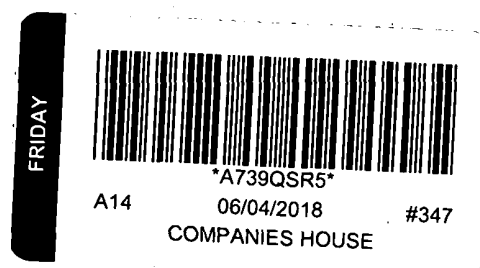


Mesoblast UK Limited
Annual Report and Financial Statements
For the year ended 30 June 2017

Registered Number 07596260



Mesoblast UK Limited
Annual Report and Financial Statements
For the year ended 30 June 2017

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Mesoblast UK Limited
Directors' Report
For the year ended 30 June 2017

Registered No. 07596260

The Directors present their report and the audited financial statements of Mesoblast UK Limited ("the Company") for the year ended 30 June 2017.

General Information

General information about the Company and its legal form can be found under the Notes to the Financial Statements section.

The Company is registered and domiciled in the United Kingdom. The Company's registered office address is:
5 New Street Square
London, EC4A 3TW
United Kingdom

The Company is primarily engaged in providing supporting services to the Group for the development of regenerative medicine products.

Details of Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

- Silviu Itescu
- Michael Sampson
- Leonard West

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS's as adopted by the European Union have been followed subject to any material departures and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

In the opinion of the Directors it is appropriate to prepare the financial statements on the going concern basis as the Ultimate Parent Company has given an undertaking to provide continued financial support to the Company for a period of at least 12 months from the date on which the financial statements were signed.

Mesoblast UK Limited
Directors' Report (continued)
For the year ended 30 June 2017

Financial Risk Management

The Directors are responsible for the financial risk management objectives, details of which are in Note 8 of the Notes to the Financial Statements.

Directors' Indemnities

The Company has granted an indemnity to its Directors against liability with respect to proceedings brought by third parties, which remains in force as at the date of approving this Directors' report.

Other than the indemnity provisions described above, none of the Directors had a material interest in any contract of significance to which the Company or any of its subsidiary undertakings was a party during the year ended 30 June 2017 and up to the date of the publication of this report.

Political and Charitable Donations

During the year ended 30 June 2017, the Company did not make any political or charitable donations.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Dividends

No dividends were paid during 1 July 2016 to 30 June 2017. There are no dividends or distributions recommended or declared for payment to members, but not yet paid, during the year.

Independent Auditors

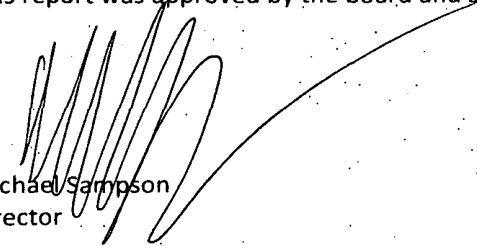
The Company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Statement of Disclosure of Information to Auditors

In accordance with Section 418 to the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board and signed on its behalf:



Michael Sampson
Director

29 March 2018

Mesoblast UK Limited
Independent auditors' report to the members of Mesoblast UK Limited
For the year ended 30 June 2017

Report on the audit of the financial statements

Opinion

In our opinion, Mesoblast UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet; the Income Statement and the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Mesoblast UK Limited
Independent auditors' report to the members of Mesoblast UK Limited
For the year ended 30 June 2017

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Lee Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield

29 March 2018

Mesoblast UK Limited
Income Statement

	Note	Year Ended 30 June	
		2017 USD	2016 USD
Revenue	2	-	1,276,783
Management and administration	2	(77,768)	(386,248)
Other operating (expense)/income		(1,488)	2,874
(Loss)/profit before income tax	2	(79,256)	893,409
Income tax expense	3	-	-
(Loss)/profit for the year		(79,256)	893,409

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

Mesoblast UK Limited
Statement of Comprehensive Income

		Year Ended 30 June	
	Note	2017 USD	2016 USD
(Loss)/profit for the year		(79,256)	893,409
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit and loss</i>			
Changes in the fair value of available-for-sale financial assets	4(a)	31,088	(333,914)
Other comprehensive income/(loss) for the year, net of tax		31,088	(333,914)
Total comprehensive (loss)/income attributable to the owners of Mesoblast UK Limited		(48,168)	559,495

