Group's treasury and financial risk management policy.

The balances held at the end of the year that give rise to currency risk exposure are presented in the following table, together with a sensitivity analysis which assesses the impact that a change of +/-20% in the exchange rate as of 30 June 2015 and 2014 would have had on the Group's reported net profits/(losses) and/or equity balance. The AUD: USD rate prevailing as of 30 June 2015 was 0.7680 (2014: 0.9240).

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

As of 30 June 2015	Foreign currency balance held '000	+20% Profit/(loss) AUD $'000	-20% Profit/(loss) AUD $'000
Bank accounts	USD 70,599	(15,321)	22,981
Bank accounts	CHF 158	(37)	55
Bank accounts	SGD 12	(2)	3
Trade and other receivables – CHF	CHF 117	(27)	41
Trade payables & accruals – USD	(USD 22,899)	4,969	(7,454)
Trade payables & accruals – AUD[1]	(AUD 149)	17	(26)
Trade payables & accruals – SGD	(SGD 208)	34	(50)
Trade payables & accruals – GBP	(GBP 60)	20	(31)
Trade payables & accruals – EUR	(EUR 184)	45	(67)
Trade payables & accruals – CHF	(CHF 111)	26	(39)
Provisions – USD	(USD 2,814)	611	(916)
Provisions – SGD	(SGD 55)	9	(13)
		(9,656)	**14,484**

As of 30 June 2014	Foreign currency balance held '000	+20% Profit/(loss) AUD $'000	-20% Profit/(loss) AUD $'000
Bank accounts	USD 82,853	(14,659)	21,989
Bank accounts	CHF 632	(125)	188
Forward exchange contracts			
– Buy foreign currency (Note 10(a))	USD 76,000	(13,447)	20,170
Trade and other receivables – USD	USD 990	(175)	263
Trade and other receivables – CHF	CHF 3	(1)	1
Trade payables & accruals – USD	(USD 16,788)	2,970	(4,455)
Trade payables & accruals – AUD[1]	(AUD 222)	35	(52)
Trade payables & accruals – SGD	(SGD 722)	102	(153)
Trade payables & accruals – GBP	(GBP 27)	8	(12)
Trade payables & accruals – EUR	(EUR 86)	21	(31)
Trade payables & accruals – CHF	(CHF 12)	2	(4)
Trade payables & accruals – DKK	(DKK 2)	0	(0)
Provisions – USD	(USD 3,144)	556	(834)
Provisions – SGD	(SGD 34)	5	(7)
		(24,708)	**37,063**

(1) These AUD balances are held by the foreign-based subsidiaries and are therefore subject to currency risk.

Notes to the Financial Statements

(ii) Interest rate risk

The Group is not exposed to typical interest rate risk, being the impact of fixed versus floating interest rates on debt. The Group's exposure is to interest rate movements which impacts interest income earned on its deposits. The interest income derived from these balances can fluctuate due to interest rate changes. This interest rate risk is managed by spreading the maturity date of our deposits across various periods. The Group ensures that sufficient funds are available, in at call accounts, to meet the cash flow requirements of the Group.

The deposits held which derive interest revenue are described in the table below, together with the maximum and minimum interest rates being earned as of 30 June 2015. The effect on profit is shown if interest rates change by 10%, in either direction, is as follows:

	30 June 2015			30 June 2014		
AUD	**Low**	**High**	**AUD '000**	**Low**	**High**	**AUD '000**
Funds invested	2.85%	2.92%	44,191	3.41%	3.60%	107,540
Rate increase by 10%	3.14%	3.21%	129	3.75%	3.96%	374
Rate decrease by 10%	2.57%	2.63%	(129)	3.07%	3.24%	(374)
USD	**Low**	**High**	**USD '000**	**Low**	**High**	**USD '000**
Funds invested	0.30%	0.30%	55,636	0.04%	0.27%	81,000
Rate increase by 10%	0.33%	0.33%	17	0.04%	0.30%	3
Rate decrease by 10%	0.27%	0.27%	(17)	0.04%	0.24%	(3)

(iii) Price risk

Price risk is the risk that future cash flows 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.

(c) 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. The Group's receivables are tabled below.

	30 June 2015 $'000	30 June 2014 $'000
Cash and cash equivalents		
Cash and cash equivalents (Note 5(a)) – minimum A rated	144,142	196,394
Trade and other receivables		
Receivable from the Australian Government (Goods and Services Tax)	70	128
Receivable from the Australian Government (Income Tax)	4,720	5,180
Receivable from the United States Government (Income Tax)	92	74
Receivable from the Swiss Government (Value-Added Tax)	3	4
Receivable from minimum A rated bank deposits (interest)	110	296
Receivable from other parties (non-rated)	177	416

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to pay its debts as and when they fall due.

For the year ended 30 June 2015, the Group has incurred a total comprehensive loss after income tax of $28,537k (2014: 87,578k) and net cash outflows from operations of $115,989k (2014: 81,861k). As at 30 June 2015, the Group held total cash and cash equivalents of $144,142k. The Group is a development stage biotechnology company and as such expects to be utilizing cash reserves until its research activities are commercialized. The Group has historically funded its research activities through raising capital from shareholders and entering into licensing and partnership agreements, it is expected that similar funding will be obtained to provide working capital as and when required.

The directors are satisfied that there is sufficient working capital to support the committed research activities over the coming 12 months and the Group has the ability to realize its assets and pay its liabilities and commitments in the normal course of business. Accordingly, the directors have prepared the financial report on a going concern basis.

All financial liabilities, excluding contingent consideration, held by the Group as of 30 June 2015 and 30 June 2014 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.

11. Capital management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. See Note 5(a) for the cash reserves of the Group as at the end of the financial reporting period.

Notes to the Financial Statements

Group structure

12. Business combination

(a) Summary of acquisition

On 11 October 2013, the Group acquired the culture-expanded mesenchymal stem cell ('MSC') business of Osiris Therapeutics Inc.

The acquisition is complementary in its nature with many commercial and strategic benefits. The potential benefits derived from acquiring the late-phase MSC products include:

- near term market launch of a mesenchymal lineage product in major jurisdictions;
- broadened late-phase clinical programs in strategic areas of focus;
- leveraged roll out of infrastructure, skills and expertise needed to commercialize mesenchymal precursor cell products;
- ownership of extensive long-term clinical data from over 1,500 patients treated with culture-expanded mesenchymal stem cells, including safety, efficacy and repeat dosing data; and
- acquisition of new intellectual property which is highly complementary to the Group's existing patent estate.

