MESOBLAST LIMITED
ACN: 109 431 870

HALF YEAR REPORT

31 DECEMBER 2008

Rule 4.2A.3

Appendix 4D

Half Year Report for the six months to 31 December 2008

Name of entity

MESOBLAST LIMITED

1. Reporting period

Report for the half year ended	31 December 2008
Previous corresponding period is the financial year ended and half year ended	30 June 2008 31 December 2007

2. Results for announcement to the market

				$'000
Revenues from ordinary activities *(item 2.1)*	up	27%	to	434
Loss from ordinary activities after tax attributable to members (*item 2.2*)	up	28%	to	6,915
Net loss for the period attributable to members *(item 2.3)*	up	28%	to	6,915

Brief explanation of any of the figures reported above necessary to enable the figures to be understood *(item 2.6)*:

Please refer to the Directors Report, found on pages 1-4 of the half-year report, for the commentary relating to the above figures reported.

3. Net tangible assets per security *(item 3)*

	December 31, 2008	December 31, 2007
Net tangible asset backing per ordinary security	16.4cents	24.4cents

4. The financial information provided in the Appendix 4D is based on the half-year financial report (attached), which has been prepared in accordance with Australian accounting standards.

5. Independent review of the financial report *(item 9)*

The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.

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DIRECTORS' REPORT

The Board of Directors of Mesoblast Limited has resolved to submit the following half-year report of the company for the half-year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report the following information:

DIRECTORS

The following persons were Directors of Mesoblast Limited during the whole of the half-year and up to the date of this report (unless specified):

Mr Brian Jamieson (Chairman)
Professor Silviu Itescu (Executive Director)
Mr Byron McAllister
Mr Donal O'Dwyer
Mr Michael Spooner

REVIEW OF OPERATIONS

Mesoblast has entered 2009 with well-defined clinical and commercial strategies for its adult stem cell products. Together with its United States-based associate, Angioblast Systems Inc., the company has identified clear strategic pathways into major global markets with well-defined unmet clinical needs.

At 31 December 2008, Mesoblast had $9.6 million in funds available. Mesoblast is well positioned with sufficient cash reserves for its ongoing clinical trial activities and near-term strategic objectives. The Company's operating cash use was $5.4 million, in line with expectations.

Mesoblast Named 2009 Emerging Company in North America

In January, Mesoblast received the 2009 Emerging Company Award in the United States Soft Tissue Repair market by the leading market analysis firm Frost & Sullivan.

According to Frost & Sullivan, Mesoblast is perceived to have exhibited outstanding management, superior market growth, exceptional customer service, and the ability to combine technology and successful strategic initiatives. The Award recognizes Mesoblast's exceptional know-how to take advantage of market changes through the execution of innovative strategies within the existing competitive landscape.

This prestigious award is independent corroboration of Mesoblast's position as a leader within the rapidly growing biologics market in orthopaedics worldwide.

Proprietary Technology Platform Awarded 2008 United States Stem Cell Market Technology Innovation of the Year

Frost & Sullivan also awarded the United States Stem Cell Market Technology Innovation of 2008 to our platform stem cell technology.

This Award recognises the success in developing and introducing new/disruptive technology, formulating a well-designed product family, and making significant technology contributions to the industry.

According to Frost & Sullivan, the proprietary technology has several attractive attributes that set it apart from other stem cell products, including:

- Very accurate identification and isolation that allows for a cell population with up to 1000-fold greater concentration of stem cells compared to other conventional sorting methods.
- A very pure, potent and homogenous cell population

- The highly concentrated and pure population of stem cells can provide a well regulated, consistent batched product with stringent release criteria akin to small molecule pharmaceuticals
- The non-immunogenic nature of the cells.

In addition, Frost & Sullivan stated that recent pharmaceutical partnering activity in the stem cell space may be seen as a major validation of Mesoblast's business approach, reinforcing the company's prospects for significant commercial transactions as both Mesoblast and Angioblast progress their clinical activities towards Phase 3 trials.