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

Mesoblast UK Limited
Statement of Changes in Equity

	Note	Issued Capital USD	Contributed Equity USD	Investment Revaluation Reserve USD	Foreign Currency Translation Reserve USD	Accumulated Losses USD	Total Equity USD
Balance as of 1 July 2015	5(b)	2	93,496,809	-	(2,806)	(1,182,726)	92,311,279
Profit for the year		-	-	-	-	893,409	893,409
Other comprehensive loss	5(c)	-	-	(333,914)	-	-	(333,914)
Total comprehensive income for the year		-	-	(333,914)	-	893,409	559,495
<i>Transactions with the parent entity in its capacity as owner:</i>							
Contributions of equity	5(b)	-	119,137,181	-	-	-	119,137,181
		-	119,137,181	-	-	-	119,137,181
Balance as of 30 June 2016		2	212,633,990	(333,914)	(2,806)	(289,317)	212,007,955
Balance as of 1 July 2016	5(b)	2	212,633,990	(333,914)	(2,806)	(289,317)	212,007,955
Loss for the year		-	-	-	-	(79,256)	(79,256)
Other comprehensive income	5(c)	-	-	31,088	-	-	31,088
Total comprehensive loss for the year		-	-	31,088	-	(79,256)	(48,168)
<i>Transactions with the parent entity in its capacity as owner:</i>							
Contributions of equity	5(b)	-	-	-	-	-	-
		-	-	-	-	-	-
Balance as of 30 June 2017		2	212,633,990	(302,826)	(2,806)	(368,573)	211,959,787

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

Mesoblast UK Limited
Balance Sheet

		As at 30 June	
	Note	2017 USD	2016 USD
Assets			
Non-current assets			
Available-for-sale financial assets	4(a)	1,997,174	1,966,086
Investments in subsidiaries	9(b)	212,743,360	212,743,360
Total non-current assets		214,740,534	214,709,446
Total assets		214,740,534	214,709,446
Liabilities			
Current liabilities			
Trade payables	4(b)	24,196	70,864
Other payables	4(c)	2,756,551	2,630,627
Total current liabilities		2,780,747	2,701,491
Total liabilities		2,780,747	2,701,491
Net assets		211,959,787	212,007,955
Equity			
Issued capital	5(a)	2	2
Contributed equity	5(b)	212,633,990	212,633,990
Reserves	5(c)	(305,632)	(336,720)
Accumulated losses		(368,573)	(289,317)
Total equity		211,959,787	212,007,955

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

The financial statements on pages 7 to 30 were authorized for issue by the board of directors on ~~29~~ 21 March 2018 and were signed on its behalf by:


Michael Sampson
Director

Registered number: 07596260

Mesoblast UK Limited
Statement of Cash Flows

		Year ended 30 June	
		2017	2016
		USD	USD
Cash flows from operating activities			
Payments to consultants and suppliers		(104,039)	(148,846)
Net cash outflows from operating activities	6	(104,039)	(148,846)
Cash flows from investing activities			
Payments for investments		-	(805,000)
Payments for investments in subsidiaries		-	(119,137,183)
Net cash outflows from investing activities		-	(119,942,183)
Cash flows from financing activities			
Proceeds from contributed equity		-	119,137,181
Proceeds from intercompany loans		104,039	953,848
Net cash inflows from financing activities		104,039	120,091,029
Net change in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

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

Mesoblast UK Limited

Notes to the Financial Statements

General information

Mesoblast UK Limited ("the Company") is a limited company incorporated in the United Kingdom. The address of its registered office and the principal place of business is 5 New Street Square, London, EC4A 3TW.

The Company is a wholly owned subsidiary of Mesoblast Limited ("Ultimate Parent Company"; and together, "the Group"), incorporated and domiciled in Australia. In accordance with Section 401 of the Companies Act 2006, the Company took advantage of the exemption to prepare and deliver Group Financial Statements to the Registrar since there was a full consolidation in the consolidated financial statements of the Ultimate Parent Company, which is a company incorporated in Australia. The consolidated financial statements of the Ultimate Parent Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union for public use and can be obtained on the Australian Securities Exchange ("ASX") website and on the NASDAQ Global Select Market ("NASDAQ"). Therefore, these financial statements have been prepared from the records of the Company and reflect only transactions recorded therein.