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

Purchase consideration at fair value

	Fair value at 11 October 2013 $'000
Cash paid on closing	21,196
Cash payment made on the six month anniversary of the agreement (Fair Value)[1]	15,610
Securities allotment (2,948,729 shares were allotted)[2]	
	15,873
Contingent consideration (Note 6(d)(ii))[3]	81,660
Total purchase consideration	**134,339**

Net assets acquired at fair value

	Fair value at 11 October 2013 $'000
Property, plant and equipment	240
Intangible assets: in-process research and development	134,099
Deferred tax liability on intangible assets	(14,748)
Net identifiable assets acquired	**119,591**
add: Goodwill	14,748
Net assets acquired	**134,339**

(1) The cash payment due on the six month anniversary of the agreement of $15,610k has a USD denominated value of USD 15,000k.

(2) The Company's securities were issued as consideration upon the transfer of assets on 18 December 2013, which had a value of $16,717k on that date.

(3) At acquisition date contingent consideration of $81,660k was recorded as tabled above. Please refer to Note 6(d)(ii) for the reconciliation of the subsequent movements of this contingent consideration provision.

All assets acquired and purchase consideration amounts are denominated in USD. The amounts presented above are in AUD and have been translated at the rate applicable at the acquisition date (11 October 2013) being AUD 1 : USD 0.9450. The goodwill is attributable to the deferred tax liability that is required to be recognized on the difference between the intangible asset's book value compared to its tax value.

No amount of goodwill is expected to be deducted for tax purposes.

The tax base of the asset assumes that the asset is held for use and is therefore $Nil resulting in a deferred tax liability calculated at the tax rate of the jurisdiction where the underlying intangible assets are held.

Refer also to Note 6(b) for an immaterial out of period adjustment to goodwill on finalisation of the business combination.

Notes to the Financial Statements

(b) Contingent consideration

In the event that certain pre-determined milestones and royalties are achieved additional consideration is payable. The fair value of the contingent consideration is set out in the table below. The fair value estimates have been calculated on the basis of fair value less cost to sell by using the income approach, with reference to both the excess earnings and relief from royalty methods as set out below:

The fair value of contingent consideration	Fair value at 11 October 2013 $'000
Fair value of cash or stock payable, dependent on achievement of future late-stage clinical or regulatory targets[1]	24,507
Fair value of royalty payments from commercialization of the intellectual property acquired[2]	57,153
	81,660

(1) The contingent consideration payable for each milestone is a fixed dollar amount and can be paid either in cash or through the allotment of Mesoblast Ltd securities at the date of payment, at the discretion of the Mesoblast Group. The potential undiscounted amount of the contingent consideration for milestones is a minimum of USD Nil and a maximum of USD 50m.

(2) The amount of the contingent consideration payable as royalties paid on sales achieved is variable. The contingent consideration paid could range from zero dollars if no sale of product occurs, up to a maximum that is unlimited. This maximum is calculated at a commercial arm's length percentage of net sales. Royalty payments will cease after a 10 year commercial sales period. Royalties are payable in cash after the conclusion of the period in which the sales were made.

(c) Purchase consideration – cash outflow

	30 June 2015 $'000	30 June 2014 $'000
Cash consideration (fair value) owed pursuant to the asset purchase agreement	35,269	36,806
Securities allotment consideration owed (fair value) pursuant to the asset purchase agreement	2,331	–
less: amount paid during the prior full year ended	(35,269)	(1,537)
Cash outflow reported for the current reporting period[1]	**2,331**	**35,269**

(1) Included within cash flows from investing activities within the statements of cash flows.

(d) Revenue and profit contribution

The acquired business contributed revenues of $Nil and net loss of $5,951k to the Group for the period 11 October 2013 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and loss for the year ended 30 June 2014 would have been $25,980k and $82,313k respectively. These amounts have been calculated using the Osiris audited financial statements segment information. This has been calculated based on expenditure incurred with external providers to develop programs acquired from Osiris. There were no allocations of internal labour or other internal cost bases.

(e) Acquisition-related costs

Directly attributable acquisition-related costs of approximately $954k are included in management and administration expenses in the consolidated income statement, and in the operating cash flows section in the consolidated statement of cash flows, for the full-year ended 30 June 2014.

13. Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries as of 30 June 2015 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

			Equity holding	
Name of entity	Country of incorporation	Class of shares	30 June 2015	30 June 2014
			%	%
Mesoblast, Inc.	USA	Ordinary	100	100
Mesoblast International Sàrl (includes Mesoblast International Sarl Singapore Branch)	Switzerland	Ordinary	100	100
Mesoblast Australia Pty Ltd	Australia	Ordinary	100	100
Mesoblast UK Limited	United Kingdom	Ordinary	100	100

Notes to the Financial Statements

Unrecognized items

14. Contingent assets and contingent liabilities

(a) Contingent assets

The Group did not have any contingent assets outstanding as of 30 June 2015 and 2014.

(b) Contingent liabilities

(i) Central Adelaide Local Health Network Incorporated ('CALHNI') (formerly Medvet)

Mesoblast will be required to make a milestone payment to CALHNI of USD 250k on completion of Phase 3 clinical trials and USD 350k on FDA marketing approval for products in the orthopedic field. The Group will pay CALHNI a commercial arm's length royalty based on net sales by the Group of licensed products in the orthopedic field each quarter.

Additionally, in regards to certain intellectual property assets originally assigned to Mesoblast Inc., the Group may be required to pay consideration to CALHNI depending on the achievement of future milestones. They represent payments on successful completion of subsequent clinical milestones in fields other than orthopedic. If all milestones were to be reached these payments total USD 1,850k. In addition it stipulates the requirement for royalty payments as a percentage of sales of product in fields other than orthopedic at a commercial arm's length rate as well as minimum annual royalties after commercial sale of product scaling up from USD 100k to USD 500k over 5 years.

Across all fields, if all milestones were reached, milestone payments would total USD 2,450k.

(ii) Other contingent liabilities

The Group has entered into a number of agreements with third parties pertaining to intellectual property. Contingent liabilities may arise in the future if certain events or developments occur in relation to these agreements. At this time the Group has assessed these contingent liabilities to be remote and specific disclosure is not required.

15. Commitments

(a) Capital commitments

The Group did not have any commitments for future capital expenditure outstanding as of 30 June 2015 and 2014.

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases

The Group leases various offices under non-cancellable operating leases expiring within 1 to 6 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess office space is sub-let to a third party also under a non-cancellable operating lease.

	Total $'000	Within one year $'000	Later than one year but no later than three years $'000	Later than three years but no later than five years $'000	Later than five years $'000
Operating leases	18,380	3,375	9,698	5,307	–
Total commitments	**18,380**	**3,375**	**9,698**	**5,307**	**–**

Lease commitments include amounts in USD and Singapore dollars which have been translated to AUD as of 30 June 2015 foreign exchange rates published by the Reserve Bank of Australia.

(ii) Sub-lease payments

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases are set out below:

	Total $'000	Within one year $'000	Later than one year but no later than three years $'000	Later than three years but no later than five years $'000	Later than five years $'000
Operating leases	926	210	629	87	–
Total commitments	**926**	**210**	**629**	**87**	**–**

(c) Purchase commitments

The Group has established a strategic alliance for clinical and long-term commercial production of Mesoblast's off-the-shelf (allogenic) adult stem cell products with Lonza Group (SWS: LONN).

