MESOBLAST LIMITED
ACN: 109 431 870

Appendix 4E

Preliminary final report
Year ending on 30 June 2011

1. Reporting period

The financial information contained in this report is for the year ended 30 June 2011. Comparative amounts are for the year ended 30 June 2010.

2. Results for announcement to the market

		Current year reported amount $	Change up/(down) from previous year $	Change up/(down) from previous year %
2.1	Revenue from ordinary activities	120,921,285	120,156,370	15,708%
2.2	Profit from ordinary activities after tax attributable to members	90,606,590	105,387,485	713%
2.3	Net profit for the year attributable to members.	90,606,590	105,387,485	713%
2.4	No dividends are being proposed or have been paid	Nil	Nil	Nil

3. Commentary related to the above results

- Revenue from ordinary activities includes revenue from continuing operations of $19,257,822 and other income of $101,663,463. Revenue from continuing operations includes commercialisation revenue of $14,609,186 (2010: nil) and interest revenue of $4,648,646 (2010: $739,786). Included in other income is a gain made of $86,737,561 on the revaluation of the previously held investment in Angioblast Systems, Inc., when the remaining shares of Angioblast were purchased and it became a wholly owned subsidiary. In addition, previously equity accounted losses of $14,873,899 were written back resulting in total other income of $101,611,460 being recorded on the acquisition of Angioblast. The remaining other income of $52,003 (2010: $19,629) relates to realised foreign exchange gains made during the year.
- Profit from ordinary activities after tax attributable to members is largely made up of the revenue and other income items discussed above, after expenditure incurred for the development and commercialisation of the platform technology. Further information on the expenses can be found in note 2 in the accompanying preliminary financial report.
- Net profit for the year attributable to members includes a tax charge of $1,634,914 for the year relating to revenue and expenses from operations incurred in Angioblast. There is no resulting tax charge in the parent company which remains in a tax loss position.

+ See chapter 19 for defined terms.

4. Net tangible asset (NTA) backing per share

	Current year	Previous corresponding period
NTA backing per share	102.7 cents	24.2 cents

5. Entities over which control was gained or loss during the period

Mesoblast acquired Angioblast Systems, Inc. during the period, which was previously an associate of the Company. Control over Angioblast was deemed to have passed on 12 November 2010, accordingly the financial results of the Group include the results of Angioblast from this date forward. Refer note 14 in the notes to the financial statements for additional information.

6. Other documents accompanying this Appendix 4E

A copy of the review of operations and unaudited preliminary financial report for the year ending 30 June 2011 for Mesoblast Limited is attached and should be read in conjunction with this Appendix 4E.

7. Audit status

This report has been based on accounts which are in the process of being audited. A copy of the unaudited preliminary financial report for the year ending 30 June 2011 is attached to this report.

[+] See chapter 19 for defined terms.

2011 Directors' Review of Operations

Mesoblast is in a position of considerable strength. We have approximately $263 million in place to continue the strong pace of commercialization of our cutting edge technology platform.

To date, over 130 patients have been treated with our cell products, with the earliest receiving our proprietary adult Mesenchymal Precursor Cells (MPCs) over five years ago. There have not been any cell-related adverse events.

Therefore, we are building a growing body of clinical data which continues to support the safety profile of our technology. Additionally, we are accumulating significant evidence which indicates that our patented cells are highly effective in a growing number of clinical conditions of unmet medical need.

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

Major Accomplishments

The key financial highlights of the 2011 year were:

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

The key operational highlights of the 2011 year were:

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

Financial Snapshot

The full-year ended 30 June 2011 saw the Company with a substantial cash position of $263.2 million, compared with $32 million in the financial year ended 2010.

Mesoblast recorded total revenue and other income of $120.9 million and a profit before tax of $92.2 million in the 2011 financial year, compared with revenue of $0.8 million and losses of $14.8 million in the financial year ended 2010.

