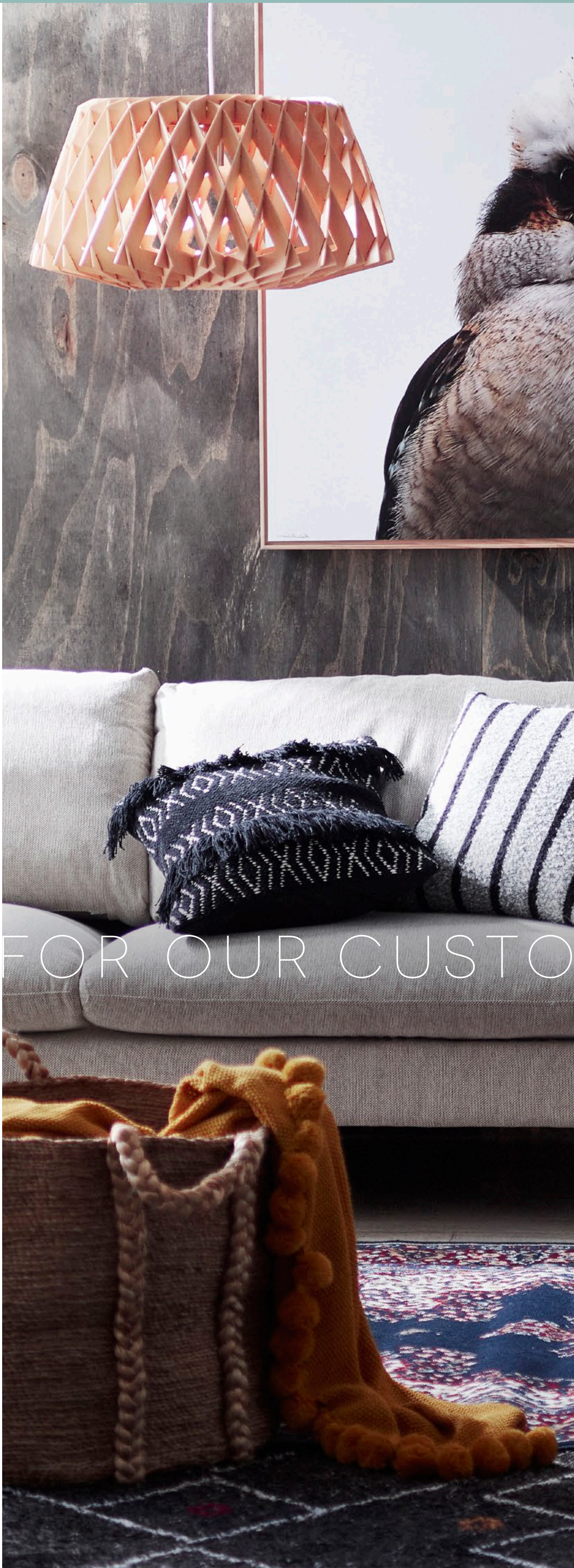
Annual Report 2017

TEMPLE & WEBSTER GROUP

Contents



Temple & Webster Group LTD
ABN 69 608 595 660

DELIVERING BEAUTIFUL SOLUTIONS

MERS' HOMES & WORK SPACES

Summary

FY17 REVENUE $64.5M

↑ 11%
from Australian operations

FY17 GROSS MARGIN $27.5M

↑ 19%
from Australian operations

CASH $8.7M

Strong balance sheet with no debt

~$13B MARKET

Only ~4% migrated online

Sources: Euromonitor International Limited; Home Furnishings and Homewares System 2016 edition. IBISWorld Industry Report OD4176 Online Household Furniture Sales in Australia.

H2 EBITDA ($1.8M)

75% improvement from Australian operations

#1

Online retailer in our market, with clear path to profit and strong platform for growth

FY17 statutory revenue of $64.5 million includes $0.6 million revenue from Milan Direct UK which was closed during H1 FY17.

FY17 revenue and gross margin from Australian operations were $63.9 million and $27.5 million respectively. FY16 revenue and gross margin from Australian operations were $57.7 million and $23.1 million respectively.

EBITDA is a non-IFRS measures that, in the opinion of the Directors, is useful in understanding and appraising the Company's performance. Revenue, Margin and EBITDA comparisons are performed on a pro forma basis which include the assumption that the Milan Direct AU and ZIZO businesses were part of the group for the entire FY16 but exclude all costs associated with the acquisition and restructuring of Milan Direct and ZIZO, depreciation, amortisation, interest and any costs associated with the Group's IPO.