As part of this agreement, Mesoblast has an option to trigger a process requiring Lonza Group to construct a purpose-built manufacturing facility exclusively for Mesoblast's marketed products. In return, Mesoblast will purchase agreed quantities of marketed products from the facility.

16. Events occurring after the reporting period

There are no events that have occurred after 30 June 2015 and prior to the signing of this financial report that would likely have a material impact on the financial results presented.

Other information

17. Related party transactions

(a) Parent entity

The parent entity within the Group is Mesoblast Limited.

(b) Subsidiaries

Details of interests in subsidiaries are disclosed in Note 13 to the financial statements.

(c) Key management personnel compensation

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

	30 June 2015 $	30 June 2014 $
Short-term employee benefits	3,607,006	2,806,853
Long-term employee benefits	19,742	23,173
Post-employment benefits	93,434	65,319
Share-based payments	341,986	–
	4,062,168	**2,895,345**

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

(d) Transactions with other related parties

Accounts receivable from, accounts payable to and loans from subsidiaries as at the end of the financial year have been eliminated on consolidation of the Group.

(e) 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.

Outstanding balances are unsecured and are repayable in cash.

18. Share-based payments

The Company has adopted an Employee Share Option Plan ('ESOP') and a Loan Funded Share Plan ('LFSP') (together, 'the Plans') to foster an ownership culture within the Company and to motivate senior management and consultants to achieve performance targets. Selected directors, employees and consultants may be eligible to participate in the Plans at the absolute discretion of the board of directors, and in the case of directors, upon approval by shareholders.

Grant policy

In accordance with the Company's current policy, options and loan funded shares are typically issued in three equal tranches. For issues granted prior to 1 July 2015 the length of time from grant date to expiry date was typically 5 years, the grant made on 10 July 2015 was issued with a seven year term. 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 for options is determined by reference to the 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. In the case of options issued to staff (performance based) the board of directors add a 10% premium, options issued to directors, which are not performance based, are issued with no premium. A one off issue of options to non-Australian based directors was made during the year. The board of directors' policy is not to issue options at a discount to the market price. The same approach is used to determine the purchase price to acquire a loan-funded share for the purposes of the LFSP.

The aggregate number of options which may be issued pursuant to the ESOP 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 14/1000].

In addition the LFSP has the following characteristics:

On grant date, the Company issues new equity (rather than purchasing shares on market), and the loan funded shares are placed in a trust which holds the shares on behalf of the employee. The trustee issues a limited recourse, interest free, loan to the employee which is equal to the number of shares multiplied by the price. A limited-recourse loan means that the repayment amount will be the lesser of the outstanding loan value (the loan value less any amounts that may have already been repaid) and the market value of the shares that are subject to the loan. The price is the amount the employee must pay for each loan funded share if exercised.

The trustee continues to hold the shares on behalf of the employee until the employee chooses to settle the loan pertaining to the shares and all vesting conditions have been satisfied, at which point ownership of the shares is fully transferred to the employee.

Any dividends paid by the Company, while the shares are held by the trustee, are applied as a repayment of the loan at the after-tax value of the dividend.

(a) Reconciliation of outstanding share-based payments

Year ended 30 June 2015

Series	Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/ Cancelled No. (during the year)	Closing Balance	Vested and exercisable No. (end of year)
10	30/11/2009	30/11/2014	$1.73	150,000	–	(150,000)	–	–	–
11	30/11/2009	30/11/2014	$1.58	480,000	–	(480,000)	–	–	–
13	22/09/2010	21/09/2015	$2.64	135,000	–	–	–	135,000	135,000
14	29/11/2010	29/11/2015	$3.48	1,569,300	–	(115,950)	–	1453,350	1,453,350
15/LF1	22/12/2011	30/06/2016	$7.99	4,243,334	–	–	(830,000)	3,413,334	3,413,334
16/LF2	24/02/2012	23/02/2017	$8.48	340,000	–	–	–	340,000	340,000
17/LF3	09/07/2012	08/07/2018	$6.69	250,000	–	–	–	250,000	166,665
18/LF4	21/09/2012-29/10/2012	30/06/2017	$6.70	2,653,333	–	–	(376,666)	2,276,667	1,863,337
19/LF5	25/01/2013-29/01/2013	24/01/2018-28/01/2008	$6.29	100,000	–	–	–	100,000	66,668
20/LF6	24/05/2013	23/05/2018	$6.36	1,000,000	–	–	(135,000)	865,000	576,676
21/LF7	03/09/2013	30/06/2018	$5.92	3,290,000	–	–	(548,333)	2,741,667	1,206,671
22/LF8	04/09/2013	27/08/2018	$6.28	325,000	–	–	(50,000)	275,000	91,668
23a	26/11/2013	10/10/2018	$6.20	50,000	–	–	–	50,000	16,666
23b	30/11/2013	29/11/2018	$6.79	200,000	–	–	(200,000)	–	–
LF9.4	11/12/2013	30/06/2017	$6.70	165,000	–	–	(165,000)	–	–
LF9.7	03/09/2013	30/06/2018	$5.92	200,000	–	–	(200,000)	–	–
24	17/12/2013	16/12/2018	$6.25	180,000	–	–	(31,667)	148,333	51,666
24a (i)	10/02/2014	09/02/2019	$6.41	100,000	–	–	(100,000)	–	–
24a (ii)	17/02/2014	16/02/2019	$6.33	25,000	–	–	(25,000)	–	–
25	15/07/2014	06/04/2019	$5.80	–	15,000	–	–	15,000	5,000
25a (i&ii)	01/01/2014	31/12/2018	$6.38	650,000	–	–	–	650,000	650,000
25b	12/12/2014	31/10/2019	$4.51	–	50,000	–	–	50,000	–
25c	21/09/2014	02/09/2014	$5.43	–	60,000	–	(60,000)	–	–
26/LF11	24/07/2014	23/07/2019	$4.71	–	575,000	–	(360,000)	215,000	–
27/LF12	05/09/2014	30/06/2019	$4.71	–	3,960,000	–	(580,000)	3,380,000	–
27(i)	28/07/2014	27/07/2019	$4.54	–	100,000	–	(100,000)	–	–

Notes to the Financial Statements

18. Share-based payments (continued)

(a) Reconciliation of outstanding share-based payments (continued)

Year ended 30 June 2015 (continued)