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

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

Significant Corporate Strengthening

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

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

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

Specific Components of the Strategic Alliance

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

In July, Cephalon stockholders voted to approve a proposal by Teva Pharmaceutical Industries to acquire Cephalon for a total enterprise value of approximately $US 6.8 billion. Cephalon and Teva continue to operate as two independent companies pending clearances by the United States Federal Trade Commission and the European Commission.

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

The merged Cephalon/Teva global business will provide us with an international partner committed to progressively moving into high-margin specialty therapeutics. This is in alignment with our business model and we believe there will be numerous synergies that can be further exploited with the Teva/Cephalon amalgamated entity.

The Teva acquisition of Cephalon will not alter the terms of the strategic alliance.

Once the acquisition of Cephalon by Teva is finalized:

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

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

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

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

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

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

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

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

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

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

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

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

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

The FDA generally wants to see improvement in a composite of "hard endpoints" which includes cardiac mortality when considering whether to approve a new product for congestive heart failure. In order to most closely emulate the study population of a Phase 3 trial, our Phase 2 trial aimed to capture patients at "high risk" for mortality. Consequently our 60 patient Phase 2 trial enrolled only Class II/III heart failure patients with Ejection Fraction less than 40%, a population that historically has a high mortality risk.

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

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

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

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

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

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

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

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

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

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

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

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

Robust Patent Suite

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

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

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

Global Recognition

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

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

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

Positive Projections

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

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

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

This is only the beginning of the Mesoblast story.

24 August 2011

mesoblast
the regenerative medicine company

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ACN 109 431 870

Preliminary Financial Report

for the year ended 30 June 2011

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Consolidated Income Statement
for the year ended 30 June 2011

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

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	*Consolidated* 30 June 2011 $	*Parent* 30 June 2010 $
Profit/(loss) for the year		90,606,590	(14,780,895)
Other comprehensive income			
Exchange differences on translation of share of losses of foreign associates		1,704,870	401,860
Foreign exchange balance written back on acquisition of a previously held associate		(2,124,874)	-
Exchange differences on translation of foreign operations	12	(21,915,730)	-
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income/(loss) for the period, net of tax		(22,335,734)	401,860
Total comprehensive income/(loss) for the period		68,270,856	(14,379,035)

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

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

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

Consolidated Balance Sheet
as at 30 June 2011

	Note	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Assets			
Current Assets			
Cash and cash equivalents	5	263,227,585	32,049,327
Trade and other receivables		2,100,945	1,375,679
Prepayments		165,536	93,284
Total Current Assets		265,494,066	33,518,290
Non-Current Assets			
Property, plant and equipment		609,849	223,695
Deferred tax asset	6	21,820,392	-
Investments accounted for using the equity method		-	5,334,241
Intangible assets	7	475,326,200	438,544
Total Non-Current Assets		497,756,441	5,996,480
Total Assets		763,250,507	39,514,770
Liabilities			
Current Liabilities			
Trade and other payables		3,665,407	1,580,563
Deferred revenue	8	27,129,937	-
Total Current Liabilities		30,795,344	1,580,563
Non-Current Liabilities			
Deferred revenue	8	81,334,137	-
Deferred tax liability	9	127,817,393	-
Provisions	10	7,459,460	14,947
Total Non-Current Liabilities		216,610,990	14,947
Total Liabilities		247,406,334	1,595,510
Net Assets		515,844,173	37,919,260
Equity			
Issued capital	11	477,114,981	87,949,316
Reserves	12	3,748,422	5,595,764
Retained earnings/(accumulated losses)		34,980,770	(55,625,820)
Total Equity		515,844,173	37,919,260

