

Mesoblast UK Limited
Annual Report and Financial Statements
For the year ended 30 June 2021

Registered Number 07596260

TUESDAY



AB662EPS

A12

14/06/2022

#25

COMPANIES HOUSE

**Mesoblast UK Limited
Annual Report and Financial Statements
For the year ended 30 June 2021**

Table of Contents	Page
Directors' Report	3
Independent Auditors' Report to the Members of Mesoblast UK Limited	5
Income Statement	8
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Balance Sheet	11
Statement of Cash Flows	12
Notes to the Financial Statements	13

**Mesoblast UK Limited
Directors' Report
For the year ended 30 June 2021**

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 2021.

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 consulting and other 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 in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 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.

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.

Going Concern

As described in Note 16 of our accompanying financial statements, our continuing ability to continue as a going concern and meet our debts and commitments as they fall due are dependent upon continued financial support to fund future operations, 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 2021**

Going Concern (Continued)

Notwithstanding, the parent Company has a material uncertainty that may cast significant doubt on its ability to continue as a going concern and that may be unable to realize its assets and liabilities in the normal course of business.

The directors believe that the Ultimate Parent Company will be successful in its funding strategies and transactions and, accordingly, have prepared the financial report on a going concern basis, notwithstanding that there is a material uncertainty that may cast significant doubt on our ability to continue as a going concern and that we may be unable to obtain adequate funding. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty.

COVID-19 has not led to a material deterioration in the Company's financial circumstances, nor required Mesoblast to utilize government support.

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 2020 and up to the date of the publication of this report.

Political and Charitable Donations

During the years ended 30 June 2021 and 2020, 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 2020 to 30 June 2021. 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

Michael Sampson
Director
23 May 2022

Mesoblast UK Limited
Independent Auditors' Report to the Members of Mesoblast UK Limited

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 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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: Balance Sheet as at 30 June 2021; Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended; 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 16 (b) to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of US\$ 196,046 during the year ended 30 June 2021 and, at that date, had accumulated losses of US\$809,939 and net current liabilities of US\$519,303. As a result, the company is reliant on Mesoblast Limited (the "ultimate parent company") to provide continuing financial support to enable the company to carry on its business and meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. There is uncertainty as to whether the ultimate parent company will be able to provide the necessary financial support, as this is dependent on the ultimate parent company's ability to raise sufficient additional funds. These conditions, along with the other matters explained in note 16 (b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Mesoblast UK Limited

Independent Auditors' Report to the Members of Mesoblast UK Limited (continued)

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to corporation tax law and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to manipulate financial performance. Audit procedures performed by the engagement team included:

- Enquiring with management and those charged with governance around potential non-compliance with laws and regulations, and potential litigation and claims;
- Identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations or unusual words in the journal description; and
- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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.

Mesoblast UK Limited
Independent Auditors' Report to the Members of Mesoblast UK Limited (continued)

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 obtained 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.



Rachel Greveson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

24 May 2022

Mesoblast UK Limited
Income Statement

	Note	Year Ended 30 June	
		2021 USD	2020 USD
Revenue	2	79,963	140,547
Management and administration expenses	2	(124,262)	(255,594)
Other operating income/(expense)	2	(151,747)	643
Loss before income tax	2	(196,046)	(114,404)
Income tax expense	3	-	-
Loss for the year		(196,046)	(114,404)

The above income statement should be read in conjunction with the accompanying Notes on pages 13 to 31.

Mesoblast UK Limited
Statement of Comprehensive Income

	Note	Year Ended 30 June	
		2021 USD	2020 USD
Loss for the year		(196,046)	(114,404)
Other comprehensive Income/(Loss)			
<i>Items that may be reclassified to profit and loss</i>			
Financial assets at fair value through other comprehensive income	4(a)	209,428	(446,326)
Other comprehensive Income/(loss) for the year, net of tax		209,428	(446,326)
Total comprehensive Income/(loss) attributable to the owners of Mesoblast UK Limited		13,382	(560,730)

The above statement of comprehensive income should be read in conjunction with the accompanying Notes on pages 13 to 31.

