Mesoblast Limited ABN: 68 109 431 870
and Controlled Entities

Half Year Report
31 December 2011

This report is to be read in conjunction with the financial report for the year ended 30 June 2011.

Contents

MESOBLAST LIMITED
Directors' Report
for the Half-Year Ended 31 December 2011

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 2011. 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 Donal O'Dwyer (Chair of the Nomination and Remuneration Committee)

Mr Michael Spooner (Chair of the Audit and Risk Committee)

Mr Kevin Buchi (as representative for Teva)

Review of Operations

We are very pleased to report that the first half of the 2012 fiscal year has seen Mesoblast continue to deliver on its key commercial and clinical milestones, and to maintain a global leadership position in regenerative medicine.

On the corporate side, we are delighted with the continued support and enthusiasm for our products and technology from our strategic alliance partner, Teva Pharmaceutical Industries Inc. We are also very pleased to have entered into a manufacturing alliance with Lonza, the world leader in biologics manufacture.

On the clinical side, there has been a significant increase in activity, with additional regulatory clearances obtained for clinical trials in the United States, Europe and Asia, following continued positive clinical and preclinical trial results.

Our expenditure has increased in line with the considerable expansion of clinical, preclinical, manufacturing, and operational activity. We fully expect that the highly targeted increase in commercial activity will facilitate the primary objective of your Company – to bring regenerative medicines to patients with major unmet medical needs.

We would like to outline our corporate strategy and provide context to our key accomplishments, including strategic alliances and product clinical development.

Corporate Strategy

Mesoblast's corporate strategy is built around three guiding principles: bringing multiple products to market within a parallel timeframe; reducing corporate risk through strategic partnerships; and ensuring that we have sufficient cash resources to execute on product development.

Our product diversity revolves principally around three broad areas: (a) products commercialized in partnership with Teva, predominantly in cardiovascular and neurologic diseases, (b) products delivered intravenously for type 2 diabetes, lung diseases, inflammatory joint diseases and other immune-mediated conditions, and (c) products for orthopedic conditions, notably vertebral disc disease and bone repair.

The Teva partnership brings a major international distribution force, with significant commercial reach and clinical/regulatory experience, together with funding certainty for Phase 3 trials of our cardiovascular and neurologic products.

Our manufacturing alliance with Lonza provides certainty of manufacturing capacity to meet the long-term global supply of our proprietary MPC products. Most importantly, it provides Mesoblast with exclusive access to Lonza's current and future allogeneic (off-the-shelf) cell therapy facilities in Singapore, and the ability to trigger a process requiring Lonza to construct a purpose-built manufacturing facility exclusively for Mesoblast's marketed products.

With approximately $241 million cash at the end of the financial half-year, we have sufficient cash reserves to execute on our product pipeline, both those partnered with Teva and those in which we retain 100% financial interest.

Clinical Highlights

Cardiovascular franchise

Mesoblast is developing Revascor™ for our cardiovascular franchise, aiming to treat patients with heart attacks, congestive heart failure (CHF), and chronic angina.

In the industrialized world, heart attacks remain the biggest killer of people and CHF is the number one cause of hospitalizations. Each year in the United States alone there are over 1.1 million people with heart attacks and 670,000 people with newly diagnosed CHF. More than 6 million people in the United States suffer from CHF.

The results of Mesoblast's recently completed CHF Phase 2 trial were presented in November at a special scientific session of the American Heart Association 2011 annual meeting by the trial's independent principal investigator, Dr Emerson C Perin, of the Texas Heart Institute. The innovative trial and its outstanding results were selected and featured for presentation in this special session.

The results showed that the trial had successfully met its primary stated endpoint, safety and tolerability of Revascor™ in heart failure patients. No clinically relevant immune responses were seen against the injected MPCs, and there were no cell-related adverse events at all. A single MPC injection significantly reduced cardiac mortality and major adverse cardiac events (MACE) in heart failure patients over a mean follow-up of 22 months. Reduction in MACE was seen with every dose. The highest MPC dose completely prevented any episodes of heart failure hospitalization or deaths over 18 months of follow-up. This was accompanied by significant reduction in heart volumes and significant improvement in the distance walked over 6 minutes, two key parameters central to improvement of heart failure.

