Mesoblast Limited
ABN: 68-109-431-870

HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009
PROVIDED TO THE ASX UNDER LISTING RULE 4.2A

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2009.

Rule 4.2A.3

Appendix 4D

Half Year Report for the six months to 31 December 2009

Name of entity

MESOBLAST LIMITED

1. Reporting period

Report for the half year ended	31 December 2009
Previous corresponding period is the financial year ended and half year ended	30 June 2009 31 December 2008

2. Results for announcement to the market

				$'000
Revenues from ordinary activities *(item 2.1)*	down	34%	to	287
Loss from ordinary activities after tax attributable to members (*item 2.2*)	down	10%	to	6,216
Net loss for the period attributable to members *(item 2.3)*	down	10%	to	6,216

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

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

	December 31, 2009	December 31, 2008
Net tangible asset backing per ordinary security	16.1cents	16.4cents

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.

MESOBLAST LIMITED
ACN: 109 431 870

HALF YEAR REPORT

31 DECEMBER 2009

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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 2009. 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

During the period your company achieved substantial and ongoing positive preclinical and clinical results. Our progress underscores the tremendous commercial potential of our adult stem cell technology platform and underpins Mesoblast's position as a global leader. Together with our United States-based associate company Angioblast Systems Inc. we are continuing to develop a broad-based product portfolio targeting an ever growing range of major commercial markets.

At 31 December 2009, Mesoblast had $14.65 million in funds available for its ongoing clinical trials, manufacturing and research activities, and near-term strategic objectives.

Our considered use of investor funds continues to substantially increase shareholder value and extends our ability to action multiple complementary revenue generating strategies. On a product-by-product basis, these strategies include taking products to market ourselves, entering into distribution arrangements, and forming strategic licensing partnerships.

Mesoblast has now developed a pipeline of products for treating the fastest growing segment of the orthopaedic market - spinal intervertebral disc diseases. In addition to our suite of products for spinal fusion, the company has been successful in addressing the much larger potential market of chronic low back pain due to disc degeneration – developing a product to rebuild the intervertebral disc. This product is expected to commence clinical trials during 2010. Our ongoing clinical trial for prevention of early knee osteoarthritis after Anterior Cruciate Ligament (ACL) injury continues to recruit well, and plans are in train for obtaining early regulatory marketing approvals for our long bone fracture repair product.

Mesoblast's United States-based associate, Angioblast Systems Inc., continues to make major inroads into a wide range of non-orthopaedic applications of the shared Mesenchymal Precursor Cell (MPC) adult stem cell platform technology. Specifically, the heart failure clinical program continues to demonstrate both sustained safety and efficacy of the stem cell product, while the bone marrow transplant program is rapidly proceeding towards Phase 3. Of great interest were the preclinical results demonstrating successful use of the adult stem cells for rebuilding damaged pancreas tissue and potentially developing a treatment for the very large and growing diabetes market.

DIRECTORS' REPORT

SPINAL DISEASE FRANCHISE

Intervertebral Disc Disease

In September 2009 Mesoblast announced highly successful preclinical trial results of its adult stem cells for the treatment of degenerative intervertebral disc disease, the leading cause of low back pain which affects an estimated four million people in the United States alone.

A single low-dose injection of Mesoblast's allogeneic adult stem cells into severely damaged intervertebral discs of sheep resulted in dramatic reversal of the degenerative process, re-growth of disc cartilage, and sustained normalisation of disc pathology, anatomy and function.

In the placebo-controlled, randomised trial of Mesoblast's cells for the treatment of degenerative disc disease, six months after a single direct intra-discal injection of Mesoblast's cells, discs that were initially severely damaged and degenerated were found to have become indistinguishable from healthy non-degenerated discs in their histopathology, cartilage content, height, and structure. In contrast, severely degenerated discs which served as controls and were either not injected or were injected with hyaluronic acid, continued to demonstrate significantly reduced disc height, disordered disc structure, disrupted histopathology and reduced cartilage content compared with healthy non-degenerated discs over six months of follow-up.

Mesoblast anticipates commencing a Phase 2 clinical trial for repair of degenerative disc disease during the course of this year. If the clinical trials show that a simple, non-invasive injection can reverse the degenerative process, this would represent a major product breakthrough into an unmet market segment that is conservatively estimated at more than $US 2 billion per year.

Lumbar and Cervical Fusion

For end-stage disc degeneration, the only clinical option for patients is a procedure termed spinal bony fusion which replaces the damaged disc with bone, usually obtained from hip tissue. Over 500,000 spinal fusion procedures are currently performed annually in the US alone, 60% for the lumbar spine and 40% for the cervical spine (neck), with the numbers growing at an average rate of 7% per year.