Significant Clinical Progress in Orthopaedic Product Development

Mesoblast continues to make substantial clinical progress in its orthopaedic product development for both bone and cartilage. An important focus of the company is to develop an allogeneic MPC product for the treatment of traumatic bone fractures. Results from our clinical and preclinical trials have clearly shown that our MPC product may be ideal for the treatment of severe fractures which are either at high risk of non-healing or have failed to heal for over 6 months (termed non-union fractures). Other areas of focus include spine bony fusion, vertebral disc repair/regeneration, and hyaline cartilage regeneration in large joints such as the knee.

Spinal Fusion

Almost 500,000 spinal fusion procedures are performed annually in the United States alone for lumbar and cervical degenerative intervertebral disc disease, a number growing at an average rate of 7% per year. Traditionally, spinal fusion has involved use of autograft (bone harvested from the patient), however this requires a second procedure and may be associated with significant complications.

Biological therapies for spinal fusion, most notably recombinant human Bone Morphogenetic Protein (rhBMP), which eliminate the need for autograft, form the fastest growing segment in the spinal market, generating in 2006 over USD$800 million in sales. However, significant safety issues have been raised with rhBMP use, and in July 2008 the FDA issued a formal public health notification concerning life-threatening complications associated with use of rhBMP in the cervical interbody space for spinal fusion. These include swelling of neck and throat tissue, resulting in compression of the airway and/or neurological structures in the neck.

Mesoblast's NeoFuse™ is an allogeneic MPC product that the company believes will demonstrate superior safety and effectiveness over other biologicals, and will enable the company to target the entire autograft and biological markets for lumbar and cervical spinal fusion.

Mesoblast's Clinical Trials for Lumbar and Cervical Fusion

Mesoblast's ongoing Phase 2 clinical trial is comparing NeoFuse™ for posterolateral lumbar fusion on one side of the vertebral body with a patient's own autograft bone on the other side. The trial continues to confirm the safety of Mesoblast's allogeneic MPC. Interim efficacy data are expected shortly.

If the data from the unilateral lumbar fusion trial confirm Mesoblast's preclinical results which showed that NeoFuse™ generates equally or more robust, continuous bony fusion compared with hip bone autograft in the lumbar spine, the company will proceed to test an even lower dose of NeoFuse™ in the lumbar interbody space, a procedure preferred by most spinal surgeons. The results of this randomised, placebo-controlled trial of NeoFuse™ for lumbar interbody spinal fusion will be used in formal regulatory discussions regarding timing of a Pivotal/Phase 3 clinical trial for lumbar interbody fusion.

Since cervical spine fusion accounts for 40% of all fusion procedures, and given the limited treatment options available for patients in need of cervical fusion, Mesoblast believes that this clinical indication may provide an accelerated path to regulatory market approval of its product. In August, Mesoblast announced that NeoFuse™ was safe and highly effective in preclinical trials for interbody fusion of the cervical spine in the neck. Consequently, the company is planning to initiate shortly a Phase 2 clinical trial of NeoFuse™ in cervical fusion, enabling it to generate parallel results on safety and effectiveness of NeoFuse™ for both lumbar and cervical fusion.

Knee Osteoarthritis

Osteoarthritis is a degenerative disease characterised by the loss of cartilage and is the leading cause of joint pain and disability among the elderly. In the United States alone, more than 15 million people suffer from osteoarthritis of the knee. Current therapies attempt to alleviate painful symptoms but are unable to preserve the cartilage lining the joint. Moreover, many of the currently used pharmaceutical therapies are associated with severe side effects and can even cause death. Joint replacement is often the only option for restoring function.

Mesoblast's preclinical trials have previously shown that a single injection of Mesoblast's allogeneic cells into knee joints damaged by osteoarthritis can both prevent further deterioration early in the course of mild arthritis and regenerate/re-grow cartilage tissue lining the damaged joint late in the course of severe arthritis. These results form the basis for multiple clinical trials for prevention and/or treatment of patients with degenerative osteoarthritis of the knee.