The significant reduction in cardiac mortality achieved with a single Revascor™ injection is a particularly important outcome since the only primary endpoint that the United States Food and Drug Administration (FDA) will accept for approval of new therapies in heart failure is a reduction in mortality, either alone or in combination with reduction in heart failure hospitalizations. Consequently, we expect that Revascor™ will commence a Phase 3 trial in H1 2012 in patients with severe heart failure, with the primary objective of reducing heart failure hospitalization and death.

Most patients who suffer major heart attacks undergo an early angioplasty of the blocked artery accompanied by implantation of a metal stent to keep the artery open long-term. In the first half of the fiscal year, we received European regulatory clearance to commence a 225-patient multi-center Phase 2 clinical trial in Europe for Revascor™ in conjunction with angioplasty and stent procedures. This novel clinical approach aims to prevent the heart attack patient from progressing to heart failure. The placebo-controlled Phase 2 trial, AMICI (Allogeneic Mesenchymal precursor cell Infusion in myoCardial Infarction), is approved under Europe's voluntary harmonization procedure and will initially recruit patients at multiple European sites, including in the United Kingdom, The Netherlands and Belgium.

Diabetes and Metabolic Diseases

Type 2 diabetes accounts for 90-95 per cent of the 230 million people with diabetes in the industrialized world, with its prevalence increasing at an alarming rate. According to data from the Centers for Disease Control and Prevention, in the United States there were 25.8 million people of all ages with diabetes in the United States in 2010 (8.3% of the United States population), of which 18.8 million people were diagnosed and 7 million were undiagnosed (Source: United States National Diabetes Fact Sheet, 2011). With a growth rate of 2.6% per year, this number is expected to increase to more than 35 million in 2020 and the disease now represents a global epidemic.

With type 2 diabetes now increasingly affecting younger patients who will experience lifelong complications, the renal, liver and cardiovascular complications of diabetes will become more and more of a burden on healthcare. We believe that Mesoblast's cells, delivered intravenously, have unique characteristics that may impact on the metabolic features and the end-organ complications of the diabetes epidemic.

In November, we reported exciting preclinical data showing that a single intravenous injection of allogeneic MPCs significantly lowered blood sugar levels in non-human primates with obesity and type 2 diabetes. We saw a clear dose-dependent effect, with the highest three MPC doses maintaining significantly reduced blood glucose levels after eight weeks compared with controls. There was also a direct correlation between reductions in fasting blood glucose levels over time and reductions in circulating C-reactive protein (CRP), the major predictor of cardiovascular events and cardiac mortality in type 2 diabetic patients.

In concert with results obtained previously in our studies of systemic injection of human MPCs in mice with experimental diabetes, we believe that an important mechanism of action of our cells is to improve control of insulin production in response to high blood glucose levels and to increase insulin-producing pancreatic beta cells.

We have now seen that the significant reduction in blood glucose levels following a single injection of the three highest MPC doses persists for at least six months of follow-up in non-human primates. Similarly, the significant reduction in CRP levels is maintained over the six-month period of follow-up in subjects who received the three highest MPC doses.

On the basis of the dose-ranging study in non-human primates, we received clearance from the FDA in January 2012 to begin a 60-patient trial comparing a single intravenous injection of the three highest MPC doses with placebo in type 2 diabetics with inadequately controlled glucose levels. Glucose control in these patients will be evaluated over a three-month period. If results confirm safety of an intravenous MPC injection in diabetic patients, we will be in a position to progress with clinical programs aiming to reverse or prevent diabetic kidney, liver and cardiac complications.

Intravenous Products for Systemic Diseases

In addition to diabetes, an intravenous injection of MPCs has the potential to address a variety of diseases of the lungs, liver, joints and immune system. Mesoblast is completing preclinical studies in a number of these areas in order to develop a portfolio of products for intravenous delivery. We expect to be able to leverage human safety data from the diabetes intravenous MPC trial, in combination with positive preclinical results, to generate the necessary data packages for rapid progression of new clinical programs in additional major indications such as rheumatoid arthritis and refractory asthma.

Spinal franchise

Clinical trials of Mesoblast's product portfolio for musculoskeletal indications are recruiting well in multiple centers in the United States and Australia.