Mesoblast believes its product NeoFuse™ will demonstrate superior safety and effectiveness for spinal fusion over both hip bone grafting and other biologicals, and will enable the company to target the entire autograft and biological markets for lumbar and cervical spinal fusion.

Mesoblast is in the midst of its Phase 2 trial to test NeoFuse™ in the lumbar intervertebral body space, a procedure preferred by most spinal surgeons due to its minimally invasive nature. The results of this randomised, placebo-controlled trial of NeoFuse™ will be used in formal regulatory discussions regarding timing of a Pivotal/Phase 3 clinical trial for lumbar interbody fusion.

Mesoblast is also using NeoFuse™ in a Phase 2 clinical trial for cervical fusion, enabling it to generate parallel results on safety and effectiveness of NeoFuse™ for both lumbar and cervical fusion. 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.

Cell Therapy for Prevention of Knee Osteoarthritis after an Acute Traumatic Knee Injury

Mesoblast's clinical trial for the prevention of knee osteoarthritis after an acute traumatic knee injury – a ruptured Anterior Cruciate Ligament (ACL)- is advancing well.

The randomised, placebo-controlled, Phase 2 clinical trial design is evaluating whether Mesoblast's allogeneic adult stem cell product, RepliCart™, can slow or prevent the development of knee osteoarthritis after reconstruction of a ruptured ACL. The trial is enrolling up to 24 patients aged between 18 and 40 years old who have undergone recent ACL surgical reconstruction within six months of a traumatic knee injury.

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.

Significantly, Mesoblast intends to broaden the use of RepliCart™ to established osteoarthritis, a degenerative disease characterised by the loss of cartilage and 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.

Based on its successful preclinical trial results, Mesoblast will commence additional Phase 2 trials aiming to show that a single injection of RepliCart™ into knee joints damaged by osteoarthritis can both prevent further deterioration early in the course of mild arthritis and regenerate or regrow cartilage tissue lining the damaged joint late in the course of severe arthritis.

Seeking Australian Regulatory Approval

Mesoblast has applied for regulatory approval in Australia to obtain a manufacturing license for the first commercial application of the stem cells, for the treatment of non-healing long bone fractures.

Regulatory approval to make these products available to hospitals and clinicians throughout Australia will facilitate earlier revenues and provide the first demonstration of the use of these products in a commercial setting.

Australian regulatory approval will enable Mesoblast to formulate a template that can be duplicated in other jurisdictions on a country-by-country basis.

Significant Clinical Progress in Non-Orthopaedic Products

Angioblast has simultaneously advanced the platform stem cell technology towards commercialisation of novel treatments for cardiovascular, bone marrow, eye and other conditions, most recently diabetes. Notably, Mesoblast holds 38.4 percent equity in Angioblast on an undiluted basis.

Cord Blood Expansion Shows Positive Results...Fast Track to Phase 3?

Angioblast's objective is to develop a therapy that results in bone marrow reconstitution in cancer patients as effectively as unrelated adult bone marrow, but without the potentially life-threatening complication of graft-versus-host disease which occurs in as many as 60% of patients.

The company's product is being developed under a US FDA Orphan Drug Designation granted to Angioblast for expanding haematopoietic stem and progenitor cell numbers in patients with haematologic malignancies. This means that there is the potential for a fast track to Phase 3 and, if effective, accelerated product registration.

DIRECTORS' REPORT

Angioblast has announced successful results from the first 18 of 30 patients receiving a bone marrow transplant using umbilical cord blood expanded by the patented allogeneic (or off-the-shelf) stem cells.

The proprietary Mesenchymal Precursor Cells (MPCs) expanded haematopoietic stem cells in umbilical cord blood by approximately 40-fold. In patients receiving MPC-expanded cord blood, the median time to neutrophil recovery was 16 days and to platelet recovery 38 days, compared with approximately 30 days and over 90 days, respectively, in published reports of patients transplanted with an unexpanded cord.

By increasing the overall success rate of an allogeneic bone marrow transplant while reducing the risk of graft-versus-host disease, our technology has the potential to lower the risk of infections, bleeding, and death in critically ill patients with haematologic malignancies following chemotherapy.

On completion of the full 30 patient study, which is being funded by the United States National Institutes of Health (NIH), Angioblast intends to hold specific discussions with the FDA regarding timing and design of a Phase 3 clinical trial.

Cardiac Trials Produce Efficacy, Safety

Angioblast is developing a suite of products for the treatment of cardiovascular diseases, including stem cell products for reversal of established heart failure and for prevention of heart failure after a heart attack.