Chairperson's Report

Dear shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the 2017 Annual Report.

A SIGNIFICANTLY IMPROVED YEAR

The 2017 financial year was the first full year of Temple & Webster as a listed entity. It was also the first year under the new management team and revised business plan announced at the end of FY16. The business plan simplified our go-to-market strategy by aligning the group's retail brands under the "Temple & Webster" brand, while prioritising the Group's path to profitability.

I am pleased to announce that as a result of these changes, all key metrics improved during FY17, and the company is in a much stronger position to become the first place Australians turn to when shopping for their homes.

The Group delivered revenue of $64.5 million. Revenue from Australian operations grew 11% (the UK operations were exited during 1HFY17) compared to last year. At the same time, significant improvements were made to lower the Group's cost base and improve gross margins, resulting in a full year EBITDA loss of $6.8 million, a 54% improvement on FY16's EBITDA loss of $14.8 million.

As our margin and cost efficiency programs were rolled out, our EBITDA improvements accelerated throughout the year. This can be seen in the second half EBITDA result – a loss of $1.8 million, which was a 75% improvement on the same period in FY16. These trends continued throughout the second half with our fourth quarter being the strongest quarter to date.

The business ended the year with $8.7 million in cash with zero debt. Combined with our significantly reduced cost base, this sets the business up well for FY18.

BOARD & MANAGEMENT CHANGES

During the year Mark Coulter moved from interim to permanent Chief Executive Officer and Mark Tayler moved from interim to permanent Chief Financial Officer. Mr Coulter and Mr Tayler have done a great job at articulating and implementing a new strategy, stabilising the business, putting in place an engaged and highly qualified leadership team and setting the business onto a growth trajectory while controlling its costs.

Also during the year Carol Schwarz, the Company's inaugural Chairperson resigned by rotation after having put into place the revised business plan and the new management team. On behalf of the Board, I would like to thank Carol for her outstanding contribution and hard work, especially during a transformative period for the business. I was honoured to succeed Carol, and have enjoyed working with Mark Coulter and his management team over the last year in implementing our mission to deliver beautiful solutions for our customers.

Since joining the Board, I have been impressed with the management team and wider Company culture. Temple & Webster is full of passionate and analytical people, who care about the Company and our customers. The Board is confident that we have the right team in place to take the business to its next phase of growth.

MARKET FUNDAMENTALS

Temple & Webster operates in the ~$13 billion market for homewares and furniture. While the Australian online retail market continues to grow it remains underpenetrated compared to other markets. This is especially true in our sector of homewares and furniture, with Euromonitor estimating that only ~4% of the total market sales now sold online (vs 12% in the US and 15% in the UK). We expect the structural differences between these markets to improve over time: major offline players will start to sell online; mobile and broadband speeds will improve; and logistics will become cheaper and faster.

We also are now starting to benefit from demographic changes, as the oldest millennials turn 35 this year and enter into Temple & Webster's core demographic of 35-55 year olds. This generation has grown up with the internet and already make a significant number of their purchases online in other categories such as fashion and home electronics.

LOOKING AHEAD

Moving into financial year 2018, I am confident that the business is in a great position to capitalise on the momentum built during 2017. With a much lower cost base and improved gross margins, the business can now scale and continue to head towards profitability. The timeline for reaching breakeven has always been during calendar year 2018, with financial year 2019 being the first full year of profit – and we remain confident in this timeline.

Finally, on behalf of the directors of the Group, I would like to thank you, our shareholders, for your support and contribution during this transformative period. While the business has undergone significant and rapid change, we continue to be the leading online retailer in our market and best positioned to capture the growth of our category over the coming years.

STEPHEN HEATH
Non-Executive Chairperson

CEO's Report

Dear fellow shareholders,

Firstly, I want to say how proud I am of the Temple & Webster team. The last year was a busy one, to say the least, and the passion and enthusiasm that our "Tempsters" deliver each day for our customers is truly outstanding.

When my co-founders and I started Temple & Webster, we did so with the aim of making the world a more beautiful place, by changing the way people shop for their homes. The execution of that vision started with offering beautiful items for the home carefully curated from a handful of suppliers and published to our members each day. It has evolved so that Temple & Webster is now an open ecommerce site with the largest range in our category in Australia, with around 130,000 products from hundreds of suppliers, the lion's share of which are shipped within a few days.