Mesoblast UK Limited
Statement of Changes in Equity
For the year ended 30 June 2021

	Note	Issued Capital USD (note 5)*	Investment Revaluation Reserve USD	Foreign Currency Translation Reserve USD	Accumulated Losses USD	Total Equity USD
Balance as of 1 July 2019	5(a)	212,633,992	16,895	-	(499,489)	212,151,398
Loss for the year		-	-	-	(114,404)	(114,404)
Other comprehensive loss	5(b)	-	(446,326)	-	-	(446,326)
Total comprehensive loss for the year		-	(446,326)	-	(114,404)	(560,730)
<i>Transactions with the parent entity in its capacity as owner:</i>						
Shares issued	5(a)	22,000,000	-	-	-	22,000,000
		22,000,000	-	-	-	22,000,000
Balance as of 30 June 2020		234,633,992	(429,431)	-	(613,893)	233,590,668
Balance as of 1 July 2020	5(a)	234,633,992	(429,431)	-	(613,893)	233,590,668
Loss for the year		-	-	-	(196,046)	(196,046)
Other comprehensive income	5(b)	-	209,428	-	-	209,428
Total comprehensive income for the year		-	209,428	-	(196,046)	13,382
<i>Transactions with the parent entity in its capacity as owner:</i>						
Shares issued	5(a)	52,000,000	-	-	-	52,000,000
		52,000,000	-	-	-	52,000,000
Balance as of 30 June 2021		286,633,992	(220,003)	-	(809,939)	285,604,050

The above statement of changes in equity should be read in conjunction with the accompanying Notes on pages 13 to 31.

Mesoblast UK Limited
Balance Sheet

		As at 30 June	
	Note	2021 USD	2020 USD
Assets			
Non-current assets			
Financial assets at fair value through other comprehensive income	4(a)	2,079,997	1,870,569
Investments in subsidiaries	9(b)	284,043,356	232,193,360
Total non-current assets		286,123,353	234,063,929
Total assets		286,123,353	234,063,929
Liabilities			
Current liabilities			
Trade payables	4(b)	42,058	29,059
Other payables	4(c)	477,245	444,202
Total current liabilities		519,303	473,261
Total liabilities		519,303	473,261
Net assets		285,604,050	233,590,668
Equity			
Issued capital	5(a)	286,633,992	234,633,992
Reserves	5(b)	(220,003)	(429,431)
Accumulated losses		(809,939)	(613,893)
Total equity		285,604,050	233,590,668

The above balance sheet should be read in conjunction with the accompanying Notes on pages 13 to 31.

The financial statements on pages 8 to 31 were authorized for issue by the board of directors on 23 May 2022 and were signed on its behalf by:

Michael Sampson

Michael Sampson
Director

Registered number: 07596260

Mesoblast UK Limited
Statement of Cash Flows

		Year ended 30 June	
		2021	2020
		USD	USD
Cash flows from operating activities			
Payments to consultants and suppliers		(46,045)	(34,615)
Net cash outflows from operating activities	6	(46,045)	(34,615)
Cash flows from investing activities			
Payments for investment in subsidiaries		(52,000,000)	(19,450,000)
Net cash outflows from investing activities		(52,000,000)	(19,450,000)
Cash flows from financing activities			
Proceeds from issue of shares	5a	52,000,000	22,000,000
Proceeds/(payments) from/(to) intercompany loans		46,045	(2,515,385)
Net cash inflows from financing activities		52,046,045	19,484,615
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 on pages 13 to 31.

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 consulting and other services to the Group for the development of regenerative medicine products.

The Company has no employees (2020: 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 year

During the year ended 30 June 2021, the Company issued shares of \$52,000,000 which enabled the Company to make a capital contribution of \$52,000,000 to its subsidiary, Mesoblast International Sarl.