Series	Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/ Cancelled No. (during the year)	Closing Balance	Vested and exercisable No. (end of year)
27 (ii)	04/08/2014	03/08/2019	$4.60	–	50,000	–	–	50,000	–
27 (iii)	11/08/2014	10/08/2019	$4.43	–	100,000	–	(100,000)	–	–
27 (iv)	25/08/2014	24/08/2019	$4.67	–	75,000	–	–	75,000	–
LF12a	05/09/2014	30/06/2019	$4.46	–	600,000	–	(600,000)	–	–
28/LF13	09/10/2014	08/10/2019	$4.54	–	235,000	–	–	235,000	–
29	25/11/2014	24/11/2019	$4.02	–	240,000	–	–	240,000	–
30a[1]	25/03/2015	30/06/2018	$5.00	–	650,000	–	–	650,000	650,000
30b[1]	25/03/2015	25/01/2018	$5.00	–	235,000	–	–	235,000	156,666
30c[1]	25/03/2015	25/01/2019	$5.00	–	135,000	–	–	135,000	135,000
30d[1]	25/03/2015	30/06/2019	$5.00	–	300,000	–	–	300,000	100,000
30e[1]	25/03/2015	23/07/2019	$5.00	–	165,000	–	–	165,000	165,000
30f[1]	25/03/2015	23/07/2019	$5.00	–	200,000	–	–	200,000	133,334
30g[1]	25/03/2015	20/01/2019	$4.71	–	300,000	–	–	300,000	–
30h[1]	25/03/2015	25/01/2018	$4.71	–	400,000	–	–	400,000	–
30i[1]	25/03/2015	25/01/2019	$4.46	–	600,000	–	–	600,000	200,000
30j	25/03/2015	30/06/2019	$4.71	–	150,000	–	–	150,000	–
LF14	6/01/2015	16/12/2019	$4.66	–	150,000	–	–	150,000	–
31	16/03/2015	16/02/2020	$4.73	–	60,000	–	–	60,000	–
31a	27/04/2015	16/02/2020	$4.73	–	20,000	–	–	20,000	–
31b	12/05/2015	16/02/2020	$4.30	–	400,000	–	–	400,000	–
INC	7/12/2010	7/07/2015	USD 0.046	287,903	–	–	–	287,903	287,903
INC	7/12/2010	26/10/2018	USD 0.305	195,999	–	(41,935)	–	154,064	154,064
INC	7/12/2010	26/10/2019	USD 0.340	703,761	–	(255,913)	–	447,848	447,848
INC	7/12/2010	25/04/2017	USD 0.444	127,956	–	–	–	127,956	127,956
INC	7/12/2010	2/05/2017	USD 0.444	127,956	–	–	–	127,956	127,956
30 June 2015				**17,549,542**	**9,825,000**	**(1,043,798)**	**(4,461,666)**	**21,869,078**	**12,722,428**
Weighted average share purchase price				$5.82	$4.69	$1.49	$5.91	$5.49	$5.78

(1) 30a to 30i were granted as a remuneration for the repurchase and cancellation of 2,985,000 LFSP during the year ended 30 June 2015 (see Note 18(b)).

Year ended 30 June 2014

Series	Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/ Cancelled No. (during the year)	Closing Balance	Vested and exercisable No. (end of year)
8	7/07/2008	30/06/2013	$1.00	180,000	–	–	(180,000)	–	–
10	30/11/2009	30/11/2014	$1.73	300,000	–	(150,000)	–	150,000	150,000
11	30/11/2009	30/11/2014	$1.58	710,000	–	(230,000)	–	480,000	480,000
13	22/09/2010	21/09/2015	$2.64	445,000	–	(310,000)	–	135,000	135,000
14	29/11/2010	29/11/2015	$3.48	1,866,600	–	(297,300)	–	1,569,300	1,569,300
15/LF1	22/12/2011	30/06/2016	$7.99	4,560,000[1]	–	–	(316,666)	4,243,334	3,543,339
16/LF2	24/02/2012	23/02/2017	$8.48	340,000	–	–	–	340,000	226,668
17/LF3	9/07/2012	8/07/2018	$6.69	250,000	–	–	–	250,000	83,331
18/LF4	21/09/2012-29/10/2012	30/06/2017	$6.70	2,915,000[1]	–	–	(261,667)	2,653,333	1,275,002
19/LF5	25/01/2013-29/01/2013	24/01/2018-28/01/2008	$6.29	100,000	–	–	–	100,000	33,334
20/LF6	24/05/2013	23/05/2018	$6.36	1,000,000	–	–	–	1,000,000	378,338
21/LF7	3/09/2013	30/06/2018	$5.92	–	3,490,000	–	(200,000)	3,290,000	325,001
22/LF8	4/09/2013	27/08/2018	$6.28	–	325,000	–	–	325,000	–
23a	26/11/2013	10/10/2018	$6.20	–	50,000	–	–	50,000	–
23b	30/11/2013	29/11/2018	$6.79	–	200,000	–	–	200,000	–
24	17/12/2013	16/12/2018	$6.25	–	190,000	–	(10,000)	180,000	–
24a (i)	10/02/2014	9/02/2019	$6.41	–	100,000	–	–	100,000	–
24a (ii)	17/02/2014	16/02/2019	$6.33	–	25,000	–	–	25,000	–
25a (i&ii)	1/01/2014	31/12/2018	$6.38	–	650,000	–	–	650,000	–
LF9.4	11/12/2013	30/06/2017	$6.70	–	165,000	–	–	165,000	110,000
LF9.7	3/09/2013	30/06/2018	$5.92	–	200,000	–	–	200,000	66,667
INC	7/12/2010	7/07/2015	USD 0.046	287,903	–	–	–	287,903	287,903
INC	7/12/2010	26/10/2018	USD 0.305	195,999	–	–	–	195,999	195,999
INC	7/12/2010	26/10/2019	USD 0.340	703,761	–	–	–	703,761	703,761
INC	7/12/2010	25/04/2017	USD 0.444	127,956	–	–	–	127,956	127,956
INC	7/12/2010	2/05/2017	USD 0.444	127,956	–	–	–	127,956	127,956
30 June 2014				**14,110,175**	**5,395,000**	**(987,300)**	**(968,333)**	**17,549,242**	**9,819,555**
Weighted average share purchase price				$5.46	$6.08	$2.51	$5.90	$5.82	$5.32

(1) The opening balance for 15/LF1 and 18/LF4 has been restated to increase the balance by 100,000 and 45,000 loan funded shares respectively. These shares were forfeited by participants in accordance with the terms of the loan funded share plan and are now the property of the Employee Share Trust.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2015 and 2014 was $4.06 and $5.83, respectively.

The weighted average remaining contractual life of share options and loan funded shares outstanding as of 30 June 2015 and 2014 was 2.43 years and 2.96 years, respectively.