Internally, our mission is to "deliver beautiful solutions" for our customers, our suppliers, our shareholders, our community and each other. Sometimes we get it right, sometimes we don't, but what holds us together is our vision of trying to make the world a more beautiful place, one room at a time.

While our financial results have significantly improved over the last 12 months, I wanted to set out some of the beautiful solutions we delivered for our various stakeholders in FY17 and some of the ones that are coming up, so you get a better sense of who we are and what has been happening at Temple & Webster.

ONE TEAM, ONE WEBSITE

The biggest initiative that we completed during FY17 was the realignment of the business under a single retail brand. This involved integrating the teams and websites of our acquisitions, ZIZO (Wayfair Australia) and Milan Direct, into Temple & Webster. We now run one website (www.templeandwebster.com.au), which is Australia's largest online retailer for homewares and furniture. We still import a range of products under the Milan Direct brand which are sold through Temple & Webster. As part of this realignment and change in focus, we also exited Milan Direct's business in the UK.

MARKETING AND DATA

Marketing has been one of the main focus areas for the past year and we are pleased to see that our cost per first time customer has remained at ~$60 for the last 3 quarters of FY17, down from ~$94 (Q4FY16). One of the key marketing initiatives we launched this year was a data partnership to allow us to better target our marketing efforts and focus on those most likely to be buying furniture.

LARGEST RANGE IN AUSTRALIA

We believe range matters online, and our strategy is to be a one-stop-shop – all price points, all styles, all needs. We then use our merchandising smarts to curate our own catalogue, pulling together collections that make it easier to shop. Our clever category-specific attribution also allows our customers to filter by multiple dimensions e.g. material, size, price, style, colour. Over the year, we have been working hard to improve our offer in our core categories particularly furniture. We also launched our gift shop which now has 2,500+ gifts (and growing) and will be a big part of our Christmas strategy later in the calendar year.

DATA-DRIVEN SOURCING

Every day we collect thousands of points of data including browser behaviour, search data, add-to-cart data and of course transactional data. We now even collect the data when a customer uses filters to narrow a search. We use this data to help our suppliers and our own import division make better buying decisions – identifying the gaps by product, style and price points. Using this data we have been able to increase our inventory turn from ~2 to ~4 within 12 months.

WORLD-CLASS TECHNOLOGY

As a result of the Wayfair Australia acquisition, we now run on a highly scalable and sophisticated platform designed for our business model and our category. We made over 200 software releases over the course of the year, including upgrading our mobile site; integrating a data management platform; changing our email platform; consolidating hosting providers; countless user experience changes; and adding a new shipping integrator. Next year we will be exploring new technologies including augmented reality; machine learning; image search; and personalisation. Augmented reality is a trend we are staying close to, as the ability for our customers to see our products in their house (virtually) should lower the barriers to purchasing furniture online.

TRADE & COMMERCIAL

During the year we made investments in people and technology to better service our interior designer / stylists and corporate clients. We now provide bespoke quotes with dedicated account management, and the ability for our clients to access design services. As a result of those initiatives we have seen our active trade & commercial accounts grow by ~200%, with an average order value 5x our consumer sales. We believe this division will be a strong growth area over the coming years with our competitive advantage being range, price and service.

MANILA TEMPSTERS

This year we also opened our first dedicated satellite office in Manila, Philippines. This team handles most of our customer service enquiries and is a support team for our operations, buying and content teams. It has been great to see that our Manila Tempsters are just as passionate and dedicated as our local team, and it has been amazing to see our customer satisfaction scores increase, both during and after the opening of our Manila office.

CEO's Report (cont.)

TEMPLE & WEBSTER HQ

In September, we moved into our new office in St Peters, Sydney. This move saw the consolidation of three separate offices (two in Sydney, one in Melbourne) into the one location. Along with our new office, we also opened our new studio where we style and shoot many of the creative assets found in our customer communications. The office also has space for a by appointment trade showroom which we aim to open during FY18.

TEMPLE & WEBSTER STYLE SCHOOL

One of our key competitive advantages is our world-class content team (styling, editorial, photography and graphic design). We continue to lead the market in terms of visual design and aesthetic. During the year we launched our very own Style School in partnership with the Sydney Design School. For a low fee, customers enrol in an online course to learn tips and tricks on how to make their homes more beautiful. So far we have launched two courses – Styling Your Living Space, and Colour Essentials for Interiors, with more to come!