2. Loss before income tax

	Year Ended 30 June	
	2021	2020
	USD	USD
Revenue		
Management service fee	79,963	140,547
Total revenue	79,963	140,547
Management and administration expenses		
Overheads and administration	(37,799)	(61,488)
Share-based payment transactions	(38,906)	(165,433)
Audit fees	(20,495)	(17,814)
Legal and other professional fees	(15,112)	(1,640)
Directors' fees	(11,950)	(9,219)
Total Management and administration expenses	(124,262)	(255,594)
Other operating income and expenses		
Foreign exchange gains	17,149	643
Impairment of investment in subsidiary	(168,896)	-
Total other operating income/(expenses)	(151,747)	643
Total loss before income tax	(196,046)	(114,404)

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

3. Income tax expense

	Year Ended 30 June	
	2021	2020
	USD	USD
(a) Reconciliation of income tax to prima facie tax payable		
Loss before income tax	(196,046)	(114,404)
Tax benefit at the local tax rate of 19% (2020: 19%)	(37,249)	(21,737)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other sundry items	-	-
Current year tax benefit	(37,249)	(21,737)
Adjustments for current tax of prior periods	-	-
Tax benefit not recognized	37,249	21,737
Total income tax expense attributable to loss before income tax	-	-

	Year Ended 30 June	
	2021	2019
	USD	USD
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	760,913	564,956
Potential tax benefit 19% (2020: 19%)	144,573	107,342
Other temporary differences		
Potential tax benefit	-	-
Total potential tax benefit	144,573	107,342

Temporary differences have been brought to account only to the extent that it is foreseeable that they are recoverable against future tax liabilities. The Company is not likely to generate taxable income in the foreseeable future.

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. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

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 2021 and 2020, 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 2021			
Financial assets at fair value through other comprehensive income	4(a)	2,079,997	2,079,997
		2,079,997	2,079,997
As of 30 June 2020			
Financial assets at fair value through other comprehensive income	4(a)	1,870,569	1,870,569
		1,870,569	1,870,569

⁽¹⁾ Fair value through other comprehensive income

	Note	Liabilities at amortized cost USD	Total USD
Financial liabilities			
As of 30 June 2021			
Trade payables	4(b)	42,058	42,058
Other payables	4(c)	477,245	477,245
		519,303	519,303
As of 30 June 2020			
Trade payables	4(b)	29,059	29,059
Other payables	4(c)	444,202	444,202
		473,261	473,261

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 year is the carrying amount of each class of financial assets mentioned above.

(a) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include the following classes of financial assets:

	As at 30 June	
	2021 USD	2020 USD
Unlisted securities:		
Equity securities – biotech sector	2,079,997	1,870,569
	2,079,997	1,870,569

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

4. Financial assets and liabilities (continued)

(a) Financial assets at fair value through other comprehensive income (continued)

(i) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprises equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the Company considers this classification to be more relevant.

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 financial assets at fair value through other comprehensive income

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Amounts recognized in other comprehensive income

For the year ended 30 June 2021, the Company recognized a gain of \$209,428 in the statement of comprehensive income for the change in fair value of the financial assets through other comprehensive income. For the year ended 30 June 2020, there was a loss of \$446,326 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 financial assets through other comprehensive income are either past due or impaired.

All financial assets at fair value through other comprehensive income are denominated in USD.

(b) Trade payables

	As at 30 June	
	2021 USD	2020 USD
Trade payables	42,058	29,059
	42,058	29,059

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	
	2021 USD	2020 USD
Trading loan payable to the Ultimate Parent Company	91,264	72,379
Other intercompany trading loans payable	385,981	371,823
	477,245	444,202

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 2021 and 30 June 2020 on a recurring basis, categorised by level according to the significance of the inputs used in making the measurements:

	Note	Level 1 USD	Level2 USD	Level 3 USD	Total USD
As of 30 June 2021					
Financial Assets					
Financial assets at fair value through other comprehensive income:					
Equity securities – biotech sector	4(a)	-	-	2,079,997	2,079,997
Total Financial Assets		-	-	2,079,997	2,079,997

	Note	Level 1 USD	Level2 USD	Level 3 USD	Total USD
As of 30 June 2020					
Financial Assets					
Financial assets at fair value through other comprehensive income:					
Equity securities – biotech sector	4(a)	-	-	1,870,569	1,870,569
Total Financial Assets		-	-	1,870,569	1,870,569

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 year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and financial assets at fair value through other comprehensive income) 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 maximize 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 provisions (contingent consideration) and 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)

(d) Recognized fair value measurements (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 2021 and 30 June 2020:

	Assets at FVOCI (1) USD
Opening balance – 1 July 2019	2,316,895
Charged to the statement of comprehensive income:	
Changes in the fair value of financial assets through other comprehensive income	(446,326)
Closing balance – 30 June 2020	1,870,569
Opening balance – 1 July 2020	1,870,569
Charged to the statement of comprehensive income:	
Changes in the fair value of financial assets through other comprehensive income	209,428
Closing balance – 30 June 2021	2,079,997