Notes to the Financial Statements

(b) Existing share-based payment arrangements

General terms and conditions attached to share-based payments

Share options pursuant to the employee share option plan and shares pursuant to loan funded share plan are granted in three equal tranches. For issues granted prior to 1 July 2015 the length of time from grant date to expiry date was typically 5 years, the grant made on 10 July 2015 was issued with a seven year term. Vesting occurs progressively over the life of the option/share with the first tranche vesting one year from grant date, the second tranche two years from grant date, and the third tranche three years from grant date. On cessation of employment the Company's board of directors determines if a leaver is a bad leaver or not. If a participant is deemed a bad leaver, all rights, entitlements and interests in any unexercised options or shares (pursuant to the loan funded share plan) held by the participant will be forfeited and will lapse immediately. If a leaver is not a bad leaver they may retain vested options and shares (pursuant to the loan funded share plan), however, they must be exercised within 60 days of cessation of employment (or within a longer period if so determined by the Company's board of directors), after which time they will lapse. Unvested options will normally be forfeited and lapse. This policy applies to all issues shown in the above table with the exception of the following:

Series

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 7 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 (vested 12 October 2012);
- Mesoblast obtains a license from the Therapeutics Goods Administration (TGA) for the manufacture (vested 20 July 2010).

All the remaining options under series 10 were exercised during the year.

25a(i&ii) Options were granted in two equal tranches and vested on the date that the option holder had direct involvement (to the reasonable satisfaction of the Company's board of directors) in the Company achieving certain confidential commercial objectives.

INC. As part of the acquisition of Mesoblast, Inc., Mesoblast, Inc. options were converted to options of the Company at a conversion ratio of 63.978. The Mesoblast, Inc. option exercise price per option was adjusted using the same conversion ratio. All options vested on acquisition date (7 December 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).

31b Options were granted in two equal tranches and will vest on the date that the option holder has direct involvement (to the reasonable satisfaction of the Company's board of directors) in the Company achieving certain confidential commercial objectives.

Modifications to share-based payment arrangements

During the year ended 30 June 2015, the Company repurchased an aggregate amount of $17.7m of loans under LFSP and correspondingly cancelled 2,985,000 of the Company's ordinary shares held in trust for certain employees of the Company. As remuneration for the repurchase of loans and cancellation of these ordinary shares under LFSP, the Company granted options to purchase 2,985,000 of the Company's ordinary shares at exercise prices ranging from $4.46 to $5.00 under ESOP 30a to 30i.

As of 25 March 2015 (the 'modification date'), the total incremental fair value granted as a result of these modifications was $769k.

(c) Fair values of share-based payments

The weighted average fair value of share options and loan funded shares granted during the years ended 30 June 2015 and 2014 was $1.22 and $1.71, respectively.

The fair value of all shared-based payments made has been calculated using the Black-Scholes model. This model requires the following inputs:

Share price at grant date

The share price underpinning the exercise price has been used as the share price at grant date for valuation purposes. This price is generally the volume weighted average share price for the 5 trading days leading up to grant date.

Exercise price

The exercise price is a known value that is contained in the agreements.

Share price volatility

The model requires the Company's share price volatility to be measured. In estimating the expected volatility of the underlying shares our objective is to approximate the expectations that would be reflected in a current market or negotiated exchange price for the option or loan funded share.

Share price date from 1 January, 2012 through to the end of each applicable financial year has been used to calculate share price volatility.

Life of the option/share

The life is generally the time period from grant date through to expiry. Certain assumptions have been made regarding 'early exercise' i.e. options exercised ahead of the expiry date, with respect to option series 14 and later. These assumptions have been based on historical trends for option exercises within the Company and take into consideration exercise trends that are also evident as a result of local taxation laws.

Dividend yield

The Company has yet to pay a dividend so it has been assumed the dividend yield on the shares underlying the options will be 0%.

Risk free interest rate

This has been sourced from the Reserve Bank of Australia historical interest rate tables for government bonds.

Notes to the Financial Statements

18. Share-based payments (continued)

Model inputs

The model inputs for the valuations of options approved and issued during the year ended 30 June 2015 are as follows:

Series	Financial year of grant	Exercise/Loan Price per share $	Share price at grant date $	Expected share price volatility	Life	Dividend yield	Risk-free interest rate
25	2015	5.80	4.48	38.09%	3.5 yrs	0%	2.99%
25b	2015	4.51	4.33	38.40%	3.7 yrs	0%	2.45%
25c	2015	5.43	4.89	38.38%	3.7 yrs	0%	3.19%
26/LF11	2015	4.71	4.04	37.89%	3.7 yrs	0%	2.80%-2.94%
27/LF12	2015	4.71	5.49	38.44%	3.5 yrs	0%	3.12%
27(i)	2015	4.54	4.13	38.44%	3.7 yrs	0%	3.12%
27(ii)	2015	4.60	4.19	38.44%	3.7 yrs	0%	3.12%
27(iii)	2015	4.43	4.03	38.44%	3.7 yrs	0%	3.12%
27(iv)	2015	4.67	4.24	38.44%	3.7 yrs	0%	3.12%
LF12a	2015	4.46	5.49	38.36%	3.5 yrs	0%	2.81%
28/LF13	2015	4.54	4.11	38.33%	3.7 yrs	0%	2.86%
29	2015	4.02	4.02	38.09%	3.7 yrs	0%	2.71%
30a	2015	5.00	3.96	38.70%	2.4 yrs	0%	1.87%
30b	2015	5.00	3.96	38.70%	2.1 yrs	0%	1.87%
30c	2015	5.00	3.96	38.70%	2.8 yrs	0%	1.87%
30d	2015	5.00	3.96	38.70%	2.8 yrs	0%	1.87%
30e	2015	5.00	3.96	38.70%	2.1 yrs	0%	1.87%
30f	2015	5.00	3.96	38.70%	2.8 yrs	0%	1.87%
30g	2015	4.71	3.96	38.70%	3.2 yrs	0%	1.87%
30h	2015	4.71	3.96	38.70%	3.2 yrs	0%	1.87%
30i	2015	4.46	3.96	38.70%	3.2 yrs	0%	1.87%
30j	2015	4.71	3.96	38.70%	3.2 yrs	0%	1.87%
LF14	2015	4.66	4.33	38.58%	3.7 yrs	0%	2.27%
31	2015	4.73	3.86	38.92%	3.6 yrs	0%	1.99%
31a	2015	4.73	3.56	40.98%	3.6 yrs	0%	2.02%
31b	2015	4.30	3.72	40.82%	3.5 yrs	0%	2.42%

The closing share market price of an ordinary share of Mesoblast Limited on the Australian Securities Exchange as of 30 June 2015 was $3.76.