CUSTOMER SERVICE, FAST SHIPPING AND BETTER DELIVERY EXPERIENCE

Improving our customer service and delivery experience has been high on the priority list for the business over the last year. We want shopping with us to be easy and hassle free, and the in-home experience to match. This year we began to put all of our customer care team through our Style School so that customers can speak to one of our team members for advice. We also launched live chat which has been a great success. We have worked hard with our product suppliers, our warehouse team and our shipping suppliers to reduce the average ship time, with most orders now leaving either our warehouse or our supplier's warehouse en route to our customers within a day or two after order. Next year we will be focused on the in-home experience, giving our customers more options especially around bulky delivery.

SILVER BULLETS

At Temple & Webster we believe there is no single silver bullet in ecommerce. Hence "Silver Bullets" is the name for our internal Six Sigma or Kaizen program, which looks at operational and margin improvements across the whole company. Everyday we ask ourselves can we do things better, faster, cheaper – is there another silver bullet here? Examples of silver bullets implemented during the year include changing the way we charge and are charged for shipping; merging our Sydney and Melbourne distribution centres into a single site; and changing our promotional strategy to be more targeted and less margin erosive. Together these silver bullets (along with many more) increased our contribution margin (after all variable costs including advertising and customer service), by over 17 percentage points (2HFY17 vs FY16).

TEMPLE & WEBSTER CARES

While commercially we focus on the top 50% of households, our vision to make the world more beautiful extends to all rooms in Australia. This year we kicked off the first of our community initiatives partnering with the Outreach program of the Sisters of Charity to furnish and kit out a low cost, short term accommodation facility which will be used by families in regional NSW needing to come to Sydney for medical treatment. We have also partnered with Deciding to Make a Difference, and will be furnishing sustainable housing projects in indigenous communities. We believe doing good is an integral part of doing good business.

Finally, I am a big believer in the expression "culture eats strategy for lunch". While strategy and operational performance are critical, nothing happens without an energised team – especially for a young company in an emerging market. Luckily, I am part of an amazing team at Temple & Webster. A team full of seriously talented people who inspire me every day with their beautiful solutions. We are a restless bunch, always thinking we can do better. But at the same time, we like to have fun – and I think that comes across in how we communicate with our customers.

So as you can see it has been a busy year! And while we continue to make great progress, there remains much to do. In the short term, we are focussed on reaching profitability within the next calendar year, by growing our customers and revenue while keeping our cost base and margins within our target ranges. Longer term, we will continue to deliver our vision of making the world more beautiful, one room at a time.

MARK COULTER
Chief Executive Officer

Financial Report 2017

The Directors of the Temple & Webster Group present the report, together with the consolidated financial report for the year ended 30 June 2017.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Temple & Webster Group Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of Temple & Webster Group Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Stephen Heath (appointed Chairperson 25 October 2016)
Susan Thomas
Conrad Yiu
Carol Schwartz (resigned on 25 October 2016)

Principal activities

Temple & Webster is Australia's leading online retailer for the home. We are famous for offering the greatest range, the most inspiring content and world-class service. Our vision is to make the world more beautiful, one room at a time. Our mission is to deliver beautiful solutions for our customers' homes and workspaces.

Temple & Webster has over 130,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model, whereby products are sent directly to customers by suppliers thereby enabling faster delivery times, and reducing the need to hold inventory thereby allowing a larger product range.

The business also imports and sells furniture under the Milan Direct brand, which has almost 10 years of experience in sourcing and selling private label furniture in the online Australian market.

The Temple & Webster Group is headquartered in Sydney, Australia and is listed on the Australian Securities Exchange under the code TPW.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

Revenue for the year was $64.5m with a Net Loss Before Tax of ($7.8m) and Pro Forma EBITDA loss of ($6.8m). Please see below detailed reconciliation of pro forma revenue and EBITDA to statutory revenue and statutory net loss before tax.