Mesoblast Begins First Human Trial of Cell Therapy for Prevention of Knee Osteoarthritis after an Acute Traumatic Knee Injury

A common severe joint injury is a ruptured Anterior Cruciate Ligament (ACL) of the knee, which occurs in a young active patient population. Up to 70% of these patients go on to develop osteoarthritis 15 to 20 years earlier than the general population regardless of whether they have had their knees reconstructed. As there is no known treatment other than to relieve the pain, these patients face the prospect of a joint replacement at a young age. In the United States, osteoarthritis after a single acute traumatic incident comprises approximately 12% of all osteoarthritis cases with up to 300,000 new cases each year.

In January, Mesoblast announced Australian institutional ethics approval to begin the first human trial of adult stem cell treatment for prevention of knee osteoarthritis after an acute traumatic knee injury and ACL reconstruction.

The randomised, placebo-controlled, Phase 2 clinical trial design will evaluate whether Mesoblast's allogeneic, or "off-the-shelf", adult stem cell product, RepliCart™, can slow or prevent the development of knee osteoarthritis after reconstruction of a ruptured ACL.

The trial will enrol 24 patients aged between 18 and 40 years old who have undergone recent ACL surgical reconstruction within six months of a traumatic knee injury. Patients will be randomised to receive either one of two doses of RepliCart™ injected into the knee joint together with hyaluronan, or hyaluronan alone. The trial's primary endpoint will be safety of the stem cell therapy at 12 months, and its secondary endpoint prevention of cartilage loss and knee osteoarthritis during this period.

Mesoblast and Singapore's ParkwayHealth Commence Collaborative Clinical Program For Knee Osteoarthritis

In February, Mesoblast announced a collaborative clinical program with one of Singapore's leading private healthcare providers, Parkway Group Healthcare Pte Ltd, a

subsidiary of Parkway Holdings Limited, to facilitate commercialisation of Mesoblast's proprietary "off-the-shelf" stem cell products within the extensive ParkwayHealth hospital network in Asia.

The Parkway Independent Ethics Committee approved Mesoblast's first registry trial evaluating the safety and effectiveness of a single injection into the knee joint of RepliCart™, its adult stem cell product for patients with knee osteoarthritis. The trial will be conducted within the rigorous and experienced clinical research environment of Parkway's Clinical Centre of Excellence in Singapore.

Significant Clinical Progress in Non-Orthopaedic Product Development

In parallel with Mesoblast's progress in moving its orthopedic products closer to market, the company's United States-based associate company Angioblast Systems Inc has simultaneously advanced the platform stem cell technology towards commercialisation of novel treatments for cardiovascular, eye, bone marrow, and other conditions. Mesoblast holds 38.4 percent equity in Angioblast following the USD5 million equity investment by global healthcare company, Abbott Laboratories.

During the past six months, Angioblast reported significant preclinical trial results of the adult stem cell technology platform for the treatment of eye diseases associated with abnormal blood vessels. These diseases include diabetic retinopathy and age-related macular degeneration (AMD), the leading causes of blindness in the western world.

The company is continuing its development of an allogeneic MPC product to prevent the complication of heart failure after a heart attack. In the ongoing multi-center FDA cleared Phase 2 trial patients recruited to date have demonstrated no cell-related safety issues.

Congestive Heart Failure Patients Safely Implanted

Angioblast Systems Inc is developing an allogeneic MPC product termed Revascor™ to reverse congestive heart failure by rebuilding both blood vessels and heart muscle. Heart failure results from the progressive deterioration of heart muscle function, leading to its inability to pump sufficient blood to the body's tissues, organs and limbs.

There are currently five million people in the United States with congestive heart failure, with over 550,000 new cases annually. The most common causes of heart failure are atherosclerosis (blockage of the coronary arteries), prior heart attack, hypertension, and rhythm disturbances. Existing therapies do not result in repair or regeneration of heart muscle.