The Company is primarily engaged in providing supporting services to the Group for the development of regenerative medicine products.

The Company has no employees (2016: Nil).

These financial statements are presented in U.S. dollars ("\$" or "USD") as the principle costs and investments are held in this currency and the global ultimate trades in this currency, unless otherwise stated.

1. Significant changes in the current reporting period

The financial position and performance of the Company was not particularly affected by any significant changes in the year ended 30 June 2017.

2. (Loss)/profit before income tax

	Year Ended 30 June	
	2017	2016
	USD	USD
Revenue		
Management service fee	-	1,276,783
Total revenue	-	1,276,783
Management and administration expenses		
Overheads and administration	(39,525)	(129,350)
Consultancy	-	(99,706)
Share-based payment transactions	-	(132,063)
Legal, patent and other professional fees	(29,006)	(23,820)
Directors' fees	(9,237)	(1,309)
Total Management and administration expenses	(77,768)	(386,248)
Other operating income and expenses		
Foreign exchange (losses)/gains	(1,488)	2,874
Total other operating (expense)/income	(1,488)	2,874
Total (loss)/profit before income tax	(79,256)	893,409

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

3. Income tax expense

	Year Ended 30 June	
	2017	2016
	USD	USD
(a) Reconciliation of income tax to prima facie tax payable		
(Loss)/profit before income tax	(79,256)	893,409
Tax (benefit)/charge at the local tax rate of 19.75% (2016: 20.00%)	(15,653)	178,682
<i>Tax effect of amounts which are not deductible in calculating taxable income:</i>		
Other sundry items	-	157
Current year tax (benefit)/charge	(15,653)	178,939
Adjustments for current tax of prior periods	-	(208,494)
Tax benefit not recognized	15,653	29,656
Income tax expense attributable to (loss)/profit before income tax	-	-

	Year Ended 30 June	
	2017	2016
	USD	USD
(b) Deferred tax assets not brought to account		
Unused tax losses		
Potential tax benefit	64,533	48,880
Other temporary differences		
Potential tax benefit	-	-
Total potential tax benefit	64,533	48,880

Temporary differences have been brought to account only to the extent that it is foreseeable that they are recoverable against future tax liabilities.

Significant estimates

The Company is subject to income taxes in the United Kingdom. Management judgment is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company consulted professional tax advisers to estimate its tax liabilities based on the Company's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company has recognized deferred tax assets to the extent that it is probable that the asset will be utilised either through the application of carry back rules or the utilisation of taxable temporary differences (deferred tax liabilities). As of 30 June 2017 and 2016, the Company has recorded deferred tax assets of \$Nil.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

4. Financial assets and liabilities

This note provides information about the Company's financial instruments, including:

- an overview of all financial instruments held by the Company;
- specific information about each type of financial instrument;
- accounting policies; and
- information used to determine the fair value of the instruments, including judgments and estimation uncertainty involved.

	Note	Assets at FVOCI ⁽¹⁾ USD	Total USD
Financial assets			
As of 30 June 2017			
Available-for-sale financial assets	4(a)	1,997,174	1,997,174
		1,997,174	1,997,174
As of 30 June 2016			
Available-for-sale financial assets	4(a)	1,966,086	1,966,086
		1,966,086	1,966,086

(1) Fair value through other comprehensive income

	Note	Liabilities at amortized cost USD	Total USD
Financial liabilities			
As of 30 June 2017			
Trade payables	4(b)	24,196	24,196
Other payables	4(c)	2,756,551	2,756,551
		2,780,747	2,780,747
As of 30 June 2016			
Trade payables	4(b)	70,864	70,864
Other payables	4(c)	2,630,627	2,630,627
		2,701,491	2,701,491

The Company's exposure to various risks associated with the financial instruments is discussed in Note 8. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

(a) Available-for-sale financial assets

Available-for-sale financial assets include the following classes of financial assets:

	As at 30 June	
	2017 USD	2016 USD
Unlisted securities:		
Equity securities – biotech sector	1,997,174	1,966,086
	1,997,174	1,966,086

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

4. Financial assets and liabilities (continued)

(a) Available-for-sale financial assets (continued)

(i) Classification of financial assets as available-for-sale

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Impairment indicators for available-for-sale financial assets

A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. See Note 15(f)(v) for further details about the Company's impairment policies for financial assets.