A$m	FY17	FY16
Statutory Revenue	64.5	50.8
Milan Direct AU revenue (pre-acquisition)	-	10.0
ZIZO revenue (pre-acquisition)	-	0.9
Pro Forma Revenue	64.5	61.7
Statutory Net Loss Before Tax	(7.8)	(44.9)
Interest, depreciation and amortisation	0.4	0.3
Costs associated with IPO and business combinations	-	6.9
Net loss of acquired businesses pre-acquisition	-	(1.1)
Finance costs (FV of option relating to convertible notes)	-	4.6
Impairment of intangible assets (non-cash)	-	19.4
Restructuring costs (refer to notes 4 and 9)	0.6	-
Pro Forma EBITDA	(6.8)	(14.8)

Review of operations (continued)

Key Financial Performance Metrics for the financial year ended 30 June 2017 include:

- Statutory revenue of $64.5m
- Statutory Net Loss Before Tax of $7.8m, down 83% from a loss of $44.9m in the prior year
- Pro Forma EBITDA loss has improved by 54% year on year
- Closing cash balance at 30 June 2017 of $8.7m (no debt)

Revenue and EBITDA comparisons are performed on a pro forma basis which include the assumption that the Milan Direct and Zizo businesses were part of the group for the entire 2016 financial year, but exclude all costs associated with the acquisition and restructuring of Milan Direct and Zizo, depreciation, amortisation, interest and any costs associated with the Group's IPO.

Pro Forma and EBITDA results are non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance. These measures have not been reviewed by the auditor.

Further commentary on the Group's operations and financial results can be found in the Group's Annual Investor Presentation.

Business objectives being met
Refer to the Chairperson's & CEO Report for further details.

Significant changes in the state of affairs
In December 2016, the Group completed the integration of the Milan Direct business.

The integration saw Milan Direct's range of furniture for the home and office become a permanent private label available through the Temple & Webster online store, with the Milan Direct website discontinued.

The integration of Milan Direct into the Temple & Webster online store supports the next phase of the Company's revised business plan and vision, as outlined in April 2016.

The move strengthens the financial position of the Group and accelerates the path to profitability by removing unnecessary duplication of core business operations and re-directing key resources.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year
No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations
Likely developments in the operations of the consolidated entity and expected results of those operations are contained in the 'Review of operations' section. Refer also to the Chairperson's Report and Message from the CEO for further details.

Environmental regulation
The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Stephen Heath
Title:	Independent Non-Executive Director and Chairperson
Qualifications:	Graduate of the Australian Institute of Company Directors.
Experience and expertise:	Stephen is a specialist in consumer goods brand management with over 25 years of manufacturing/wholesale distribution and retail experience. Stephen has spent 16 years as CEO of some of Australia's best-known consumer brands that includes Rebel Sport, Godfrey's and Fantastic Holdings with operations experience in Australia, New Zealand, and Asia. His experience includes working in both ASX Listed and Private Equity owned companies.
Other current directorships:	Non-Executive Director of Funtastic Limited (appointed on 18 October 2010)
Former directorships (last 3 years):	Managing Director of Fantastic Holdings Limited (appointed on 11 December 2012 and resigned on 30 April 2016)
Special responsibilities:	Chair of the Board and the Nomination and Remuneration Committee
Interests in shares:	Nil

Name:	Susan Thomas
Title:	Independent Non-Executive Director
Qualifications:	Bachelor of Commerce and Bachelor of Law from the University of New South Wales.
Experience and expertise:	Susan is an experienced company director and audit and risk committee chair. Susan has expertise in technology and law in the financial services industry. Susan founded and was the Managing Director at FlexiPlan Australia, an investment administration platform sold to MLC.
Other current directorships:	Susan is a Director of Fitzroy River Holdings Limited (appointed on 26 November 2012) and Royalco Resources Limited (appointed on 22 February 2017).
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Management Committee
Interests in shares:	Nil

Name:	Conrad Yiu
Title:	Non-Executive Director
Qualifications:	Bachelor of Commerce from the University of New South Wales and a Master of Business Administration from the University of Cambridge.
Experience and expertise:	Conrad is a co-founder of Temple & Webster and joined the Board on its formation in July 2011. Conrad was Chairperson of the Company until immediately prior to the IPO. Conrad has over 20 years commercial and advisory experience with a focus on investing in, acquiring and building high growth businesses in the consumer and technology sectors. Conrad was previously Director of Corporate Development with the digital division of Newscorp Australia (formerly News Digital Media), co-founder and Director of a London-based mobile technology company, a manager at Arthur Andersen and is currently a principal of ArdenPoint, an investment firm which he co-founded with Mark Coulter in 2011.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	2,724,160 ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Michael Egan is Company Secretary of Temple & Webster Group Ltd. He has a range of experience in the Chartered Accounting profession, in business and in consulting. Michael has held Directorships and has been Company Secretary in ASX listed companies and in Australian subsidiaries of multi-national companies including Anglo-Australian Group, Rio Tinto and Hoechst (Germany).