The model inputs for the valuations of options approved and issued during the year ended 30 June 2014 are as follows:

Series	Financial year of grant	Exercise/Loan Price per share $	Share price at grant date $	Expected share price volatility	Life	Dividend yield	Risk-free interest rate
15/LF1	2014	7.99	7.00-7.48	51.48%	0.6-4.5 yrs	0%	3.18%
18/LF4	2013/2014	6.70	5.83-7.14	48.49%	4.75 yrs	0%	2.78%
21/LF7	2014	5.92	5.56	38.80%	3.6 yrs	0%	3.31%
22	2014	6.28	5.49	38.79%	3.7 yrs	0%	3.37%
LF8	2014	5.92	6.28	38.79%	3.7 yrs	0%	3.37%
LF9.4	2014	6.70	5.88	38.79%	2.6 yrs	0%	3.47%
LF9.7	2014	5.92	5.88	38.79%	3.4 yrs	0%	3.47%
23a	2014	6.20	6.04	38.74%	3.6 yrs	0%	3.45%
23b	2014	6.20	6.79	38.73%	3.7 yrs	0%	3.44%
24	2014	6.25	5.58	38.80%	3.7 yrs	0%	3.38%
24a.(i)	2014	6.41	5.75	38.37%	3.7 yrs	0%	3.44%
24a.(ii)	2014	6.33	5.76	38.20%	3.7 yrs	0%	3.45%
25a.(i)	2014	6.38	5.84	38.04%	3.6 yrs	0%	3.43%
25a.(ii)	2014	6.38	5.84	38.04%	4.9 yrs	0%	3.43%

The closing share market price of an ordinary share of Mesoblast Limited on the Australian Securities Exchange as of 30 June 2014 was $4.47.

19. Remuneration of auditors

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

	30 June 2015 $	30 June 2014 $
(a) PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	335,068	326,009
Other assurance services	1,236,766	–
Total remuneration of PricewaterhouseCoopers Australia	**1,571,834**	**326,009**
(b) Network firms of PricewaterhouseCoopers Australia		
(i) Audit and other assurance services		
Audit and review of financial reports	112,119	110,393
Total remuneration of Network firms of PricewaterhouseCoopers Australia	112,119	110,393
Total auditors' remuneration	**1,683,953**	**436,402**

20. Losses per share

	30 June 2015 Cents	30 June 2014 Cents
(a) Basic losses per share		
From continuing operations attributable to the ordinary equity holders of the Company	(37.20)	(25.34)
Total basic losses per share attributable to the ordinary equity holders of the Company	**(37.20)**	**(25.34)**
(b) Diluted losses per share		
From continuing operations attributable to the ordinary equity holders of the Company	(37.20)	(25.34)
Total basic losses per share attributable to the ordinary equity holders of the Company	**(37.20)**	**(25.34)**

(c) Reconciliation of losses used in calculating earnings per share

Basic losses per share

	$'000	$'000
Losses attributable to the ordinary equity holders of the Company used in calculating basic losses per share:		
From continuing operations	(119,368)	(80,958)

Diluted losses per share

	$'000	$'000
Losses from continuing operations attributable to the ordinary equity holders of the Company:		
Used in calculating basic losses per share	(119,368)	(80,958)
Losses attributable to the ordinary equity holders of the Company used in calculating diluted losses per share	(119,368)	(80,958)

	30 June 2015 Number	30 June 2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic losses per share	320,867,433	319,450,496
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted losses per share	320,867,433	319,450,496

Options granted to employees (see Note 18) are considered to be potential ordinary shares. These securities have been excluded from the determination of basic losses per shares. They have also been excluded from the calculation of diluted losses per share because they are anti-dilutive for the years ended 30 June 2015 and 2014. Shares that may be paid as contingent consideration (see Note 12(b)) have also been excluded from basic losses per share. They have also been excluded from the calculation of diluted losses per share because they are anti-dilutive for the years ended 30 June 2015 and 2014.

21. Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	30 June 2015 $'000	30 June 2014 $'000
Balance Sheet		
Current assets	143,347	204,661
Total Assets	**766,013**	**713,138**
Current liabilities	12,473	7,456
Total Liabilities	**24,474**	**8,132**
Shareholders' Equity		
Issued capital	737,260	677,087
Reserves		
Share options reserve	47,853	41,848
Accumulated losses	(43,574)	(13,929)
	741,539	**705,006**
Losses for the period	**(29,645)**	**(1,747)**
Total comprehensive losses for the period	**(29,645)**	**(1,747)**

(b) Contingent liabilities of the parent entity

Mesoblast Limited will be required to make a milestone payment to CALHNI of USD 250k on completion of Phase III (human) clinical trials and USD 350k on FDA marketing approval for products in the orthopedic field. The Company will pay CALHNI a commercial arm's length royalty based on net sales by the Company of licensed products in the orthopedic field each quarter.

22. Summary of significant accounting policies

This note provides the principal accounting policies adopted in the preparation of these consolidated financial statements as set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Mesoblast Limited and its subsidiaries.

(a) Basis of preparation

The general purpose financial statements of Mesoblast Limited and its subsidiaries have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Mesoblast Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of Mesoblast Limited and its subsidiaries also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(iii) Changes to comparative figures

Comparative figures, are, where appropriate, reclassified to be comparable with figures presented in the current financial year.

(iv) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for first time for their annual reporting period commencing 1 July 2014.

The adoption of the below standards, amendments and interpretation did not result in any changes in accounting policies or adjustments to the amounts recognized in the financial statements. They also do not significantly affect the disclosures in the Notes to the financial statements.

Title	Key requirements	Effective Date
AASB 2013-2 *Offsetting Financial Assets and Financial Liabilities*	The amendments clarify the offsetting rules in AASB 132 *Financial Instruments*: Presentation and explain when offsetting can be applied. In particular, they clarify that the right of set-off must be available today (i.e. not contingent on a future event) and must be legally enforceable in the normal course of business as well as in the event of default, insolvency or bankruptcy.	Annual reporting periods commencing on or after 1 January 2014
AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	The AASB has made amendments to the disclosures required by AASB *136 Impairment of Assets* which: • remove the requirement to disclose the recoverable amount of all cash generating units (CGU) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment; this disclosure was introduced with AASB 13 and will become applicable from 1 January 2013 unless the entity adopts the amendments made by AASB 2013-3 early. • require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed. • require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed.	Annual reporting periods commencing on or after 1 January 2014

AASB 2014-1 Part A: *Annual improvements 2010-2012 and 2011-2013 cycles*	In June 2014, the AASB has made the following amendments: • AASB 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition' • AASB 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in AASB 132 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date. • AASB 8 – requires disclosure of the judgments made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported. • AASB 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial. • AASB 13 – clarifies that the portfolio exception in AASB 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of AASB 139 or AASB 9.	Annual reporting periods commencing on or after 1 July 2014
ASX Corporate Governance Principles and Recommendations	The ASX has released the third edition of its Corporate Governance Principles and Recommendations. The main changes are: • There is a greater focus on risk management, including risk committees, the internal audit function and exposure to environmental and sustainability risk. • Certain recommendations have been revised to allow entities to demonstrate their compliance with the spirit of the recommendation through alternative governance practices instead of the previous 'if not, why not' approach'. • Entities will be able to post the corporate governance statement on their web site instead of including it in the annual report. • Entities must lodge a statement with the ASX confirming their compliance with the corporate governance requirements of the Listing Rules. • Listed entities are expected to regularly assess the independence of directors with a tenure of more than 10 years. • There is more guidance on effective gender diversity policies.	Annual reporting periods commencing on or after 1 July 2014

Notes to the Financial Statements

(v) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting period. The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014.