In the first half of the fiscal year, we reported the commencement of a Phase 2 trial for degenerative disc disease. The first minimally invasive procedure was performed in August by leading spine surgeon, Kenneth Pettine, M.D., at the Spine Institute and Loveland Surgery Center in Colorado, a United States Spine Center of Excellence. Dr Pettine is a founder of the Spine Institute, an international leader in non-fusion surgery of the spine, and the co-inventor of Medtronic's Maverick artificial lumbar disc device. Since then clinical sites across the United States have recruited patients to the study, and an Australian arm of the trial is expected to begin soon. The aim of the clinical study is to show that a single minimally-invasive injection of our allogeneic disc repair MPC product can regenerate damaged discs, thereby reducing pain, improving function,

and avoiding surgery. The trial is comparing outcomes at six months in 60 patients receiving MPC injections against 40 patients receiving control injections.

At the other end of the spinal spectrum - end stage disc degeneration - the usual outcome is spinal fusion surgery, where the standard procedure is to use an autograft from the patient's hip thus requiring a second surgical procedure. Mesoblast is currently completing Phase 2 studies with its stem cell product, NeoFuse™ which would eliminate the need for the hip autograft. Interim results looked very promising, with 90% of the implanted patients showing successful bone bridging, as seen via CT scan, and pain was significantly reduced.

Eye Diseases

In October we received clearance from the Singapore Health Sciences Authority to begin a Phase 2 trial combining intra-ocular injections of MPCs with an anti-VEGF agent for patients with Age-related Macular Degeneration (AMD).

AMD causes sudden and severe central vision loss and accounts for approximately 90% of all blindness in the elderly. In North America, it is estimated that the prevalence of wet AMD will grow to nearly 3 million by 2020, from 1.7 million today, with about 200,000 new cases diagnosed each year. While anti-VEGF agents are effective in most North American/European patients, treatment needs to be maintained long-term since cessation of repeated injections results in rapid disease recurrence and risk of vision loss.

In Asia, wet AMD affects as many as 1.9% of people 65 or older. However, up to 55% of cases of wet AMD in Chinese, Japanese, and Malay populations are caused by Polypoid Choroidal Vasculopathy (PCV), a disorder of eye blood vessel proliferation that is different from the wet form seen in North America and Europe, and not responsive to anti-VEGF therapy.

In line with our commercial growth strategy of product sales through Asia and regional manufacture in locations such as Singapore, we plan to develop an AMD therapy that is effective in both Asian and North American/European forms of the disease. Starting the trial at the Singapore National Eye Centre is in line with this strategy, and we subsequently plan to expand clinical recruitment to sites in Australia, Europe and North America.

Bone Marrow Augmentation

During the period, we received clearance from the FDA to begin our first Phase 3 trial for bone marrow regeneration in patients with blood cancers. FDA clearance was obtained within the 30-day minimum time period after Mesoblast filed its Phase 3 Investigational New Drug (IND) submission.

The Phase 3 trial will aim to reproduce the positive pilot trial results seen at the University of Texas MD Anderson Cancer Center, where accelerated neutrophil and platelet recoveries, together with excellent 100-day patient survival and low GVHD rates, occurred in patients receiving partially mismatched hematopoietic cells from umbilical cord blood expanded by Mesoblast's proprietary allogeneic MPCs.

Financial Strength

For the first half of the 2012 financial year, Mesoblast reported cash reserves of $241 million. Expenditure during this period was approximately $37 million, primarily for costs incurred from significant expansion of multiple clinical and preclinical trials in the United States, Australia, Europe and Singapore. Additional one-off costs were associated with rapid building of world class clinical, regulatory and manufacturing teams, as well strengthening of the operational and business development units. A pre-tax loss of $17.6 million was recorded for the reporting period. Additional details are contained in the following Financial Results section of the Directors' Report.

Outlook

The first half of this fiscal year has seen Mesoblast deliver substantial clinical outcomes, ensure a strong and seamless partnership with Teva, and enter into an important alliance with Lonza. As a result of these significant clinical and corporate achievements, Mesoblast remains a global frontrunner in the regenerative medicine industry.

