

Mesoblast Limited - Corporate Governance Practices

PRINCIPLE 1. Lay solid foundations for management and oversight

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

Specifically the Board's functions include:

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

Day to day management of the Company's operations and the implementation of the corporate strategy and policy initiatives are delegated by the board to the Managing Executive Director and senior executives.

A performance assessment for the Managing Executive Director was completed in September 2010. Performance assessments for other members of Senior Management will be completed as part of the organisational review on completion of the acquisition of Angioblast Systems,

Inc later this year. The performance assessment policy is in the process of being reviewed in the context of the acquisition, and will be made available on the Company's website in due course.

PRINCIPLE 2. Structure the Board to add value

The board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at www.mesoblast.com. The charter sets out the board's composition and responsibilities.

2.1 Independence of directors

Board composition

During the 2010 year, the Board of Directors comprised five Directors, being one executive and four non-executives (including the Chair).

The term in office held by each Director in office as at 30 June 2010 is as follows:

Name	Term as director	Position held at 30 June 2010
Brian Jamieson	2 yr 7 mths	Independent Chairman
Silviu Itescu	6 yrs 1 mths	Executive Director
Byron McAllister	5 yrs 9 mths	Independent Director
Donal O'Dwyer	5 yrs 9 mths	Independent Director
Michael Spooner	5 yrs 9 mths	Director

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

Board independence

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

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years has not been employed in an executive capacity by the company, or been a director after ceasing to hold any such employment
- is not a material supplier to the company, or an officer of or otherwise associated directly or indirectly with, a material supplier
- has no material contractual relationship with the company other than as a director of the company
- are independent of management and free from any business or other

relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

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

- Brian Jamieson (Chairman of the board and Chairman of the Nomination and Remuneration Committee)
- Donal O'Dwyer (Deputy Chairman and Chairman of the Audit & Risk Committee)
- Byron McAllister

Michael Spooner has held an executive role within the last three years, and Silviu Itescu is currently an executive director, consequently neither of these director's are considered by the Board to be independent.

Independent Professional Advice

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

2.2 Independent Chairman

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

2.3 Role of the chair and CEO (or equivalent)

At the date of this annual report, the equivalent role to that of CEO (executive director) for the Company is not held by the Chairman, which is in accordance with the ASXCGC recommendations. The Executive Director is responsible for implementing company strategies and policies.

2.4 Board Committees

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

- Nomination and Remuneration Committee

- Audit and Risk Committee

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

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

Remuneration and Nomination Committee

The Board has established a remuneration and nomination committee comprising four directors as follows:

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

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

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

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

Commitments of directors

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

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

2.5 Performance of the directors

Board appointments

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

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

Access to information

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

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

Performance evaluation

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

The Board has completed a formal review of its members this financial year.

2.6 Website disclosures

The following information relating to the Boards structure can be found on the company's website at www.mesoblast.com

- Description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors
- Board's policy for the nomination and appointment of directors
- Charter of the remuneration and nomination committee

PRINCIPLE 3. Promote ethical and responsible decision-making

3.1 Code of conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a code of conduct to guide all employees, particularly Directors, the Chief Financial Officer and other senior executives in respect of ethical behaviour expected by the Company.

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

3.2 Trading policy applied to directors, officers and employees

The directors, employees and key consultants are permitted to trade in the Company's securities at any time subject to the following approval procedures:

- a request to trade is submitted to the Chief Financial Officer who circulates this request to the Chairman, any executive Directors and the Company Secretary;
- the Board have 7 business days to respond and either approve or deny the request; and
- at the end of this 7 day period, if there is no objection, then that person has a trading window of 7 business days from the deemed approval date, provided they do not hold any price sensitive information.

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

3.3 Website disclosures

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

PRINCIPLE 4. Safeguard integrity in financial reporting

4.1 Audit and risk committee establishment

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

4.2 Audit and risk committee structure

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

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

The chairperson of the committee is not the chairperson of the Board. All of the directors are financially literate and two of the members, Brian Jamieson and Michael Spooner, have accounting qualifications and have worked in the top four chartered accounting firms. Both the chair of the committee, Donal O'Dwyer, and two committee members, Michael Spooner and Byron McAllister, have valuable industry experience having served in the industry in senior positions for a number of years. Further details on the members of the audit and risk committee and their qualifications, together with meetings attended, can be found in the Directors' Report.

4.3 Formal charter

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

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

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

4.4 Website disclosure

The charter of the audit and risk committee can be found on the company's website. Also disclosed is the process for the appointment of the external auditor.

PRINCIPLE 5. Make timely and balanced disclosure

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

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

Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website at www.mesoblast.com.

PRINCIPLE 6. Respect the rights of shareholders

6.1 Communications strategy

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

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

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

PRINCIPLE 7. Recognise and manage risk

7.1 Establish policies on risk oversight and management and internal control

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

7.2 Establish policies on risk oversight and management

The operation of the company's risk management and compliance system is managed by the risk management group which consists of senior executives and is chaired by the CFO. This group is newly established and is committed to providing six monthly reports, or more frequent if deemed necessary at the time, regarding the status and management of relevant material business risks to the audit and risk committee for review.

7.3 Corporate reporting

The Executive Director and the Chief Financial Officer have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control, which implement the policies adopted by the Board, and the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8. Remunerate fairly and responsibly

8.1 Remuneration committee

Composition and charter

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

Responsibilities

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

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

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

Remuneration policies

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