Initial application of the following Standard is not expected to affect any of the amounts recognized or disclosures made in the current financial report, but may have a material impact on future transactions made in relation to the Group. The Group is assessing the impact of the new standard on its revenue recognition policy. The Group is assessing the impact of the new standard on its revenue recognition policy. The Group intends to apply the new standard from 1 July 2018.

Title	Key requirements	Effective Date
AASB 15 *Revenue from Contracts with Customers*	AASB 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognize revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.	Annual reporting periods commencing on or after 1 January 2018 Earlier application is permitted.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mesoblast Limited ('Company' or 'Parent Entity') as of 30 June 2015 and the results of all subsidiaries for the year 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 structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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.

(ii) Employee share trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

(c) Segment reporting

The Group predominately operates in one segment as set out in Note 2.

(d) Foreign currency translation

(i) 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 AUD, which is Mesoblast Limited's functional and presentation currency.

(ii) 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 net 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 net 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.

(iii) 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 the 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.

(iv) Other

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 sol or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to net loss, as part of the gain or loss on sale.

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.

(e) 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:

(i) Commercialization revenue

Development and commercialization revenue generally includes non-refundable up-front license and collaboration fees, milestone payments, the receipt of which is dependent upon the achievement of certain clinical, regulatory or commercial milestones, as well as royalties on product sales of licensed products, if and when such product sales occur, and revenue from the supply of products. Development and commercialization revenue was $18,199k and $16,410k for the years ended 30 June 2015 and 2014, respectively.

Where such arrangements can be divided into separately identifiable components (each component constituting a separate earnings process), the arrangement consideration is allocated to the different components based on their relative fair values and recognized over the respective performance period in accordance with AASB 118 Revenue. Where the components of the arrangement cannot be divided into separate units, the individual deliverables are combined as a single unit of accounting and the total arrangement consideration is recognized over the estimated collaboration period. Such analysis requires considerable estimates and judgments to be made by the Group, including the relative fair values of the various elements included in such agreements and the estimated length of the respective performance periods.

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in our consolidated balance sheets. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue, current portion. Amounts not expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue, non-current portion.

Notes to the Financial Statements

22. Summary of significant accounting policies (continued)

Cephalon arrangement

In December 2010, the Group entered into a development and commercialization agreement (the 'DCA') with Cephalon, Inc., now a wholly-owned subsidiary of Teva Pharmaceutical Industries Ltd (collectively 'Teva'), which allows for Teva to obtain world-wide rights to commercialize specific products based on the Group's proprietary adult stem cell technology platform. As part of the DCA, the Group received USD 130,000k as a non-refundable up-front payment.

Further payments up to USD 1.7b may be received on achievement of certain regulatory milestones with respect to each product Teva may choose to capitalize. The milestones are based on approvals in specific indications of product candidates in certain major jurisdictions. The Group would also be entitled to receive future royalty payments for supply of commercialized product as escalating double digit percentage of net sales of certain product candidates. No such payments have been received.

The Group analyzed the arrangement to determine whether the components which include a license, participation in a joint steering committee, a development program, and manufacturing and supply services, can be separated or must be treated as a single transaction in assessing revenue recognition criteria.

As the Group's obligations in relation to the steering committee and the development program are substantive and cannot be readily separated from the initial license transfer, the Group has not accounted for the license as a separate component. As the Group cannot readily estimate the costs required to complete the development program, due to significant uncertainties as development is the joint responsibility of the Group and Teva, revenue has been recognized on a straight line basis over the estimated development term of the main product, being MPC-150-IM. If the Group shortens or lengthens the development period then the amount of revenues recognized would change.

For the years ended 30 June 2015 and 2014, the Group recognized $18,199k and $16,410k of revenue respectively being the amortization of the initial payment over the estimated development program term. The Group has a policy of reviewing the estimated development program term on a quarterly basis. The estimated development program term is refined with reference to the Joint Steering Committee's expectation of the timeline to complete development. The Group extended the estimated development program timeline in the year ended 30 June 2013 following the Joint Steering Committee's approval of the program protocol and associated development timelines. No revenue has been recognized for any future development milestones or royalties specified in the DCA as we cannot reliably estimate whether we would become entitled to such payments.

JCR arrangement

In October 2013, the Group acquired all of Osiris' business and assets. These assets included assumption of a collaboration agreement with JCR, a research and development oriented pharmaceutical company in Japan.

Under the JCR Agreement, JCR is responsible for all development and manufacturing costs including sales and marketing expenses. With respect to the field of the treatment of hematological malignancies by the use of hematopoietic stem cells derived from peripheral blood, cord blood or bone marrow, the Group is entitled to payments when JCR reaches certain development and commercial milestones and to escalating double-digit royalties. These royalties are subject to possible renegotiation downward in the event of competition from non-infringing products in Japan. With respect to the field of developing assays that use liver cells for non-clinical drug screening and evaluation, the Group is entitled to a double digit profit share. Revenue recognized under this model is limited to the amount of cash received or for which the Group is entitled, as JCR has the right to terminate the agreement at any time. Royalty revenue is recognized upon the sale of the related products provided the Group has no remaining performance obligations under the arrangement.

For the years ended 30 June 2015 and 2014, the Group recognized $2,284k and $Nil of commercialization revenue, respectively. This revenue was recognized on achievement of a substantive milestone being the filing for marketing approval in Japan for MSC product JR-031. No further performance obligations are required of the Group in relation to this income.

(ii) 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.

(iii) Research and development tax incentive

The Australian Government replaced the research and development tax concession with the research and development tax incentive from 1 July 2011. The provisions provide refundable or non-refundable tax offsets.

The research and development tax incentive applies to expenditure incurred and the use of depreciating assets in an income year commencing on or after 1 July 2011. A refundable tax offset is available to eligible companies with an annual aggregate turnover of less than $20 million. Eligible companies can receive a refundable tax offset of 45% of their research and development spending. Up to 30 June 2013 the rate of the refundable tax offset is 45%, after that date the rate is 43.5%.

The Group's research and development activities are eligible under an Australian government tax incentive for eligible expenditure from 1 July 2011. Management has assessed these activities and expenditure to determine which are likely to be eligible under the incentive scheme. At each period end management estimates and recognizes the refundable tax offset available to the Group based on available information at the time.

(f) Research and development undertaken internally

The Group currently does not have any capitalized development costs. Research expenditure is recognized as an expense as incurred. Costs incurred on development projects, which consist of preclinical and clinical trials, manufacturing development, and general research, are recognized as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

The expenditure capitalized comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development costs that do not meet these criteria are expensed as incurred. Development costs previously recognized as expenses, are not recognized as an asset in a subsequent period, and will remain expensed. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life.

(g) Income tax

The income tax expense or benefit 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 net 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) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 15). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is sub-leasing to a third party is recognized in income on a straight-line basis over the lease term.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, 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

Notes to the Financial Statements

the fair value of any asset or liability resulting from a 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 noncontrolling 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 and the amount of any non-controlling interest in the acquiree over the fair value 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 net 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.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets (other than goodwill) that have suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(k) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) 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 remeasurement.