We expect the rest of the year to continue to be significant in Mesoblast's development, particularly as the Phase 3 cardiovascular program in partnership with Teva moves forward, as our diabetes and other intravenous programs accelerate, and as clinical data come to hand in our orthopedic programs. We look forward to reporting more clinical and commercial achievements in the second half of the 2012 financial year.

Financial Results

Operating results

The net loss before tax for the half-year was $17.6m (31 December 2010: net profit $93.1m), a total change of $110.7m (loss). The net increase in losses after tax is further explained in the following sections, but is primarily due to the one-off accounting gain of $101.6m recorded in the prior period as a result of the acquisition of Mesoblast Inc (previously called Angioblast Systems Inc).

There has been an increase in research and development activity, and management and administration expenses, of $27.2m during the period. While a significant portion of the increase in expenses is the result of an increase in activity, it should also be noted the prior period includes only one months' results of Mesoblast Inc plus $1.5m of share of associates losses, as opposed to the current period which is fully consolidated for the entire six month period.

In addition to the above, the Group has recorded an income tax expense of $26.5m in the current period (31 December 2010: nil), taking the net loss after tax for the half-year to $44.1m (31 December 2010: $93.1m profit). This tax expense is approximately 35% of the difference between milestone revenue booked for accounting purposes (USD14.75m) and that recorded for the December 2011 tax return (USD91.0m). As there is no certainty Mesoblast Inc will have tax payable in the future, the tax effect of this amount has been taken

through the income statement and hence no deferred tax asset has been recorded. Should Mesoblast Inc have taxable profits in the future this expense could potentially be reinstated as an asset at that time.

Revenue from continuing operations

Revenue from continuing operations reported for the Group during the current period is $18.6m (31 December 2010: $2.3m), an increase of $16.3m. Current period revenue includes a full six months' allocation of the upfront milestone payment received from Cephalon Inc, (now owned by Teva) of $13.9m (31 December 2010: $1.4m). Due to the significant increase in cash reserves as a result of this milestone payment and the equity investment made by Teva, the current period also includes interest revenue of $4.7m (31 December 2010: $0.9m).

Other income

Other income reported for the Group during the period is $0.3m (31 December 2010: $101.6m), a decrease of $101.3m. Other income consists of $0.1m of grant revenue (31 December 2010: nil) and foreign exchange gains of $0.2m (31 December 2010: nil). The corresponding prior period includes a $101.6m as a one-off revaluation gain (as noted above) of the Group's investment in its associate. This gain was recognized on consolidation in accordance with applicable International Financial Reporting Standards as a result of acquiring the outstanding shares of Mesoblast Inc during December 2010.

Expenses from continuing operations

Expenses from continuing operations reported for the current period is $36.6m (31 December 2010: $10.8m), a total increase of $25.7m. This increase has resulted from a change in the accounting treatment of the US operation from prior period to current period, together with an increase in operational activity of the Group. Both of these factors are explained in more detail below.

The prior period includes approximately one month's result of our US operation, together with our share of its losses prior to it becoming a subsidiary. Had the Group been fully consolidated for the entire six month period ending 31 December 2010, expenses from continuing operations reported would have increased by $3.6m for that period.

During the current period, the Group has invested in specialized clinical, regulatory and new product development resources as it prepares to embark on a Phase 3 trial in Congestive Heart Failure, and many other Phase 2 and preclinical trials. In addition, clinical and preclinical studies conducted by third parties on our behalf (eg. Contract Research Organizations, hospitals etc) has contributed $6.7m to the total increase in research and development costs. In order to support current and future clinical trial activity, external manufacturing costs have increased by $6.6m which includes master cell bank production and process improvement initiatives.

In line with the Group's policy, and to comply with accounting standards, all costs associated with research and development and manufacturing 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 capitalize development expenditure.

Cash flows

Net cash outflows from operations for the period was $36.9m (31 December 2010: inflow $88.0m), an increase of $124.9m. The increased outflow is largely related to the US$100m cash payment received as an upfront payment in the prior period, together with the increase in operational activity as discussed above.

Net cash inflows from investing activities for the period was $4.7m (31 December 2010: $4.5m). The current period records an increase in interest received of $4.1m, whereas the prior period included the acquisition of the subsidiary bank balance of $3.4m.