(1) Fair value through other comprehensive income

5. Equity

(a) Issued capital

	2021 Shares No.	2020 Shares No.	2021 USD	2020 USD
<i>(i) Share capital</i>				
Ordinary shares	286,633,991	234,633,991	286,633,992	234,633,992
Total Issued Capital	286,633,991	234,633,991	286,633,992	234,633,992

(ii) Movements in ordinary share capital

Details	Shares No.	Issue price	USD
Opening balance – 1 July 2019			
Ordinary Shares (issued in USD)	212,633,990	\$1	212,633,990
Ordinary Shares (issued in GBP)	1	£1	2
Opening balance – 1 July 2019 - Total	212,633,991		212,633,992
Movement for the year			
Ordinary Shares (issued in USD)	22,000,000	\$1	22,000,000
Balance as of 30 June 2020	234,633,991		234,633,992
Opening balance – 1 July 2020	234,633,991		234,633,992
Movement for the year			
Ordinary Shares (issued in USD)	52,000,000	\$1	52,000,000
Balance as of 30 June 2021	286,633,991		286,633,992

Mesoblast UK Limited
Notes to the Financial Statements (Continued)
5. Equity (continued)

(a) Issued capital (continued)

(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. The ordinary shares have a par value of \$2 and the shares have been fully paid.

(b) Reserves

	As at 30 June	
	2021 USD	2020 USD
(i) Reserves		
Investment revaluation reserve	220,003	429,431
Closing balance	220,003	429,431

	2021 USD	2020 USD
(ii) Reconciliation of reserves		
Foreign currency translation reserve		
Opening balance	-	-
Foreign currency translations: Transfers to profit and loss upon prior years change in presentation currency	-	-
Closing balance	-	-

	2021 USD	2020 USD
Investment revaluation reserve		
Opening balance	(429,431)	16,895
Changes in the fair value of financial assets through other comprehensive income	209,428	(446,326)
Closing balance	(220,003)	(429,431)

(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 the fair value of financial assets through other comprehensive income 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)

5. Equity (continued)

(c) Restatement of comparatives

The Company has restated its contributed equity reserve and issued share capital as at 30 June 2019 to reclassify contributed capital to issued shares. The restatement at 30 June 2019 reallocates \$212,633,990 of shares to share capital. These shares had always been in issue but were incorrectly recorded as contributed equity.

	As at 30 June 2019 USD
Contributed capital as reported at 30 June 2019	212,663,990
Reclassification to share capital	(212,663,990)
Contributed capital - as restated	-

	As at 30 June 2019 USD
Issued capital as reported at 30 June 2019	2
Reclassification from contributed capital	212,663,990
Contributed capital - as restated	212,663,992

The Company has not included a third balance sheet or statement of equity as at 30 June 2018 because there is no change to net assets or loss in 2018 or 2019.

6. Cash flow information

	As at 30 June 2021 USD	2020 USD
(a) Reconciliation of cash and cash equivalents		
Cash at bank	-	-
(b) Reconciliation of net cash flows used in operations with loss for the year		
Loss for the year	(196,046)	(114,404)
Add/(deduct) net loss for non-cash items as follows:		
Foreign exchange gains	(18,967)	-
Equity settled share-based payment	38,906	165,433
Impairment of investment in subsidiary	168,896	-
Intercompany transactions	(51,833)	(90,056)
Change in operating assets and liabilities:		
Increase/(decrease) in trade payables and accruals	12,999	4,412
Net cash outflows from operating activities	(46,045)	(34,615)

The Company does not hold a bank account and all of the cash flow movements are non-cash activities within the Company. The affiliate entities of the Company make payments and receipts on the Company's behalf.

Mesoblast UK Limited Notes to the Financial Statements (Continued)

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 financial assets recognized through other comprehensive income (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

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.