Angioblast is currently in the midst of the world's first clinical trial to use allogeneic, or "off-the-shelf", adult stem cells from an unrelated donor to treat patients with congestive heart failure. The FDA-cleared multi-center Phase 2 trial is comparing the safety and effectiveness of three progressively increasing doses of Revascor™ injected by catheter into damaged heart muscle with standard-of-care in up to 60 patients suffering from congestive heart failure. The Phase 2 trial is being conducted at medical centres in Arizona, California, Minnesota and Texas.

Angioblast announced this month that it had completed recruitment and safe implantation in the first cohort of 20 patients randomised to receive either a low dose of Revascor™ or standard-of-care. No implanted patients had any cell-related adverse events for up to 30 days of follow-up.

Following review of the post-implant outcomes in all 20 patients, Angioblast was cleared to continue recruitment for the second cohort of 20 patients who will be randomised to the next dose of Revascor™ or standard-of-care.

Haematopoietic stem cells are needed to regenerate bone marrow in patients whose own bone marrow is damaged and destroyed by treatments for various cancers. The greater the number of haematopoietic stem cells transplanted, the greater the likelihood that the bone marrow transplant will successfully engraft and regenerate a patient's damaged bone marrow.

In exciting pre-clinical studies, Angioblast's MPC have been shown to be able to increase and expand the numbers of haematopoietic stem cell numbers by over 20-fold in co-cultures. This has formed the basis for a currently enrolling FDA-cleared trial at Texas' MD Anderson Cancer Center where MPC-expanded haematopoietic stem cells are being evaluated for repair of bone marrow in cancer recipients.

In September 2008, the FDA granted Angioblast an orphan drug designation to use its proprietary "off-the-shelf" allogeneic MPC in patients with haematologic malignancies who need a bone marrow transplant but have insufficient haematopoietic stem cell production.

Orphan Drug Designation allows for an accelerated review process by the FDA, seven-year market exclusivity in the United States upon obtaining marketing authorisation, tax benefits, and exemption from user fees.

Importantly, the accelerated review process and smaller size of pivotal trial for an orphan indication effectively means that if Angioblast's MPC product is effective it may get to market in a significantly shorter timeframe than products for other indications.

The future

We are set to capitalise on the leading edge platform technology with the focus on clinical and commercial value drivers.

Specifically, the emphasis continues to be on:

- Executing commercial relationships that will add substantial value to both companies and enhance market-oriented execution capability
- Completion of ongoing and commencement of new Phase 2 trials
- Progression of clinical programs towards Phase 3 registration trials.

FINANCIAL RESULTS

Operating results

The net loss for the half-year was $6,915,159 (31 December 2007: $5,396,978). The increase is largely due to greater clinical trial activity in both Mesoblast and Angioblast.

Income

Revenue during the period was $434,391 (31 December 2007: $342,547). This represents interest revenue, which has increased as our cash reserves were higher through-out the current reporting period, due to the capital raised in December 2007.

Expenditure

In line with the company's policy and to comply with accounting standards, all costs associated with research and development are fully expensed in the period in which they are incurred as the directors do not consider the company can yet demonstrate all the factors required in order to capitalise development expenditure. The research and development expenditure for the period was $4,483,793 (31 December 2007: $3,431,104). This has increased this half year as our clinical activities expand and our clinical management team has grown to support these activities.

Cash flows

DIRECTORS' REPORT

Net cash outflow from operations for the period was $5,417,961 (31 December 2007: $2,991,699). This increase is in line with our expenditure increase due to increased clinical development.

Net cash outflow from investing activities for the period was $124,707 (31 December 2007: $5,873,749). The cash outflow in 2007 was primarily due to the additional investment in Angioblast Systems, Inc. (refer below for further comment).

During the period under review the company raised a further $985,000 from the exercise of share options. During last period, the company issued a further 10,500,000 shares at $1.28, providing approximately $13m (after transaction costs) in cash.