(iii) Amounts recognized in other comprehensive income

For the year ended 30 June 2017, the Company recognized a profit of \$31,088 in the statement of comprehensive income for the change in fair value of the available-for-sale financial assets. For the year ended 30 June 2016, there was a loss of \$333,914 recognized in the statement of comprehensive income.

(iv) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value is provided in Note 4(d) below. None of the available-for-sale financial assets are either past due or impaired.

All available-for-sale financial assets are denominated in USD.

(b) Trade payables

	As at 30 June	
	2017 USD	2016 USD
Trade payables	24,196	70,864
	24,196	70,864

The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature.

(c) Other payables

	As at 30 June	
	2017 USD	2016 USD
Trading loan payable to the Ultimate Parent Company	2,531,757	2,509,870
Other intercompany trading loans payable	224,794	120,757
	2,756,551	2,630,627

Trading loans payable to the related entities are unsecured, interest-free and repayable on demand.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

4. Financial assets and liabilities (continued)

(d) Recognized fair value measurements

(i) Fair value measurement

The following table presents the Company's financial assets and financial liabilities measured and recognized at fair value as of 30 June 2017 and 30 June 2016 on a recurring basis, categorised by level according to the significance of the inputs used in making the measurements:

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As of 30 June 2017					
Financial Assets					
Available-for-sale financial assets:					
Equity securities – biotech sector	4(a)	-	-	1,997,174	1,997,174
Total Financial Assets		-	-	1,997,174	1,997,174

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As of 30 June 2016					
Financial Assets					
Available-for-sale financial assets:					
Equity securities – biotech sector	4(a)	-	-	1,966,086	1,966,086
Total Financial Assets		-	-	1,966,086	1,966,086

There were no transfers between any of the levels for recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, foreign exchange contracts) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for equity securities (unlisted).

(ii) Valuation techniques used.

The Company used the discounted cash flow analysis to determine the fair value measurements of level 3 instruments.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

4. Financial assets and liabilities (continued)

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 30 June 2017 and 30 June 2016:

	Available-for-sale assets USD
Opening balance – 1 July 2015	
Acquisition of unlisted equity securities – biotech sector	2,300,000
Credited to the statement of comprehensive income:	
Changes in the fair value of available-for-sale financial assets	(333,914)
Closing balance – 30 June 2016	1,966,086
Opening balance – 1 July 2016	1,966,086
Charged to the statement of comprehensive income:	
Changes in the fair value of available-for-sale financial assets	31,088
Closing balance – 30 June 2017	1,997,174

5. Equity

(a) Issued capital

	2017 Shares	2016 Shares	2017 USD	2016 USD
<i>(i) Share capital</i>				
Ordinary shares	1	1	2	2
Total Issued Capital	1	1	2	2

(ii) Movements in ordinary share capital

Details	Shares No.	Issue price	USD
Opening balance – 1 July 2015	1	£1	2
Movement for the year	-	-	-
Balance as of 30 June 2016	1	£1	2
Opening balance – 1 July 2016	1	£1	2
Movement for the year	-	-	-
Balance as of 30 June 2017	1	£1	2

(iii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

5. Equity (continued)
(b) Contributed equity

	As at 30 June	
	2017 USD	2016 USD
<i>(i) Contributed equity</i>		
Contribution of equity from the parent entity	212,633,990	212,633,990
Total Contributed equity	212,633,990	212,633,990

	As at 30 June	
	2017 USD	2016 USD
<i>(ii) Movements in contributed equity</i>		
Opening balance	212,633,990	93,496,809
Movement for the year	-	119,137,181
Closing balance	212,633,990	212,633,990

(c) Reserves

	As at 30 June	
	2017 USD	2016 USD
<i>(i) Reserves</i>		
Foreign currency translation reserve	(2,806)	(2,806)
Investment revaluation reserve	(302,826)	(333,914)
Closing balance	(305,632)	(336,720)