Congestive heart failure represents a multi-billion dollar market opportunity. There are currently five million people in the United States with congestive heart failure, with over 550,000 new cases annually. Existing therapies do not result in repair or regeneration of heart muscle.

For patients with advanced heart failure, Angioblast's allogeneic Mesenchymal Precursor Cell (MPC) product, termed Revascor™, is well advanced in its development program. 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. Revascor™ rebuilds both blood vessels and heart muscle.

As heart muscle function progressively deteriorates, quality and duration of life is impaired, and when over 50% of heart muscle function is lost mortality is significantly increased. Angioblast is aiming to improve heart muscle function in those patients with over 50% functional loss (i.e. those with ejection fraction less than 35%) because significant improvement in this group will be reflected in reduction of hospitalization and improved survival, and thereby enable a maximal pricing strategy.

Interim results from a 60 patient randomized phase 2a trial suggest that the lowest dosage of cells is able to induce a highly significant improvement in heart function compared to control patients and the effect is sustained. Safety profile of the cells has been excellent, and the company expects to complete recruitment of the final 20 patients receiving the highest dose of cells during the first half of 2010.

Additionally, Angioblast has initiated a Phase 2 clinical trial to evaluate the safety and effectiveness of Revascor™ for improving heart muscle function in patients with the most severe, or class IV, end-stage form of heart failure. This clinical trial involves up to 80 patients who are waiting to receive a heart transplant from an appropriate donor and are being kept alive temporarily by a Left Ventricular Assist Device (LVAD) manufactured by medical device company Thoratec. The clinical trial is funded by a multi-million dollar grant awarded by the US NIH.

DIRECTORS' REPORT

Diabetes – Massive New Market Opportunity

Angioblast announced last December significant preclinical trial results in mice showing that the proprietary Mesenchymal Precursor Cells (MPCs) could be a potential treatment for diabetes. Given the epidemic proportions at which this disease is evolving, this is a huge potential market opportunity for the company.

Diabetes was induced in 35 mice that were then randomised to receive either a single injection into the bloodstream of human MPCs or control. Three weeks later, MPC-treated diabetics demonstrated a 35% maximal reduction in blood glucose levels and a 34% increase in blood insulin levels compared with diabetic controls over the three weeks of follow-up. The mechanism appears to be sustained regeneration of pancreatic insulin-producing cells.

Angioblast is now planning a detailed program leading to clinical trials to test its allogeneic MPC therapy in patients with diabetes. The aim is to develop a single injection that results in sustained rebuilding of the pancreas and enables long-term normalization of insulin secretion and blood sugar levels.

FINANCIAL RESULTS

Operating results

The net loss for the half-year was $6,216,065 (31 December 2008: $6,915,159). The decrease is primarily related to the US/AUD exchange rate being more favourable this period which has reduced our US based clinical development expenses accordingly.

Income

Revenue during the period was $287,416 (31 December 2008: $434,391). This represents interest revenue which has decreased this period due to the significantly lower interest rates this period, despite our cash reserves being higher this period than through-out the comparative reporting period.

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 $3,456,248 (31 December 2008: $4,483,793). This has decreased this half year due to both the US/AUD exchange rate having significantly improved this period in comparison to last reporting period, and last reporting period included significant preclinical trial expenses as those trials were completed.

Cash flows

Net cash outflow from operations for the period was $4,448,358 (31 December 2008: $5,417,961). This decrease is in line with the comments above for Expenditure.

Net cash inflow/(outflow) from investing activities for the period was $245,545 (31 December 2008: ($124,707)) and largely comprises interest received. The net cash outflow in 2008 was primarily due to the $200,000 additional investment in Angioblast Systems, Inc. (refer below for further comment) and repayment of the Angioblast intercompany loan.

During the period under review the company raised a further $2,326,400 (31 December 2008: $985,000) from the exercise of share options, primarily from Seed Investors. There were no further equity raisings in the period (31 December 2008: nil).

DIRECTORS' REPORT

Investment in associates

Mesoblast has a 38.4% (on a non-diluted basis) ownership in Angioblast Systems, Inc., a US company progressing the platform technology for all non-orthopaedic indications, which primarily include cardio vascular indications, bone marrow transplantation, eye disease and diabetes. This investment is equity accounted for, and the share of losses for the half-year period is $1,478,110 (2008: $1,580,017). More information can be found in note 3 to the financial statements.