(m) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- available-for-sale financial assets,
- loans and receivables, and
- held-to-maturity investments.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See Note 5 for details about each type of financial asset.

(ii) Reclassification.

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly

unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition.
Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses
- for available for sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available for sale in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 5(f).

(v) Impairment
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortized cost
For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Notes to the Financial Statements

Assets classified as available-for-sale
If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss –measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss

(n) Derivatives

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

(i) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in other income or other expenses.

(o) Property, plant and equipment

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

Subsequent cost are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associates with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Property, plant and equipment, other than freehold land, are depreciated over their estimated useful lives using the straight line method (see Note 6(a)).

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(p) Intangible assets

(i) Goodwill
Goodwill is measured as described in Note 22(i) – Business combinations. Goodwill on acquisition of subsidiaries is included in intangible assets (Note 6(b)). Goodwill is not amortized but it 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 2).

(ii) Trademarks and licenses
Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization and impairment losses.

(iii) In-process research and development acquired
In-process research and development that has been acquired as part of a business acquisition is considered to be an indefinite life intangible asset on the basis that it is incomplete and cannot be used in its current form. Indefinite life intangible assets are not amortized but rather are tested for impairment annually at 31 May of each year, or whenever events or circumstances present an indication of impairment.

In-process research and development will continue to be tested for impairment until the related research and development efforts are either completed or abandoned. Upon completion of the related research and development efforts, management determines the remaining useful life of the intangible assets and amortizes them accordingly. In order for management to determine the

remaining useful life of the asset, management would consider the expected flow of future economic benefits to the entity with reference to the product life cycle, competitive landscape, obsolescence, market demand, any remaining patent useful life and various other relevant factors.

In the case of abandonment, the related research and development efforts are considered impaired and the asset is fully expensed.

(q) 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 to 60 days of recognition.

(r) Provisions

Provisions are recognized when the Group has a present legal obligation 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 present 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 subsidiary's contingent liabilities, if it relates to a past event, regardless of whether it is probable the amount will be paid.

(s) Employee benefits

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

Liabilities recognized in respect of employee benefits which are expected to be settled within 12 months after the end of the period in which the employees render the related services 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 after the end of the period in which the employees render the related services 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.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits.

(t) Share-based payments

Share-based payments are provided to eligible employees, directors and consultants via the Employee Share Option Plan ('ESOP') and the Australian Loan Funded Share Plan ('LFSP'). The terms and conditions of the LFSP are in substance the same as the employee share options and therefore they are accounted for on the same basis.

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 behavioural 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 18.

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 shared-based payments 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.

Notes to the Financial Statements

(u) 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.

(v) Loss per share

(i) Basic losses per share

Basic losses per share is calculated by dividing:

- the 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.

(ii) Diluted losses per share

Diluted losses 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.

(w) 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.

(x) Comparative figures

Comparatives have been reclassified where necessary so as to be consistent with the figures presented in the current year.

(y) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) 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, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Mesoblast Limited.

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 47 to 110 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 consolidated entity's financial position as of 30 June 2015 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.

Note 22(a)(i) 'Basis of preparation' 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

Dr Silviu Itescu
Chief Executive Officer

16 August 2015, Melbourne

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 consolidated balance sheet as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 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 22(a), 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. Those 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 consolidated 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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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 2015 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*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 22(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 41 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Jon Roberts
Partner

Melbourne
16 August 2015

Shareholder Information

A. Substantial Shareholder

Holders of substantial holdings of ordinary shares in the Company and the number of shares in which they and their associates have a relevant interest as at 31 August 2015:

Shareholder	Number of ordinary shares held
Professor Silviu Itescu	68,244,642
Cephalon, Inc.	55,785,806
M&G Investment Group	38,717,697
The Capital Group Companies, Inc.	26,600,000
Thorney Opportunities Ltd	19,004,000

B. Distribution of Equity Securities and Voting Rights

Distribution of holders of equity securities as at 31 August 2015:

	Number of holders	
Shareholder	**Ordinary shares (i)**	**Options* (ii)**
1 – 1,000	3,512	
1,001 – 5,000	3,198	
5,001 – 10,000	763	1
10,001 – 100,000	638	37
100,001 and over	77	45
Total number of holders of equity securities	**8,188**	**83**

Number of holders of less than a marketable parcel of 151 shares ($3.32 per share)	**603**

**There are 22,812,841 Options on issue as at 31 August 2015.*

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 on vote and upon a poll each share shall have on vote.

ii. Options

No voting rights.

C. Twenty Largest Holders of Quoted Securities

The names of the 20 largest shareholders of each class of equity security as at 31 August 2015 are listed below:

Rank	Shareholder	No. of shares held	% of total shares
1	HSBC Custody Nominees (Australia) Ltd	98,954,258	29.34%
2	Professor Silviu Itescu	67,751,838	20.09%
3	Cephalon, Inc.	55,785,806	16.54%
4	National Nominees Limited	20,382,834	6.04%
5	Celgene Alpine Investment Company III, LLC	15,298,837	4.54%
6	J P Morgan Nominees Australia Limited	10,052,566	2.98%
7	Dalit Pty Ltd	4,468,839	1.32%
8	Mesoblast Australia Pty Ltd*	3,500,000	1.04%
9	BNP Paribas Noms Pty Ltd	2,229,920	0.66%
10	Citicorp Nominees Pty Limited	2,043,060	0.61%
11	Adelaide Health Services, Inc.	1,953,000	0.58%
12	JGM Investment Group Pty Ltd	1,881,200	0.56%
13	UBS Nominees Pty Ltd	1,757,986	0.52%
14	Osiris Therapeutics, Inc.	1,391,178	0.41%
15	Avister Pty Ltd	1,198,354	0.36%
16	National Nominees Limited	1,130,750	0.34%
17	Tigcorp Nominees Pty Ltd	1,060,000	0.31%
18	Michael Spooner	868,272	0.26%
19	CS Fourth Nominees Pty Ltd	720,619	0.21%
20	Finarg1 Services Company Ltd	597,800	0.18%
		293,027,117	86.88%

**As trustee for the Mesoblast Limited Employee Share Trust, held on behalf of employees who participate in the Company's loan funded share plan.*

D. Securities under escrow

As at 31 August 2015, there are 15,298,837 ordinary shares in the Company subject to escrow. The escrow period on these 15,298,837 ordinary shares will expire on 15 April 2016.

E. On-Market Buy-Back

There is no current on-market buy-back of the Company's ordinary shares.

Corporate Directory

Directors

Brian Jamieson (Chairman)
Silviu Itescu
Michael Spooner
Donal O'Dwyer
Ben-Zion Weiner
Eric Rose
William Burns

Company Secretary

Charles Harrison

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Listing

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Website

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