Risk	Exposure arising from	Measurement	Management
Market risk – currency risk	Recognized financial assets and liabilities not denominated in the functional currency of each entity within the Group	Sensitivity analysis	The future cash flows of each currency are forecast and the quantum of cash reserves held for each currency are managed in line with future forecasted requirements.
Market risk – interest rate risk	The Company is not exposed to interest rate risk	Sensitivity analysis	The Company does not consider it has financial assets or liabilities that are exposed to interest rate risk.
Market risk – price risk	The Company is not exposed to price risk	Sensitivity analysis	The Company does not consider it has any exposure.
Credit risk	Cash and cash equivalents, and trade and other receivables	Aging analysis	The Company does not consider it has any exposure.
Liquidity risk	Available funding from Ultimate Parent Company	Rolling cash flow forecasts	The Ultimate Parent Company prepares future cash flows requirements and forecasts and capital raising strategies are planned to ensure sufficient cash balances are maintained to meet the Company future commitments.

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. The balances held at the end of the year give rise to currency risk exposure are presented in USD in the following table, together with a sensitivity analysis with assessed the impact that a chance of +/-20% in the exchange rate as of June 30, 2021 and June 30, 2020 would have on the Company's reported net profits(losses) and/or equity balance.

	Foreign currency balance held	+20% Profit USD	-20% Loss USD
At 30 June 2021			
Trade payables & accruals – GBP	(30,326)	3,560	(5,340)
Net Assets		3,560	(5,340)

	Foreign currency balance held	+20% Profit USD	-20% Loss USD
At 30 June 2020			
Trade payables & accruals – GBP	(23,629)	3,314	(4,972)
Net Assets		3,314	(4,972)

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

8. Financial risk management (continued)

(a) Market risk (Continued)

(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.

9. Interests in subsidiaries

(a) Subsidiaries

The Company's subsidiaries as of 30 June 2021 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 2021	2020
			%	%
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	
	2021	2020
	USD	USD
Opening balance	232,193,360	212,743,360
Addition	52,000,000	19,450,000
Impairment of Mesoblast International UK Limited Subsidiary due to dissolution of entity	(150,004)	-
Closing Balance	284,043,356	232,193,360

Mesoblast UK Limited
Notes to the Financial Statements (Continued)
9. Interests in subsidiaries (Continued)

(b) Investments in subsidiaries (continued)

(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 2020 (2019: 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.

During the year ended 30 June 2020, Mesoblast UK Limited made a capital contribution of \$150,000 to Mesoblast International (UK) Limited and \$19,300,000 to Mesoblast International Sàrl.

During the year ended 30 June 2021, Mesoblast International (UK) Limited was in the process of being dissolved and therefore the Company impaired the balance of the investment of \$150,004 at 30 June 2021. There was an associated foreign currency gain associated with the impairment charge of \$18,967. The subsidiary was officially dissolved on the 5th of October 2021.

No dividend was received from Mesoblast International (UK) Limited during the year ended 30 June 2021 (2020: Nil).

(ii) Impairment and risk exposure

Information about the impairment of investment in subsidiaries, refer to Note 16(j).

10. Contingent liabilities

The Ultimate Parent Company entered into a non-current loan during the year ended 30 June 2018. The non-current loan is secured by a first charge over the assets of the Company and the Group. As of June 30, 2021 we have assessed these contingent liabilities to be remote.

11. Commitments

The Company does not have any capital, lease or purchase commitments at 30 June 2021 and 2020.

12. Events occurring after the reporting year

There are no events that have occurred subsequent to 30 June 2021 and prior to the signing of these financial statements that would likely have a material impact on the financial results presented.

13. Related party transactions

(a) Parent entity

The parent entity and Ultimate controlling party 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.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

13. Related party transactions (continued)

(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.

	For Year Ended 30 June	
	2021 USD	2020 USD
Directors' fees	11,950	9,219
	11,950	9,219

(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	
		2021 USD	2020 USD
Trading loan payable to Mesoblast Limited	4(c)	91,264	72,379
Other intercompany trading loans payable	4(c)	385,981	371,823
		477,245	444,202

(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 issued to employees generally vest based on service or time conditions. For performance based vesting conditions, options were granted in one or 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.