	As at 30 June	
	2017 USD	2016 USD
<i>(ii) Reconciliation of reserves</i>		
Foreign currency translation reserve		
Opening balance	(2,806)	(2,806)
Currency (loss)/gain on translation of foreign operation's net assets	-	-
Closing balance	(2,806)	(2,806)

	As at 30 June	
	2017 USD	2016 USD
Investment revaluation reserve		
Opening balance	(333,914)	-
Changes in the fair value of available-for-sale financial assets	31,088	(333,914)
Closing balance	(302,826)	(333,914)

(iii) Nature and purpose of reserves

Foreign currency translation reserve

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

Investment revaluation reserve

Differences arising on the change of assumptions of available-for-sale assets held at fair value are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

6. Cash flow information

	As at 30 June	
	2017 USD	2016 USD
(a) Reconciliation of cash and cash equivalents		
Cash at bank	-	-
(b) Reconciliation of net cash flows used in operations with (loss)/profit for the year		
(Loss)/profit for the year	(79,256)	893,409
Add/(deduct) net loss for non-cash items as follows:		
Foreign exchange gains	(3)	(1,118)
Equity settled share-based payment	-	132,063
Intercompany transactions	21,885	(1,217,500)
Change in operating assets and liabilities:		
(Decrease)/increase in trade payables and accruals	(46,665)	44,300
Net cash outflows from operating activities	(104,039)	(148,846)

7. Significant estimates, judgments and errors

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Company's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgments is included in Notes 1 to 6 together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

(a) Significant estimates and judgments

The areas involving significant estimates or judgments are:

- estimates of tax payable and current tax expense (Note 3(b));
- current value of investments in subsidiaries (Note 9 (b));
- fair value of available-for-sale financial assets (Note 4(d));
- fair value of share-based payments (Note 14).

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

8. Financial risk management

The Company's activities expose it to a variety of financial risks, in particular market risk, liquidity risk and capital risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by management of the Ultimate Parent Company.

This note explains the Company's exposure to financial risks and how these risks could affect the Company's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

8. Financial risk management (continued)

(a) Market risk

(i) Currency risk

The primary currency exposure to the Company is foreign currency amounts owing in Australian dollars ("AUD") and Great British Pounds ("GBP"). These foreign currency balances give rise to a currency risk, which is the risk of the exchange rate moving, in either direction, and the impact it may have on the Company's financial performance.

	Foreign currency balance held	+20% Profit USD	-20% Loss USD
At 30 June 2017			
Trade payables & accruals – GBP	(18,600)	2,383	(3,574)
Net Assets		2,383	(3,574)
<hr/>			
	Foreign currency balance held	+20% Profit USD	-20% Loss USD
At 30 June 2016			
Trade payables & accruals – AUD	(57,713)	2,606	(3,910)
Trade payables & accruals – GBP	(20,928)	7,143	(10,714)
Net Assets		9,749	(14,624)

(ii) Interest rate risk

The Company is not exposed to typical interest rate risk, being the impact of fixed versus floating interest rates on debt. The Company does not consider it has financial assets or liabilities that are exposed to interest rate risk.

(iii) Price risk

Price risk is the risk that future cash flows derived from financial instruments will be altered as a result of a market price movement, other than foreign currency rates and interest rates. The Company does not consider it has any exposure to price risk.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause financial loss to the other party. As the Company is non-revenue generating from third parties it generally does not have trade receivables. The Company does not consider it has any exposure to credit risk.

(c) Liquidity risk

The Company manages liquidity risk by making arrangements with the Ultimate Parent Company to make available funding to enable it to meet its operational requirements, should it be necessary.

(d) Capital risk

The Company's objective when managing capital is to safeguard its ability to continue as a going concern by ensuring that it is adequately funded by the Ultimate Parent Company. The Company is not subject to any externally imposed capital requirements.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

9. Interests in subsidiaries

(a) Subsidiaries

The Company's subsidiaries as of 30 June 2017 are set out below. The subsidiaries have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also its principal place of business.