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

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

	Note	Consolidated 30 June 2011 $	Parent 30 June 2010 $
Cash Flows from Operating Activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(22,488,270)	(9,663,162)
Commercial milestones received		130,708,000	-
Government grants and other income received		9,143	5,500
Net cash inflows/(outflows) in operating activities	13 (b)	108,228,873	(9,657,662)
Cash Flows from Investing Activities			
Interest received		2,790,056	707,689
Interest paid		(98)	-
Cash acquired on acquisition of subsidiary		3,448,299	-
Investment in fixed assets		(461,549)	(87,113)
Loan advanced to associate company		(1,061,990)	(964,024)
Net cash inflows/(outflows) in investing activities		4,714,718	(343,448)
Cash Flows from Financing Activities			
Proceeds from issue of shares		126,863,724	26,798,337
Payments for share issue costs		(770,314)	(1,261,255)
Net cash inflows by financing activities		126,093,410	25,537,082
Net increase in cash and cash equivalents		239,037,001	15,535,972
Cash and cash equivalents at beginning of year		32,049,327	16,526,278
FX losses on the translation of foreign bank accounts		(7,858,743)	(12,923)
Cash and cash equivalents at end of year	13 (a)	263,227,585	32,049,327

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

Preliminary Notes to the Financial Report

for the year ended 30 June 2011

1. INTRODUCTION

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

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

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

	30 June 2011 $	30 June 2010 $
2. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS		
(a) Revenue from continuing operations		
Commercialization revenue	14,609,186	-
Interest revenue	4,648,636	739,786
	19,257,822	739,786
(b) Other income		
Government grant revenue	-	5,500
Gain on revaluation of investment to fair value	86,737,561	-
Share of losses of equity accounted associates written back on acquisition	14,873,899	-
Foreign exchange gains	52,003	19,629
	101,663,463	25,129
(c) Expenses		
Employee benefits		
Salaries and employee benefits	4,644,510	2,990,232
Defined contribution superannuation expenses	123,462	106,656
Share-based payments – employees & directors	2,464,627	640,655
	7,232,599	3,737,543
Depreciation and amortization of non-current assets		
Plant and equipment depreciation	135,153	109,554
Intellectual property amortization	43,731	43,731
	178,884	153,285
Other expenses		
Intellectual property costs (excluding amortization as shown above)	840,782	389,079
Share-based payments – consultants	835,816	378,599
Finance costs	-	-
Foreign exchange losses	217,157	-

3. SEGMENT INFORMATION

(a) Description of segments

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

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

(b) Segment information

	Orthopedic	Cardiovascular & non-orthopedic	Total
	$	$	$
Consolidated			
30 June 2011			
Revenue from external parties	-	14,609,186	14,609,186
Other income	45,530	101,617,933	101,663,463
Total segment revenue	45,530	116,227,119	116,272,649
Net profit/(loss) after tax	(8,752,238)	106,380,432	97,628,194
Net loss after tax includes the following items:			
Research and development	7,477,544	6,134,559	13,612,103
Equity accounted losses	-	1,505,345	1,505,345
Amortization of intellectual property purchased	43,731	-	43,731
Income tax Expense	-	1,634,914	1,634,914
Total segment assets	**433,240**	**496,773,090**	**497,206,330**
Total segment assets include:			
Prepayments	38,427	21,311	59,738
Deferred tax assets	-	21,820,392	21,820,392
Intangible assets	394,813	474,931,387	475,326,200
Total segment liabilities	**1,506,999**	**244,871,301**	**246,378,300**
Total segment liabilities include:			
Trade and other payables	1,457,918	1,187,600	2,645,518
Deferred revenue	-	108,464,074	108,464,074
Deferred tax liability	-	127,817,393	127,817,393
Provisions	49,081	7,402,234	7,451,315

3. SEGMENT INFORMATION CONTINUED

(b) Segment information continued

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

3. SEGMENT INFORMATION CONTINUED

(c) Segment reconciliations

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

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

(d) Other segment information

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

	Consolidated 30 June 2011 $	*Parent* 30 June 2010 $
4. EARNINGS PER SHARE		
Net profit/(loss) used in calculating basic earnings per share	90,606,590	(14,780,895)
Net profit/(loss) used in calculating diluted earnings per share	90,606,590	(14,780,895)
Weighted average number of ordinary shares used in calculating basic earnings per share	216,797,657	140,571,174
Dilutive potential ordinary shares	10,962,597	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	227,760,254	140,571,174
5. CASH AND CASH EQUIVALENTS		
Cash at bank	3,139,378	140,371
Deposit at call	572,245	6,507,246
Term deposits	259,515,962	25,401,710
	263,227,585	32,049,327