During the period under review the Group raised $3.1m (31 December 2010: $16.7m) from the exercise of employee share options. The corresponding period includes funds received from Institutions and Sophisticated investors approved by shareholders on 22 September 2010.

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 Group, the results of its operations or the state of affairs of the Group 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
Chairman

Melbourne
27 February 2012

Auditor's Independence Declaration

As lead auditor for the review of Mesoblast Limited for the half year ended 31 December 2011, 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 and the entities it controlled during the period.

Anton Linschoten
Partner

Melbourne
27 February 2011

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MESOBLAST LIMITED
Consolidated Income Statement
for the Half-Year Ended 31 December 2011

	Note	Half-Year 2011 $	Half-Year 2010 $
Revenue from continuing operations		18,639,003	2,334,664
Other income	3	328,006	101,617,776
		18,967,009	103,952,440
Expenses from continuing operations			
Research and development		(22,837,709)	(3,605,073)
Management and administration		(13,743,232)	(5,734,149)
Interest expense		-	(93)
Share of losses of equity accounted associates		-	(1,505,345)
		(36,580,941)	(10,844,660)
Profit/(loss) before income tax		(17,613,932)	93,107,780
Income tax expense		(26,513,031)	-
Profit/(loss) for the period attributable to members of Mesoblast Ltd		(44,126,963)	93,107,780
Profits/(losses) per share from continuing operations attributable to the ordinary equity holders of the Group:		**Cents**	**Cents**
Basic – (losses)/earnings per share		(15.52)	57.92
Diluted – (losses)/earnings per share		(15.52)	55.43

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

MESOBLAST LIMITED
Consolidated Statement of Comprehensive Income for the Half-Year Ended 31 December 2011

	Note	Half-Year 2011 $	Half-Year 2010 $
Profit/(loss) for the period		(44,126,963)	93,107,780
Other comprehensive income			
Exchange differences on translation of share of losses of foreign associates		-	(420,004)
Exchange differences on translation of foreign operations		15,302,474	(8,995)
Other comprehensive income/(loss) for the period, net of tax		15,302,474	(428,999)
Total comprehensive income/(loss) for the period attributable to members of Mesoblast Ltd		(28,824,489)	92,678,781

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

MESOBLAST LIMITED
Consolidated Balance Sheet as at 31 December 2011

	Note	31 December 2011 $	30 June 2011 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	240,842,698	263,227,585
Trade and other receivables	5	4,633,859	2,100,945
Prepayments		606,305	165,536
TOTAL CURRENT ASSETS		246,082,862	265,494,066
NON-CURRENT ASSETS			
Property, plant and equipment		842,166	609,849
Deferred tax asset		-	21,820,392
Intangible assets	6	497,110,629	475,326,200
TOTAL NON-CURRENT ASSETS		497,952,795	497,756,441
TOTAL ASSETS		744,035,657	763,250,507
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		7,629,624	3,665,407
Derivative financial instruments		610,558	-
Deferred revenue		28,255,528	27,129,937
TOTAL CURRENT LIABILITIES		36,495,710	30,795,344
NON-CURRENT LIABILITIES			
Deferred revenue		70,580,835	81,334,137
Deferred tax liability		133,120,393	127,817,393
Provisions		7,812,800	7,459,460
TOTAL NON-CURRENT LIABILITIES		211,514,028	216,610,990
TOTAL LIABILITIES		248,009,738	247,406,334
NET ASSETS		496,025,919	515,844,173
EQUITY			
Issued capital		481,593,407	477,114,981
Reserves		23,578,705	3,748,422
Retained earnings/(accumulated losses)		(9,146,193)	34,980,770
TOTAL EQUITY		496,025,919	515,844,173

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

MESOBLAST LIMITED
Consolidated Statement of Changes in Equity for the Half-Year Ended 31 December 2011