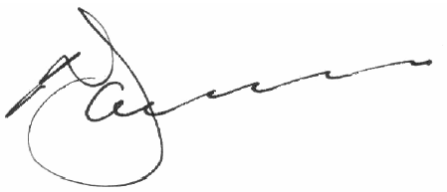
EVENTS SUBSEQUENT TO BALANCE DATE

There have not been any events subsequent to the balance date, not otherwise 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 2010
Chairman
Melbourne

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the review of Mesoblast Limited for the half year ended 31 December 2009, 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 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Half-Year 31 December 2009 $	Half-Year 31 December 2008 $
Revenues from continuing operations		
Interest revenue	287,416	434,391
	287,416	434,391
Expenses from continuing operations		
Research and development	(3,456,248)	(4,483,793)
Management and administration	(1,569,123)	(1,285,740)
Share of losses of equity accounted associates	(1,478,110)	(1,580,017)
	(6,503,481)	(7,349,550)
Loss before income tax expense	(6,216,065)	(6,915,159)
Income tax	-	-
Loss after related income tax from continuing operations	(6,216,065)	(6,915,159)
Other comprehensive income		
Exchange differences on translation of foreign operations	897,100	(2,181,772)
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income/(loss) for the period, net of tax	897,100	(2,181,772)
Total comprehensive loss for the period	(5,318,965)	(9,096,931)
Losses per share from continuing operations attributable to the ordinary equity holders of the company:	**Cents**	**Cents**
Basic – cents per share	(4.52)	(5.76)
Diluted – cents per share	(4.52)	(5.76)

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

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2008	51,019,083	2,960,017	796,498	(28,559,466)	26,216,132
Total comprehensive loss 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
Balance at 1 July 2009	62,460,236	4,156,507	18,144	(40,844,925)	25,789,962
Total comprehensive loss for the period	**-**	**-**	**897,100**	**(6,216,065)**	**(5,318,965)**
Contributions of equity net of transaction costs	2,326,400	-	-	-	2,326,400
Fair value of share based payment	-	294,162	-	-	294,162
Balance at 31 December 2009	64,786,636	4,450,669	915,244	(47,060,990)	23,091,559

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

BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	31 December 2009 $	30 June 2009 $
CURRENT ASSETS			
Cash and cash equivalents		14,653,054	16,526,278
Trade and other receivables		315,949	305,361
Prepayments		174,932	88,533
TOTAL CURRENT ASSETS		15,143,935	16,920,172
NON-CURRENT ASSETS			
Property, plant and equipment		238,084	246,137
Investments accounted for using the equity method	3	8,745,416	9,326,428
Intangible assets	4	460,410	482,275
TOTAL NON-CURRENT ASSETS		9,443,910	10,054,840
TOTAL ASSETS		24,587,845	26,975,012
CURRENT LIABILITIES			
Trade and other payables		1,496,286	1,185,050
TOTAL CURRENT LIABILITIES		1,496,286	1,185,050
TOTAL LIABILITIES		1,496,286	1,185,050
NET ASSETS		23,091,559	25,789,962
EQUITY			
Issued capital	7	64,786,636	62,460,236
Reserves		5,365,913	4,174,651
Accumulated losses		(47,060,990)	(40,844,925)
TOTAL EQUITY		23,091,559	25,789,962

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

CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Half-Year 31 December 2009 $	Half-Year 31 December 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(4,448,358)	(5,417,961)
Government grants and other income received	-	-
Net cash used in operating activities	(4,448,358)	(5,417,961)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	298,679	291,115
Investment in fixed assets	(51,029)	(62,909)
Investment in patents & licenses	-	-
Investment in equity accounted associate	-	(200,000)
Loan repaid/(made) to associate company	(2,105)	(152,913)
Net cash used in investing activities	245,545	(124,707)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,326,400	985,000
Payments for share issue costs	-	-
Net cash provided by financing activities	2,326,400	985,000
Net (decrease)/increase in cash and cash equivalents	(1,876,413)	(4,557,668)
Cash and cash equivalents at beginning of half-year	16,526,278	14,094,219
FX gains/(losses) on the translation of foreign bank accounts	3,189	19,334
Cash and cash equivalents at end of half-year	14,653,054	9,555,885

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 2009 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 2009 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.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

Changes in accounting policy

Mesoblast Limited had to change some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

Presentation of financial statements

The company applies revised AASB101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the company presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these interim financial statements as of and for the half-year ended 31 December 2009. Comparative information has been re-presented to comply with the revised standard.

The change in accounting policy is only a change in presentation; there is no financial impact for the current half-year or previous period.

Going concern basis

For the half year ended 31 December 2009, the company incurred an operating loss of $6,216,065 (31 December 2008 loss: $6,915,159) as it continued to further its investment in research and development initiatives. As at half-year end, the company's net assets stood at $23,091,559 (June 2009: $25,789,962), with available cash of $14,653,054 (June 2009:$ 16,526,278).