Investment in associates

During the period under review, Mesoblast invested the remaining $200,000 in Angioblast Systems, Inc. which completes its investment obligations under the Series B agreement. The total investment made by Mesoblast under this agreement as at 31 December 2008 is $8,500,000. The company has previously invested a total of $10,500,000 in Angioblast Systems, Inc. under the Series A stock purchase agreement, taking the total investment (after deducting interest costs) to date to $18,282,791 (representing a shareholding of 38.4%) before accounting for the appropriate share of losses incurred by Angioblast Systems, Inc. The share of losses for the half-year period is $1,580,017 (2007: 767,435). More information can be found in note 3 to the financial statements.

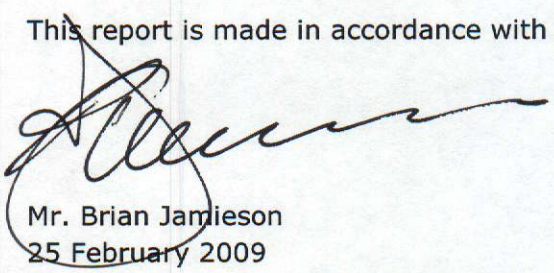
EVENTS SUBSEQUENT TO BALANCE DATE

There have not been any events subsequent to the balance date, not other wise disclosed in this report, which significantly affected or may significantly affect the operations of the company, the results of its operations or the state of affairs of the company in subsequent financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's declaration as required under Section 307C of the Corporations Act 2001 is included on page 5 of this report.

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



Mr. Brian Jamieson
25 February 2009
Chairman
Melbourne

PRICEWATERHOUSECOOPERS

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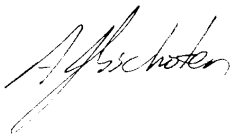
Auditors' Independence Declaration

As lead auditor for the review of Mesoblast Limited for the half year ended 31 December 2008, 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 review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mesoblast Limited during the period.



Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
25 February 2009

INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Half-Year 31 December 2008 $	Half-Year 31 December 2007 $
Revenues from continuing operations		
Interest revenue	434,391	342,547
	434,391	342,547
Expenses from continuing operations		
Research and development	(4,483,793)	(3,431,104)
Management and administration	(1,285,740)	(1,540,986)
Share of losses of equity accounted associates	(1,580,017)	(767,435)
	(7,349,550)	(5,739,525)
Loss before income tax expense	(6,915,159)	(5,396,978)
Income tax	-	-
Loss after related income tax from continuing operations	(6,915,159)	(5,396,978)
Loss attributable to members of the company	(6,915,159)	(5,396,978)

Losses per share – from continuing operations:	Cents	Cents
Basic – cents per share	(5.76)	(4.80)
Diluted – cents per share	(5.76)	(4.80)

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

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2007	37,422,183	1,614,243	-	(18,497,087)	20,539,339
Total recognised income and expense for the period	**-**	**-**	**-**	**(5,396,978)**	**(5,396,978)**
Contributions of equity net of transaction costs	13,596,900	-	-	-	13,596,900
Fair value of share based payment	-	712,362	-	-	712,362
Balance at 31 December 2007	51,019,083	2,326,605	-	(23,894,065)	29,451,623
Balance at 1 July 2008	51,019,083	2,960,017	796,498	(28,559,466)	26,216,132
Total recognised income and expense for the period	**-**	**-**	**(2,181,772)**	**(6,915,159)**	**(9,096,931)**
Contributions of equity net of transaction costs	985,000	-	-	-	985,000
Fair value of share based payment	-	669,453	-	-	669,453
Balance at 31 December 2008	52,004,083	3,629,470	(1,385,274)	(35,474,625)	18,773,654

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

BALANCE SHEET
AS AT 31 DECEMBER 2008

	31 December 2008 $	30 June 2008 $
CURRENT ASSETS		
Cash and cash equivalents	9,555,885	14,094,219
Trade and other receivables	650,351	123,900
Prepayments	185,430	85,533
TOTAL CURRENT ASSETS	10,391,666	14,303,652
NON-CURRENT ASSETS		
Property, plant and equipment	221,728	197,997
Investments accounted for using the equity method	9,199,458	12,761,247
Intangible assets	504,141	526,006
TOTAL NON-CURRENT ASSETS	9,925,327	13,485,250
TOTAL ASSETS	20,316,993	27,788,902
CURRENT LIABILITIES		
Trade and other payables	1,543,339	1,572,770
TOTAL CURRENT LIABILITIES	1,543,339	1,572,770
TOTAL LIABILITIES	1,543,339	1,572,770
NET ASSETS	18,773,654	26,216,132
EQUITY		
Issued capital	52,004,083	51,019,083
Reserves	2,244,196	3,756,515
Accumulated losses	(35,474,625)	(28,559,466)
TOTAL EQUITY	18,773,654	26,216,132