		Attributable to owners of Mesoblast Limited				
	Note	Issued Capital $	Share Option Reserve $	Foreign Currency Translation Reserve $	Retained Earnings $	Total $
Balance at 1 July 2010		87,949,316	5,175,760	420,004	(55,625,820)	37,919,260
Profit/(loss) for the half-year as reported in the 2011 half-year financial statements		2,691,422	(2,691,422)	-	93,107,780	93,107,780
Other comprehensive income/(loss)		-	-	(428,999)	-	(428,999)
Total comprehensive profit/(loss) for the half-year		**2,691,422**	**(2,691,422)**	**(428,999)**	**93,107,780**	**92,678,781**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		16,659,440	-	-	-	16,659,440
Equity issued on acquisition of Angioblast Systems Inc.		235,361,526	33,091,753	-	-	268,453,279
	7	252,020,966	33,091,753	-	-	285,112,719
Share options (at fair market value) issued on acquisition of Angioblast Systems, Inc. exercised and converted to equity		24,191,394	(24,191,394)	-	-	-
Fair value of share-based payments		-	625,925	-	-	625,925
		24,191,394	(23,565,469)	-	-	625,925
Balance at 31 December 2010		**366,853,098**	**12,010,622**	**(8,995)**	**37,481,960**	**416,336,685**
Balance at 1 July 2011		477,114,981	25,664,152	(21,915,730)	34,980,770	515,844,173
Profit/(loss) for the year		-	-	-	(44,126,963)	(44,126,963)
Other comprehensive income/(loss)		-	502,352	14,800,122	-	15,302,474
Total comprehensive profit/(loss) for the half-year		**-**	**502,352**	**14,800,122**	**(44,126,963)**	**(28,824,489)**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		3,104,519	-	-	-	3,104,519
	7	3,104,519	-	-	-	3,104,519
Tax effect of options deductible for tax		-	1,336,325	-	-	1,336,325
Transfer exercised options		1,373,907	(1,373,907)	-	-	-
Fair value of share-based payments		-	4,565,391	-	-	4,565,391
		1,373,907	4,527,809	-	-	5,901,716
Balance at 31 December 2011		**481,593,407**	**30,694,313**	**(7,115,608)**	**(9,146,193)**	**496,025,919**

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

MESOBLAST LIMITED
Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2011

	Note	Half-Year 2011 $	Half-Year 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (inclusive of goods and services tax)		(37,019,668)	(10,433,744)
Commercial milestones received		-	98,396,143
Government grants and other income received		125,311	-
Net cash inflows/(outflows) in operating activities		(36,894,357)	87,962,399
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		5,039,657	945,338
Cash acquired on acquisition of subsidiary		-	3,448,299
Investment in fixed assets		(361,203)	(61,533)
Investment in patents & licenses		-	(142,767)
Loan advanced to associate company		-	328,425
Net cash inflows/(outflows) in investing activities		4,678,454	4,517,762
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,104,519	17,376,647
Payments for share issue costs		-	(717,206)
Net cash inflows by financing activities		3,104,519	16,659,441
Net increase/(decrease) in cash and cash equivalents		(29,111,384)	109,139,602
Cash and cash equivalents at beginning of year		263,227,585	32,049,328
FX gains/(losses) on the translation of foreign bank accounts		6,726,497	(584,945)
Cash and cash equivalents at end of year		240,842,698	140,603,985

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

MESOBLAST LIMITED
Notes to the Financial Statements for the Half-Year Ended 31 December 2011

NOTE 1

Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated 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 2011 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.

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 Group.

Two reportable operating segments have been identified, the orthopedic segment and the non-orthopedic segment, both having two distinct markets for which the MPC platform technology is currently being developed. The orthopedic segment has operations primarily in Australia and the USA, and includes the commercialization of stem cell treatments for bone repair, intervertebral disc and cartilage repair and spinal fusions. The non-orthopedic segment operates in the USA, Europe and Singapore and includes the commercialization of stem cell treatments for cardiovascular conditions, eye disease, bone marrow expansion for transplantation, diabetes, auto-immune diseases, and other non-orthopedic conditions.

(b) Segment information

	Orthopedic Indications $	Non-orthopedic Indications $	Total $
Half-year 2011			
Revenue from external parties	-	13,943,990	13,943,990
Other income	125,311	-	125,311
Total segment revenue	**125,311**	**13,943,990**	**14,069,301**
Net profit/(loss) after tax	**(6,906,269)**	**(28,375,170)**	**(35,281,439)**
Half-year 2010			
Revenue from external parties	-	1,416,904	1,416,904
Other income	-	101,617,776	101,617,776
Total segment revenue	**-**	**103,034,680**	**103,034,680**
Net profit/(loss) after tax	**(3,148,755)**	**101,073,017**	**97,924,262**

(c) Segment reconciliation

The following table reconciles total segment net loss to the totals reported for the company in the statement of comprehensive income 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.