Name of entity	Country of incorporation	Class of shares	Equity holding	
			As of 30 June 2017 %	2016 %
Mesoblast International Sàrl (includes Mesoblast International Sàrl Singapore Branch)	Switzerland	Ordinary	100	100
Mesoblast International (UK) Limited	United Kingdom	Ordinary	100	100

(b) Investments in subsidiaries

	Year Ended 30 June	
	2017 USD	2016 USD
Opening balance	212,743,360	93,606,177
Contributed equity	-	119,137,183
Closing Balance	212,743,360	212,743,360

(i) Investments in subsidiaries

Investments in subsidiaries are held at historical cost.

At 30 June 2015, the investment comprises 100% of the ordinary shares of Mesoblast International Sàrl, a Société à Responsabilité Limitée incorporated in Switzerland which is not publicly traded. During the year ended 30 June 2016, a further \$119,137,181 contribution of equity was made to Mesoblast International Sàrl. No dividend was received from Mesoblast International Sàrl during the year ended 30 June 2017 (2016: Nil).

During the year ended 30 June 2016, Mesoblast UK Limited acquired 100% of the ordinary shares of Mesoblast International (UK) Limited, a Company incorporated in the United Kingdom which is not publicly traded. The contribution of equity of \$2 was made to Mesoblast International (UK) Limited. No dividend was received from Mesoblast International (UK) Limited during the year ended 30 June 2017 (2016: Nil).

(ii) Impairment and risk exposure

Information about the impairment of investment in subsidiaries, refer to Note 15(j).

10. Contingent assets and contingent liabilities

The Company does not have any contingent assets or contingent liabilities as of 30 June 2017 and 2016.

11. Commitments

The Company does not have any capital, lease or purchase commitments at 30 June 2017 and 2016.

12. Events occurring after the reporting period

There are no events that have occurred subsequent to 30 June 2017 and prior to the signing of these financial statements that would likely have a material impact on the financial results presented.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

13. Related party transactions

(a) Parent entity

The parent entity of the Company is Mesoblast Limited. For more information on the parent company, please refer to the General Information section within the Notes to the Financial Statements.

(b) Subsidiaries

Details of interests in subsidiaries are disclosed in Note 9 to the financial statements.

(c) Key management personnel compensation

Key management includes the Directors of the Company. The aggregate compensation made to the UK based Directors of the Company is set below. Director's compensation of the Australian based Director is borne by the Ultimate Parent Company.

	Note	For Year Ended 30 June	
		2017 USD	2016 USD
Directors' fees		9,237	1,309
		9,237	1,309

(d) Transactions with other related parties

The following balances are outstanding at the end of the year in relation to transactions with related parties:

	Note	For Year Ended 30 June	
		2017 USD	2016 USD
Trading loan payable to Mesoblast Limited	4(c)	2,531,757	2,509,870
Other intercompany trading loans payable	4(c)	224,794	120,757
		2,756,551	2,630,627

(e) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Outstanding balances are unsecured and are repayable in cash.

14. Share-based payments

The Ultimate Parent Company has adopted an Employee Share Option Plan ("ESOP") to foster an ownership culture within the whole Group and to motivate senior management, employees and consultants to achieve performance targets. This includes the employees of the subsidiary companies within the Group. Selected directors, employees and consultants may be eligible to participate in the ESOP at the absolute discretion of the board of directors, and in the case of directors, upon approval by the Ultimate Parent Company's shareholders.

Grant policy

Options were granted in two equal tranches and will vest on the date that the option holder has direct involvement (to the reasonable satisfaction of the Company's board of directors) in the Company achieving certain confidential commercial objectives. These options will expire five years post the grant date. On cessation of employment the Company's board of directors determines whether or not a leaver is a bad leaver. If a participant is deemed a bad leaver, all rights, entitlements and interests in any unexercised options held by the participant will be forfeited and will lapse immediately. If a leaver is not a bad leaver they may retain vested options, however, they must be exercised within 60 days of cessation of employment (or within a longer period if so determined by the Company's board of directors), after which time they will lapse. Unvested options will normally be forfeited and lapse.