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

CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Half-Year 31 December 2008 $	Half-Year 31 December 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(5,417,961)	(3,115,240)
Government grants and other income received	-	123,541
Net cash used in operating activities	(5,417,961)	(2,991,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	291,115	342,547
Investment in fixed assets	(62,909)	(64,522)
Investment in patents & licenses	-	(25,377)
Investment in equity accounted associate	(200,000)	(6,419,452)
Loan repaid/(made) to associate company	(152,913)	293,055
Net cash used in investing activities	(124,707)	(5,873,749)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	985,000	14,134,500
Payments for share issue costs	-	(537,600)
Net cash provided by financing activities	985,000	13,596,900
Net (decrease)/increase in cash and cash equivalents	(4,557,668)	4,731,452
Cash and cash equivalents at beginning of half-year	14,094,219	12,055,040
FX gains/(losses) on the translation of foreign bank accounts	19,334	(4,635)
Cash and cash equivalents at end of half-year	9,555,885	16,781,857

The above cash flow statement should be read in conjunction with the accompanying notes

NOTE 1.

Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Mesoblast Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Going concern basis

For the half year ended 31 December 2008, the company incurred an operating loss of $6,915,159 (31 December 2007 loss: $5,396,978) as it continued to further its investment in research initiatives. As at half-year end, the company's net assets stood at $18,773,654 (June 2008: $26,216,132), with available cash of $9,555,885 (June 2008:$14,094,219).

During the forthcoming year, the company will work to further advance both the development of its core technologies, and if possible, the commercialisation of those technologies. Based on the forecast cash flows approved by the Board of Directors for the period ending 31 March 2010, which excludes any cash that may be raised through further allotment of capital or through collaboration arrangements with third parties, the Directors believe that sufficient cash will be available to fund the company's operations over the 12 month period subsequent to the date of signing the financial statements.

Accordingly the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments to the carrying values or classification of assets or liabilities that would be necessary in the event that the company, were unable to continue as a going concern

NOTE 2. 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 company.

Two reportable operating segments have been identified, the orthopaedic segment and the cardiovascular segment, both having two distinct markets for which the MPC platform technology is currently being developed. The orthopaedic segment operates in Australia, and the cardiovascular segment operates in the United States of America through our investment in Angioblast systems, Inc.

(b) Segment information	Orthopaedic indications	Non-orthopaedic indications*	Total
	$	$	$
Half-year 2008			
Net loss after tax	3,848,591	1,580,017	5,428,608
Total segment assets	561,936	9,199,458	9,761,394
Total segment assets include:			
Carrying value of investments accounted for using the equity method	-	9,199,458	9,199,458
Half-year 2007			
Net loss after tax	2,810,400	767,435	3,577,835
Total segment assets	610,056	13,320,112	13,930,168
Total segment assets include:			
Carrying value of investments accounted for using the equity method	-	13,320,112	13,320,112

*Performed in conjunction with Angioblast, and includes treatments for cardiovascular conditions, eye disease, bone marrow transplantation, and other non-orthopaedic conditions. Further information can be found in the directors' report.

(c) Segment reconciliation

The following table reconciles total segment net loss to the totals reported for the company in the income statement and balance sheet. These reconciling items are not considered by the company to be an operating segment as defined in AASB 8 *Operating Segments* (which was early adopted in the previous financial year) and therefore are not disclosed as such. They are administrative in nature and relate largely to the running of the Mesoblast head office.