6. DEFERRED TAX ASSETS

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

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

7. INTANGIBLE ASSETS

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

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

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

	Consolidated 30 June 2011 $	*Parent* 30 June 2010 $
8. DEFERRED REVENUE		
Opening balance	-	-
Commercialisation revenue received during the year	130,708,000	-
Amount recognised as revenue in the year	(14,609,186)	-
Foreign exchange difference	(7,634,740)	-
Balance at the end of the year	108,464,074	-
Amount expected to be recognised as revenue:		
• in the next twelve months (current deferred revenue)	27,129,937	-
• beyond twelve months (non-current deferred revenue)	81,334,137	-
	108,464,074	-
9. DEFERRED TAX LIABILITIES		
(a) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Intangible assets	127,817,393	-
Total deferred tax liabilities	127,817,393	-
Deferred tax liabilities expected to be settled within 12 months	-	-
Deferred tax liabilities expected to be settled after 12 months	127,817,393	-

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

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

(a) Movements

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

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

(b) Other provisions

This provision includes an amount recorded on acquisition of Angioblast, which had previously been disclosed as a contingent liability in the subsidiary financial statements.

11. ISSUED CAPITAL

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

11. ISSUED CAPITAL CONTINUED

(b) Movements in ordinary share capital

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

** shares issued to Cephalon as approved by shareholders at the Extraordinary General Meeting held 9th February 2011.*

11. ISSUED CAPITAL CONTINUED

(c) Ordinary Shares

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

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

(c) Nature and purpose of reserves

Share-based payment reserve

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

Foreign currency translation reserve

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

	Consolidated	*Parent*
	30 June 2011 $	30 June 2010 $
13. CASH FLOW INFORMATION		
(a) Reconciliation of cash and cash equivalents		
Cash at bank	3,139,378	140,371
Deposit at call	572,245	6,507,246
Term deposits	259,515,962	25,401,710
	263,227,585	32,049,327
(b) Reconciliation of net cash flows used in Operations with loss after income tax		
Profit/(loss) for the year	90,606,590	(14,780,895)
Add/(deduct) profit and loss items as follows:		
Depreciation and amortization	178,884	153,285
Interest received (investing activity)	(4,648,636)	(739,786)
Interest paid (investing activity)	14,912	-
Foreign exchange losses on bank translation	207,999	12,923
Equity settled share-based payment	3,300,443	1,019,254
Equity accounted losses (Angioblast)	1,505,345	4,394,047
Income tax expense	1,634,914	-
Gain on revaluation of Angioblast	(86,737,561)	-
Writeback of share of losses of equity accounted associates on acquisition	(14,873,899)	-
Change in operating assets & liabilities:		
(Increase)/decrease in trade and other receivables	137,349	(122,094)
Increase/(decrease) in trade creditors and accruals	803,717	405,604
Increase/(decrease) in accrued income	116,098,814	-
Net cash inflows/(outflows) used in operations	**108,228,873**	**(9,657,662)**

14. BUSINESS COMBINATION

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

In accordance with AASB 3 (Revised): *Business Combinations* and the Group's policy on principals of consolidation (note 1), Mesoblast Limited has accounted for this business combination from the date on which it had the ability to exercise its control over the operations and financial policies of Angioblast. This date is considered to be 12 November 2010. Prior to this the 32.3% ownership was equity accounted (refer to note 3) and recorded as an associate in the results of the Group.

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

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

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

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

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

(iii) Business combinations achieved in stages
In accordance with AASB 3 (Revised): Business Combinations, the Group has remeasured its previously held equity interest (32.3% fully diluted) in Angioblast Systems, Inc. at fair value. This revaluation has resulted in a gain on revaluation of $86,737,561 which has been recognised in "other income", in the Consolidated Statement of Comprehensive Income.

15. SUBSEQUENT EVENTS

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