Mesoblast UK Limited

Notes to the Financial Statements (Continued)

14. Share-based payments (continued)

The exercise price of options is determined by reference to the Group's policy which is generally the volume weighted market price of a share of Mesoblast Ltd (ASX: MSB) sold on the ASX on the 5 trading days immediately before the grant date. In the case of options issued to staff (performance based) the board of directors add a 10% premium. The board of directors' policy is not to issue options at a discount to the market price. The share price is quoted in Australian Dollars ("AUD" or "A\$") on the ASX.

(a) Reconciliation of outstanding share based payments

Year ended 30 June 2017

Series	Grant Date	Expiry Date	Exercise Price (in AUD)	Opening Balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/Canceled No. (during the year)	Closing Balance	Vested and exercisable No (end of year)
25a (i&ii)	01/01/2014	31/12/2018	A\$6.38	650,000	-	-	-	650,000	650,000
31b	12/05/2015	16/02/2020	A\$4.30	200,000	-	-	-	200,000	200,000
30 June 2017				850,000	-	-	-	850,000	850,000
Weighted average share purchase price (in AUD)				A\$5.89	-	-	-	A\$5.89	A\$5.89

Year ended 30 June 2016

Series	Grant Date	Expiry Date	Exercise Price (in AUD)	Opening Balance	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/Canceled No. (during the year)	Closing Balance	Vested and exercisable No (end of year)
25a (i&ii)	01/01/2014	31/12/2018	A\$6.38	650,000	-	-	-	650,000	650,000
31b	12/05/2015	16/02/2020	A\$4.30	400,000	-	-	200,000	200,000	200,000
30 June 2016				1,050,000	-	-	200,000	850,000	850,000
Weighted average share purchase price (in AUD)				A\$5.59	-	-	A\$4.30	A\$5.89	A\$5.89

The weighted average remaining contractual life of share options outstanding as of 30 June 2017 and 2016 was 1.93 years and 2.93 years, respectively.

(b) Fair values of share based payments

The fair value of share options granted during the year ended 30 June 2017 and 2016 was A\$Nil and A\$Nil, respectively. There were no new options granted during the year ended 30 June 2017.

The fair value of all share-based payments made has been calculated using the Black-Scholes model. This model requires the following inputs:

Share price at grant date

The share price underpinning the exercise price has been used as the share price at grant date for valuation purposes. This price is generally the volume weighted average share price for the 5 trading days leading up to grant date.

Exercise price

The exercise price is a known value that is contained in the agreements.

Mesoblast UK Limited

Notes to the Financial Statements (Continued)

14. Share-based payments (continued)

Share price volatility

The model requires the Ultimate Parent Company's share price volatility to be measured. In estimating the expected volatility of the underlying shares our objective is to approximate the expectations that would be reflected in a current market or negotiated exchange price for the option.

Share price date from 1 January, 2012 through to the end of each applicable financial year has been used to calculate share price volatility.

Life of the option

The life is generally the time period from grant date through to expiry. Certain assumptions have been made regarding "early exercise" i.e. options exercised ahead of the expiry date. These assumptions have been based on historical trends for option exercises within the Company and take into consideration exercise trends that are also evident as a result of local taxation laws.

Dividend yield

The Company has yet to pay a dividend so it has been assumed the dividend yield on the shares underlying the options will be 0%.

Risk free interest rate

This has been sourced from the Reserve Bank of Australia historical interest rate tables for government bonds.

Model inputs

There were no new options granted during the year ended 30 June 2017.

The closing share market price of an ordinary share of Mesoblast Limited on the ASX as of 30 June 2017 was A\$2.08.

There were no new options granted during the year ended 30 June 2016.

The closing share market price of an ordinary share of Mesoblast Limited on the ASX as of 30 June 2017 was A\$1.08.

15. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit services:

	Year Ended 30 June	
	2017 USD	2016 USD
PricewaterhouseCoopers LLP		
Audit and other assurance services		
Audit and review of financial reports	27,576	21,142
Total remuneration of PricewaterhouseCoopers LLP	27,576	21,142

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies

This note provides the principal accounting policies adopted in the preparation of these financial statements as set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with IFRS as adopted by the European Union and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union. Mesoblast UK Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(ii) Changes to comparative figures

Comparative figures, are, where appropriate, reclassified to be comparable with figures presented in the current financial year.