	Half-Year 2011 $	Half-Year 2010 $
Total segment net profit/(loss)	**(35,281,439)**	**97,924,262**
Interest revenue	4,695,013	917,760
Foreign exchange gain	202,695	-
Management and administration expense (unallocated)	(13,743,232)	(5,734,149)
Interest expense	-	(93)
Total net profit/(loss) after tax	(44,126,963)	93,107,780

NOTE 3. PROFIT/(LOSS) FOR THE HALF-YEAR

Profit/(loss) for the half-year includes the following items that are unusual because of their nature, size or incidence:

	Half-Year 2011 $	Half-Year 2010 $
(a) Other income		
Gain on revaluation of investment to fair value	-	86,737,561
Share of losses of equity accounted associates written back on acquisition	-	14,873,899
Grant revenue	125,311	-
Foreign exchange gains	202,695	6,316
	328,006	101,617,776

NOTE 4. CASH AND CASH EQUIVALENTS

	31 December 2011 $	30 June 2011 $
Cash at bank	5,306,546	3,139,378
Deposit at call	5,403,078	572,245
Term deposits	230,133,074	259,515,962
	240,842,698	263,227,585

	31 December 2011			30 June 2011		
AUD	**Low**	**High**	**AU$**	**Low**	**High**	**AU$**
Funds invested	5.70%	6.00%	138,506,569	5.90%	6.20%	146,164,610
Interest earned for the period			4,358,076			4,285,894

	31 December 2011			30 June 2011		
USD	**Low**	**High**	**US$**	**Low**	**High**	**US$**
Funds invested	0.62%	1.75%*	92,664,318	0.26%	0.66%	120,110,688
Interest earned for the period			303,723			123,278

* The Group's policy is to invest its cash in AA- rated (or better) institutions and products. The Group has traditionally invested the majority of its cash reserves in term deposits held with the big four banks in Australia. The Group has purchased a financial instrument to increase its yield on USD deposits. The company sells USD to (buys AUD from) the bank at a pre-agreed FX rate, and agrees to buy USD from (sell AUD to) the bank on maturity also at a pre-agreed FX rate. As these FX rates are known at the outset, there is no currency risk. The AUD held for the period is then invested at AUD deposit rates, which when combined with the cost of the currency swap yield a net interest rate of between 1.5% to 1.75% to date. It should be noted that trading in speculative derivatives are strictly prohibited in accordance with the Group's treasury and financial risk management policy.

  The company prefers to hold both USD and AUD currencies as its costs incurred are also in both currencies. This avoids the risk of currency fluctuations that cause gains/losses and which will impact cash reserves.

NOTE 5. TRADE AND OTHER RECEIVABLES

	31 December 2011 $	30 June 2011 $
Income tax receivable		
Income tax prepaid	6,879,607	-
Income tax payable	(4,026,950)	-
Total income tax receivable	2,852,657	-
Interest receivable	1,571,054	1,953,569
Goods and services tax recoverable	117,050	76,539
Sundry debtors	93,098	70,837
	4,633,859	2,100,945