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 2011, 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 non-orthopaedic segment, both having two distinct markets for which the MPC platform technology is currently being developed. The orthopaedic segment has operations primarily in Australia and the USA, and the non-orthopaedic segment operates in the USA through our investment in Angioblast systems, Inc.

(b) Segment information	Orthopaedic indications	Non-orthopaedic indications*	Total
	$	$	$
Half-year 2009			
Net loss after tax	3,416,347	1,478,110	4,894,457
Total segment assets	504,015	8,745,416	9,249,431
Total segment assets include:			
Carrying value of investments accounted for using the equity method	-	8,745,416	8,745,416
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

*Performed in conjunction with Angioblast, and includes treatments for cardiovascular conditions, eye disease, bone marrow transplantation, diabetes 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 2009 $	31 December 2008 $
Total segment net loss	**4,894,457**	**5,428,608**
Interest revenue	(287,416)	(434,391)
Administration expenses	1,317,102	1,157,101
Foreign exchange realised (gain)/loss	(2,240)	94,387
Share-based payments	294,162	669,454
Total net loss after tax	6,216,065	6,915,159

NOTE 3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Country of Incorp-oration	Principal Activity	Ownership Interest	
			31 December 2009 %	30 June 2009 %
(a) Carrying amount				
Angioblast Systems, Inc.	USA	Adult stem cell research and development for non-orthopaedic applications	38.4	39.1

	31 December 2009 $	30 June 2009 $
Investment in Angioblast Systems, Inc.	18,282,791	18,282,791
Share of equity accounted losses	(10,452,619)	(8,974,507)
Foreign exchange difference on translation	915,244	18,144
	8,745,416	9,326,428
(b) Movement in carrying amount		
Carrying amount at the beginning of the six month period	9,326,428	9,199,458
Share of losses (for the six months)	(1,478,110)	(1,276,448)
Foreign exchange difference on translation	897,100	1,403,418
Rounding	(2)	-
Carrying amount at the end of the six month period	8,745,416	9,326,428

	31 December 2009 $	30 June 2009 $
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	(207,725)	(185,860)
Amortisation expense	(21,865)	(21,865)
Carrying amount at the end of the six month period	(229,590)	(207,725)
Net book value	460,410	482,275

NOTE 5. COMMITMENTS FOR EXPENDITURE		
(a) Capital commitments		
Not longer than 1 year	-	-
Longer than 1 year and not longer than 5 years	-	-
	-	-

NOTE 6. EVENTS SUBSEQUENT TO BALANCE DATE

There have not been any events subsequent to the balance date, not otherwise 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 2009 No.	31 December 2009 $	30 June 2009 No.	30 June 2009 $
(a) Movements in issued capital during the year				
Fully paid ordinary shares				
Balance at the beginning of the six month period	136,174,869	62,460,236	120,856,133	52,004,083
Share issued at $0.72 01 Apr 09	-	-	15,018,069	10,813,009
Transaction costs arising on issue of Shares	-	-	-	(548,290)
Issue of shares under employee share option plan (Note 8)	4,166,000	2,326,400	300,667	191,434
Balance at the end of the six month period	140,340,869	64,786,636	136,174,869	62,460,236

NOTE 8. SHARE OPTIONS

(a) Movement in share options over ordinary shares	31 December 2009 No.	30 June 2009 No.
Balance at the beginning of the six month period	9,872,000	10,407,667
Granted during the half-year	-	240,000
Exercised during the half-year	(4,166,000)	(300,667)
Lapsed during the half-year	(260,000)	(475,000)
Balance at the end of the six month period	5,446,000	9,872,000

MESOBLAST LIMITED
ABN 68 109 431 870

DIRECTORS' DECLARATION

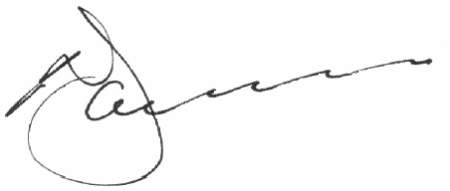
In accordance with a resolution of directors of Mesoblast Limited,

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 2009 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
25 February 2010
Chairman
Melbourne

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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2 Southbank Boulevard
SOUTHBANK VIC 3006
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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 statements of Mesoblast Limited, which comprise the balance sheet as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for Mesoblast Limited.

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 controls 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 consolidated entity's financial position as at 31 December 2009 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.

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.

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Independent auditor's review report to the members of Mesoblast Limited (continued)

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 consolidated entity's financial position as at 31 December 2009 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 2010