(iii) New and amended standards adopted by the Company

There were no new or amended accounting standards that were applicable to the Company for the 30 June 2017 reporting period.

(iv) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The Company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

Initial application of the following Standards is not expected to affect any of the amounts recognized or disclosures made in the current financial report and management do not consider these new accounting standards to have a material impact on future transactions made in relation to the Company. The Company is in the process of assessing the impact of these new standards on its accounting policy.

The following standards applicable to the Company but are not yet adopted are summarised below:

Title	Key requirements	Effective Date
IFRS 9 <i>Financial Instruments</i>	<p>IFRS 9 introduced revisions in the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement – replacement of the existing complex rule-based requirements with a principle-based approach which is driven by cash flow characteristics and business model; • Impairment – a single impairment model to be applied to all financial instruments where expected credit losses must be accounted for from when the financial instruments are first recognized. This requirement lowers the threshold for recognition of full lifetime expected losses. • Hedge accounting – a reformed model for hedge accounting with enhanced disclosures about risk management activity. 	<p>Annual reporting periods commencing on or after January 1, 2018</p> <p>The Company does not intend to adopt IFRS 9 before its mandatory date.</p> <p>The Company is currently evaluating the effect that the updated IFRS 9 will have on the financial statements and related disclosures.</p>

16. Summary of significant accounting policies (continued)

IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p> <ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>	<p>Annual reporting periods commencing on or after January 1, 2018</p> <p>The Company does not intend to adopt IFRS 15 before its mandatory date.</p> <p>While currently not considered material to the Company, the Company is evaluating the impact of IFRS 15 on key contracts and the effect the updated standard will have on the financial statements and related disclosures.</p>
IFRS 16 <i>Leases</i>	<p>IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee; they are recognized on the balance sheet as they are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a financial liability is required to be recognized to represent the obligation to make future lease payments.</p> <p>There is little change for the accounting for a lessor.</p>	<p>Annual reporting periods commencing on or after January 1, 2019</p> <p>The Company does not intend to adopt IFRS 16 before its mandatory date.</p> <p>The Company is currently evaluating the effect that the updated IFRS 16 will have on the financial statements and related disclosures.</p>

(b) Going concern

The financial statements have been prepared on a going concern basis as the Ultimate Parent Company has undertaken to provide continuing financial support to enable the Company to carry on its business and meet its liabilities as and when they fall due.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). As of 1 July 2015, the functional currency of Mesoblast UK Limited is the USD. Prior to 1 July 2015, the functional currency of Mesoblast UK Limited was the GBP.

(ii) Translations and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in net loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available for sale financial assets are recognized in other comprehensive income.

(d) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income, relating to UK corporation tax, based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in net profit/loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

(e) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(f) Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- available-for-sale financial assets,
- loans and receivables, and
- held-to-maturity investments.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. See Note 4 for details about each type of financial asset.

(ii) Reclassification.

The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

(iv) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for 'financial assets at fair value through profit or loss' – in profit or loss within other income or other expenses
- for available for sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available for sale in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Company's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of revenue from continuing operations.

(v) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(g) Trade and other payables

Payables represent the principal amounts outstanding at the balance sheet date plus, where applicable, any accrued interest. Liabilities for payables and other amounts are carried at cost which approximates fair value of the consideration to be paid in the future for goods and services received, whether or not billed. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

(h) Share-based payments

Share-based payments are provided to eligible employees, directors and consultants via the Employee Share Option Plan ("ESOP").

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at grant date. Fair value measurement is carried out by management of the Ultimate Parent Company. Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on management's estimate of when options will eventually vest, with a corresponding increase in liability to the Ultimate Parent Company. The corresponding increase in equity is recorded in the Ultimate Parent Company through the reserves. At the end of each period, management of the Ultimate Parent Company revises its estimates of the number of share-based payments that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in profit or loss, with a corresponding adjustment to the Ultimate Parent Company loan account.

(i) Equity

Ordinary shares are classified as equity.

Capital contributions from the owner of the Company in its capacity as owner are also classified as equity.

(j) Investments in subsidiaries

Investments in subsidiaries are accounted for at historical cost less impairment in the financial statements of Mesoblast UK Limited. The investments are tested for impairment where an indication of impairment exists at the reporting date.