NOTE 6. INTANGIBLE ASSETS

	Goodwill	Patents, trademarks and other	Intellectual property	Total
	$	$	$	$
At 1 July 2010				
Cost	-	690,000	-	690,000
Accumulated amortization and impairment	-	(251,456)	-	(251,456)
Net book value	-	438,544	-	438,544
Year ended 30 June 2010				
Opening net book value	-	438,544	-	438,544
Acquired on acquisition of subsidiary company	116,520,265	-	387,760,010	504,280,275
Exchange differences	(6,781,428)	-	(22,567,460)	(29,348,888)
Amortization charge	-	(43,731)	-	(43,731)
Closing net book value	109,738,837	394,813	365,192,550	475,326,200
At 30 June 2011				
Cost	109,738,837	690,000	365,192,550	475,621,387
Accumulated amortization and impairment	-	(295,187)	-	(295,187)
Net book value	109,738,837	394,813	365,192,550	475,326,200
Half-year ended 31 December 2011				
Opening net book value	109,738,837	394,813	365,192,550	475,326,200
Adjustment for Final Fair Value on acquisition of subsidiary company	2,101,924	-	-	2,101,924
Exchange differences	4,552,942	-	15,151,430	19,704,372
Amortization charge	-	(21,867)	-	(21,867)
Closing net book value	116,393,703	372,946	380,343,980	497,110,629
At 31 December 2011				
Cost	116,393,703	690,000	380,343,980	497,427,683
Accumulated amortization and impairment	-	(317,054)	-	(317,054)
Net book amount	116,393,703	372,946	380,343,980	497,110,629

NOTE 7. EQUITY SECURITIES ISSUED

	2011 # of Shares	2010 # of Shares	2011 $	2010 $
Issues of ordinary shares during the half-year				
Exercise of options issued under the Employee Share Option Plan	**1,863,103**	10,432,198	**3,104,519**	5,372,946
New issue pursuant to employee Loan Funded Share plan	**2,040,000**	-	**-**	-
Shares issued on acquisition of Angioblast Systems Inc.	**-**	81,722,752	**-**	235,361,526
Issue of share capital to Institutions and Sophisticated Investors	**-**	7,061,000	**-**	12,003,700
Transaction costs associated with share issues	**-**	-	**-**	(717,206)
	3,903,103	99,215,950	**3,104,519**	252,020,966
Movements in treasury shares during the half-year				
Acquisition of shares by the Mesoblast Ltd Employee Share Trust	**2,040,000**	-	**16,299,600**	-
Employee share scheme issue	**(2,040,000)**	-	**(16,299,600)**	-
Net movement	**-**	-	**-**	-

NOTE 8. BUSINESS COMBINATION

On 7 December 2010 the parent entity acquired the remaining 67.7% of the issued securities of Angioblast Systems, Inc. (now Mesoblast Inc.) Details of the business combination were disclosed in note 20 of the Group's annual financial statements for the year ended 30 June 2011. The fair values of items acquired have now been finalized in accordance with accounting standards and are presented below.

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

	Final Fair Value 31 December 2011 $	Preliminary Fair Value 30 June 2011 $
Purchase consideration		
Securities allotment (94,590,000 shares and options)	268,453,278	268,453,278
Fair value of previously held investment	105,020,352	105,020,352
Total purchase consideration	373,473,630	373,473,630
The assets and liabilities recognized as a result of the acquisition at fair value are as follows:		
Cash and cash equivalents	3,448,299	3,448,299
Prepayments and other receivables	337,321	337,321
Property, plant and equipment	63,909	63,909
Intangible assets: intellectual property	387,760,010	387,760,010
Payables	(11,303,524)	(11,303,524)
Deferred tax assets	10,220,447	12,363,353
Deferred tax liabilities	(135,716,003)	(135,716,003)
	254,810,459	256,953,365
Add: Goodwill	118,663,171	116,520,265
	373,473,630	373,473,630

All assets and liabilities aquired are denominated in US dollars. The amounts presented above are in AU$ translated at the rate applicable at the acquisition date of $1AU:$0.99804US.

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

NOTE 9. EVENTS OCCURRING AFTER THE REPORTING 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 Group, the results of its operations or the state of affairs of the Company in subsequent financial periods.

MESOBLAST LIMITED ABN 68 109 431 870
Directors' Declaration
for the Half-Year Ended 31 December 2011

In accordance with a resolution of directors of Mesoblast Limited,

In the opinion of the directors:

a) the financial statements and notes set out on pages 6 to 17 are in accordance with the *Corporations Act 2001,* including:

   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date, and

b) there are reasonable grounds to believe that Mesoblast Limited will be able to pay its debts as and when they become due and payable.

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

Mr. Brian Jamieson
Chairman

Melbourne
27 February 2012

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 (the company), which comprises the consolidated balance sheet as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Mesoblast Limited (the consolidated entity). The consolidated entity comprises both Mesoblast Limited and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 a 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 2011 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 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.

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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 2011 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
27 February 2012

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