mesoblast

# letter from the chairman

## Dear Shareholder

Mesoblast has entered the new financial year with sufficient cash reserves to meet its near-term clinical and commercial objectives. With $16.5 million cash in hand at the end of June 2009, we can maintain the brisk pace of product development that has been the hallmark of your company since its public listing just 4.5 years ago.

Over the past 12 months, Mesoblast has continued to deliver on our leading technology with a broadening portfolio of allogeneic or “off-the-shelf” products under development. Our universal donor business model is being proven up across a growing number of major clinical indications with unmet needs. Moreover, our products have to date been shown to be safe.

We are strongly positioned to deliver on our well-defined commercial strategy. This is based on industrial scale manufacturing to generate a series of high margin stem cell products that are obtained from a single donor, expanded and frozen for subsequent use in potentially thousands of unrelated, or allogeneic, recipients at the time and place of need.

Both Mesoblast and its sister company, Angioblast Systems Inc in the United States, are very well positioned to continue rapid product commercialisation for both orthopaedic and cardiovascular applications, respectively, based on the shared adult stem cell technology platform.

Chief among the major milestones accomplished by Mesoblast over just the past three months include:

- Initiating a formal process aimed at obtaining licences from the Therapeutic Goods Administration (TGA).

  A successful application to the TGA to commercially manufacture and distribute our adult stem cell products in Australia could lead to earlier revenues by initially making a fracture repair product available for patients, where current standard of care has been unsuccessful.

  We are hoping that our bone fracture repair product will be the first of our product suite to be licensed by the TGA.

  Importantly, Australian regulatory approval will provide a template that could be duplicated in other geographical jurisdictions on a country-by-country basis.

- Building a franchise for treatment of spinal diseases.

  The company is developing a suite of “off-the-shelf” or allogeneic cell products to treat intervertebral disc disease. These will work by either inducing bony spinal fusion of the lumbar (lower back) and cervical (neck) vertebrae for end-stage disease or by regenerating disc cartilage in patients with earlier stages of the disease.

  An integral part of this spinal franchise has been the recent commencement of a Phase 2 clinical trial for bony fusion of the cervical spine using NeoFuse™. This trial, initiated in Melbourne, seeks to translate preclinical results that showed Mesoblast’s cells were highly effective and safe. The limited options currently available for patients with irreversible, end-stage degenerative disc disease makes this a major commercial opportunity for Mesoblast and one that may present an accelerated path to market entry.

- Moving forward with clinical trials of a product for regeneration of knee joint cartilage.

  Mesoblast’s Phase 2 trial for osteoarthritis of the knee is underway in Melbourne. In the trial, patients are being implanted with Mesoblast’s allogeneic product, RepliCart™, to slow or prevent the development of knee osteoarthritis after reconstruction of a ruptured Anterior Cruciate Ligament. This trial in post-traumatic knee osteoarthritis is an important step towards accessing the huge commercial opportunity that exists today for Mesoblast in the osteoarthritis market.

  We were particularly pleased to see that, at the three-month follow-up, patients receiving the proprietary stem cells showed significantly improved heart function compared with control patients. The greatest improvement was seen in patients with the most severe heart failure. These exciting results were accompanied by a perfect safety record of the cells.

Over the same three-month period, our associate company Angioblast also made great advances in the development of our shared platform technology. Highlights include:

- Completing enrolment of the first group of 20 patients to receive the lowest dose of the company's proprietary allogeneic stem cell product Revascor™ for the treatment of congestive heart failure.

  Together, these early results hold the promise that Angioblast's therapy could represent a safe and effective change in the treatment paradigm for these extremely ill patients. Angioblast is now actively recruiting a second group of patients who are set to receive a higher dose of Revascor™.

- Announcing positive interim results from the company's bone marrow transplant trial.

  Successful bone marrow reconstitution and engraftment was achieved in the first five patients in Angioblast's US-based bone marrow transplant trial. The median time to engraftment was 15 days, approximately two weeks faster than standard of care treatment.

  If subsequent patients in this trial continue to show enhanced bone marrow engraftment potential, and due to the unmet medical need of these patients, Angioblast will seek to obtain US Food and Drug Administration clearance to begin an accelerated Phase 3 program. This would represent a shortened timetable to product commercialisation for this specific indication.

We have made significant progress in the last financial year. With the cash at hand, we anticipate during the 2010 financial year being able to:

- Progress the platform technology towards Phase 3 registration trials
- Obtain TGA approval to commercially manufacture and distribute our products throughout Australia
- Expand our commercial reach to other geographical jurisdictions
- Establish cornerstone strategic corporate alliances.

Thank you for your continued support.

Yours sincerely

**Brian Jamieson**

**CHAIRMAN** **30 July 2009**

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