	31 December 2008 $	31 December 2007 $
Total segment net loss	**5,428,608**	**3,577,835**
Interest revenue	(434,391)	(342,547)
Administration expenses	1,157,101	1,439,430
Foreign exchange loss	94,387	9,898
Share-based payments	669,454	712,362
Total net loss after tax	6,915,159	5,396,978

NOTE 3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Country of Incorp-oration	Principal Activity	Ownership Interest	
			31 December 2008 %	30 June 2008 %
(a) Carrying amount				
Angioblast Systems, Inc.	USA	Adult stem cell research and development for non-orthopaedic applications	38.4	39.1

	31 December 2008 $	30 June 2008 $
Investment in Angioblast Systems, Inc.	18,282,791	18,082,791
Share of equity accounted losses	(7,698,059)	(6,118,042)
Foreign exchange difference on translation	(1,385,274)	796,498
	9,199,458	12,761,247
(b) Movement in carrying amount		
Carrying amount at the beginning of the six month period	12,761,247	13,320,112
Additional investment*	200,000	-
Share of losses (for the six months)	(1,580,017)	(1,355,363)
Foreign exchange difference on translation	(2,181,772)	796,498
Carrying amount at the end of the six month period	9,199,458	12,761,247

*The additional investment for the current six month period completes the Series B stock purchase agreement, and takes the total investment made under this agreement to $8.5m. There are no further investments committed under the Series B stock purchase agreement.

	31 December 2008 $	30 June 2008 $
NOTE 4. INTANGIBLE ASSETS		
Gross carrying amount		
Balance at the beginning of the six month period	690,000	690,000
Additions	-	-
Disposals	-	-
Carrying amount at the end of the six month period	690,000	690,000
Accumulated amortisation		
Balance at the beginning of the six month period	(163,994)	(142,127)
Amortisation expense	(21,865)	(21,867)
Carrying amount at the end of the six month period	(185,859)	(163,994)
Net book value	504,141	526,006
NOTE 5. COMMITMENTS FOR EXPENDITURE		
(a) Capital commitments		
Not longer than 1 year	-	-
Longer than 1 year and not longer than 5 years	-	-
	-	-
(b) Further investment in associate		
Not longer than 1 year	-	200,000
Longer than 1 year and not longer than 5 years	-	-
	-	200,000

NOTE 6. EVENTS SUBSEQUENT TO BALANCE DATE

There have not been any events subsequent to the balance date, not other wise disclosed in this report, which significantly affected or may significantly affect the operations of the company, the results of its operations or the state of affairs of the company in subsequent financial periods.

NOTE 7. ISSUED CAPITAL

	31 December 2008 No.	31 December 2008 $	30 June 2008 No.	30 June 2008 $
(a) Movements in issued capital during the year				
Fully paid ordinary shares				
Balance at the beginning of the six month period	119,256,133	51,019,083	119,256,133	51,019,083
Issue of shares under employee share option plan (note 8)	1,600,000	985,000	-	-
Balance at the end of the six month period	120,856,133	52,004,083	119,256,133	51,019,083

NOTE 8. SHARE OPTIONS

(a) Movement in share options over ordinary shares	31 December 2008 No.	30 June 2008 No.
Balance at the beginning of the six month period	9,316,667	9,386,667
Granted during the half-year	2,736,000	-
Exercised during the half-year	(1,600,000)	-
Lapsed during the half-year	(45,000)	(70,000)
Balance at the end of the six month period	10,407,667	9,316,667

MESOBLAST LIMITED
ABN 68 109 431 870

DIRECTORS' DECLARATION

In accordance with a resolution of directors of Mesoblast Limited,

In the opinion of the directors:

(a) the accompanying financial statements and notes are in accordance with Corporations Act 2001 and comply with the accounting standards and give a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date.

(b) At the date of this declaration there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors

Mr Brian Jamieson
Director

25 February 2009

Melbourne

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of Mesoblast Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mesoblast Limited which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Mesoblast Limited (the company).

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mesoblast Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of Mesoblast Limited (continued)

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mesoblast Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
25 February 2009