For time based vesting options, the first tranche vests 12 months after grant date, the second tranche 24 months after grant date, and the third tranche 36 months after grant date. For options granted prior to July 1, 2015 the length of time from grant date to expiry date was typically five years. Grants since July 1, 2015, are issued with a seven year term. 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)

Grant policy (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 2021

Series	Grant Date	Expiry Date	Exercise Price (in AUD)	Opening Balance No.	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/Cancelled No. (during the year)	Closing Balance	Vested and exercisable No (end of year)
40	24/11/2017	23/11/2024	A\$1.41	750,000	-	-	-	750,000	750,000
40a	24/11/2017	23/11/2024	A\$1.28	750,000	-	-	-	750,000	-
				1,500,000	-	-	-	1,500,000	750,000
Weighted average share purchase price (in AUD)				A\$1.35	-	-	-	A\$1.35	A\$1.41

Year ended 30 June 2020

Series	Grant Date	Expiry Date	Exercise Price (in AUD)	Opening Balance No.	Granted No. (during the year)	Exercised No. (during the year)	Lapsed/Cancelled No. (during the year)	Closing Balance	Vested and exercisable No (end of year)
31b	12/05/2015	16/02/2020	A\$4.28	200,000	-	-	(200,000)	-	-
40	24/11/2017	23/11/2024	A\$1.41	750,000	-	-	-	750,000	500,000
40a	24/11/2017	23/11/2024	A\$1.28	750,000	-	-	-	750,000	-
				1,700,000	-	-	(200,000)	1,500,000	500,000
Weighted average share purchase price (in AUD)				A\$1.69	-	-	-	A\$1.35	A\$1.41

The weighted average remaining contractual life of share options outstanding as of 30 June 2021 and 2020 was 3.40 years and 4.40 years, respectively.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)
14. Share-based payments (continued)

(b) Fair values of share based payments.

No options were granted during the years ended 30 June 2021 and 2020.

The fair value of all shared-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.

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 2021 or 2020.

The closing share market price of an ordinary share of Mesoblast Limited on the ASX as of 30 June 2021 was A\$1.98.

15. Remuneration of auditors

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

	Year Ended 30 June	
	2021 USD	2020 USD
PricewaterhouseCoopers LLP		
Audit and other assurance services		
Audit and review of financial reports	20,495	17,814
Total remuneration of PricewaterhouseCoopers LLP	20,495	17,814

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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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, except for certain financial assets and liabilities – measured at fair value.

(ii) New and amended standards adopted by the Company

There were no new or amended standards applicable for the Company to adopt for the year ended 30 June 2021.

(iii) New accounting standards and interpretations not yet adopted

There were no new accounting standards and interpretations not yet adopted by the Company for the year ended 30 June 2021.

(b) Going concern

The Company incurred a net loss of \$196,046 during the year ended 30 June 2021 and at that date had accumulated losses of \$809,939 and net current liabilities of \$519,303. The financial statements have been prepared on a going concern basis as Mesoblast Limited (the "Ultimate Parent Company") has provided a letter of support to provide continuing financial support to enable the Company to carry on its business and meet its liabilities as they fall due for a period of at least 12 months from the date of these financial statements.

The Mesoblast Ltd Group ("the Group") has incurred losses from operations since the Group's inception in 2004 and as of June 30 2021 had an accumulated deficit of \$647.6 million. The Group had cash and cash equivalents of \$136.9 million as at June 30 2021 and incurred net cash outflows from operations of \$106.7 million for the year ended June 30 2021. Over the next twelve months in order to meet the Group's forecast expenditure and to be able to continue to support the Company, additional funds will be required by the Group.

The directors believe the Group will raise sufficient additional funds given their plans to complete either one or more strategic partnerships or restructure existing loan agreements. These financial statements have therefore been prepared on a going concern basis as the directors consider the Group will be able to support the Company such that the Company can carry on its business and meet its liabilities as and when they fall due for a period of at least 12 months from the date of these financial statements. The Company is dependent on the Group raising sufficient additional funds so that it can support the Company, the success of which is currently uncertain. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

(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.

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

(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 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 substantially 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:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortized cost

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flow. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

(ii) 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 Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(iv) Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Group has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(v) Impairment

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables

Mesoblast UK Limited
Notes to the Financial Statements (Continued)

16. Summary of significant accounting policies (continued)

(g) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(h) Share-based payments

Share-based payments are provided to eligible employees, directors and consultants via the Employee Share Option Plan ("ESOP"). Information relating to these plans is set out in Note 14.

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. Incremental costs directly attributable to the issues of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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.