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	Attended	Held	Attended	Held	Attended	Held
Stephen Heath	9	9	3	3	4	4
Susan Thomas	9	9	3	3	4	4
Conrad Yiu	9	9	-	-	4	4
Carol Schwartz	3	3	2	2	1	1

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The Directors of Temple & Webster Group Ltd present the Remuneration Report (the Report) for the Company and its controlled entities for the year ended 30 June 2017. This Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001.The Report provides an explanation of the remuneration strategy of the Company for non-executive directors and executives. The strategy complies with the requirements of the Corporations Act 2001 and takes into account the ASX Corporate Governance Principles.

For the purposes of this report, "executive" means the Chief Executive Officer ('CEO') and the Chief Financial Officer ('CFO'). Key Management Personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Key Management Personnel

Non-Executive Directors

Stephen Heath	Chairperson (Board and Nomination and Remuneration Committee) (Independent)
Sue Thomas	Non-Executive Director and Audit and Risk Management Committee Chairperson (Independent)
Conrad Yiu	Non-Executive Director
Carol Schwartz	Chairperson (Independent) (resigned 25 October 2016)

Executives

Mark Coulter	Chief Executive Officer
Mark Tayler	Chief Financial Officer

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to KMP
- Security dealing policy

Principles used to determine the nature and amount of remuneration

Nomination and Remuneration Committee

The Nomination and Remuneration Committee provides advice, recommendations and assistance to the Board on all matters relating to executive and non-executive director remuneration.

The objective of the Committee is to ensure that the Group attracts and secures the appropriate level of talent, skills and expertise to its Board and executive leadership team to lead and govern the Group's strategic, operational and financial objectives.

Executive remuneration

The Board's remuneration strategy and framework is designed to link executive remuneration to the achievement of the Group's major strategic objectives and ultimately to the creation of shareholder value.

The remuneration policy is focused on the delivery of a strategy for the successful recruitment, retention and development of its executives and KMP. Accordingly, the Board ensures that remuneration packages are competitive with comparable roles in similar companies. This is essential in attracting the calibre of executive required to achieve the objectives of the Group.

Remuneration framework

The Company adopts an executive remuneration framework that promotes:

- a performance and success culture, and
- incentive and reward for achieving the Group's major strategic objectives which are aligned to the creation of shareholder value.

Principles used to determine the nature and amount of remuneration (continued)

Guiding principles
The underlying guiding principles of the Board's remuneration strategy in establishing executive packages are:

1. Market competitive and fair
   Total fixed remuneration (base salary and superannuation) is both competitive in the market and fair to the executive when considering the responsibilities of the role.

2. Performance orientated
   An "At Risk" component of remuneration is rewarded for performance through the achievement of the Group's major strategic objectives. Each executive has individual performance hurdles and measures that are aligned to the Group's objectives.

3. Aligned with shareholders and encourage ownership
   The majority of the "At Risk" component of remuneration is rewarded through shares in the Company. This encourages executives to adopt principles that will support long-term sustainable performance and growth of the Company.

4. Founded on integrity and transparency
   Future business and market developments may support innovation in the Board's remuneration strategy in response to change. All enhancements to executive package design will be established with integrity and transparency.

Package components
The Remuneration Framework consists of the following components:
- Fixed annual remuneration - Includes base salary including any non-cash benefits paid in lieu of salary and superannuation.
- At risk annual short term incentive ('STI') - Calculated and paid in equity annually on achievement of the Board approved business plan.
- At risk long term incentive ('LTI') - Calculated and paid in equity in accordance with the Employee Equity Plans on achievement of the Board approved business plan.

Whilst the Group is in transition to profitability, the Board and management recognised the need to structure the packages of its KMP accordingly.

Benchmarking remuneration	Short term incentive	Long term incentive
Ensures employees are rewarded fairly and appropriately for their contribution to the Group's success by benchmarking against comparable positions in comparable organisations. Independent remuneration advice and guidance is sought to ensure remuneration at all levels is set competitively relative to industry peers and similarly sized publicly listed companies. Gender remuneration analysis is undertaken and corporate objectives are established to achieve parity between male and female remuneration for like roles.	The STI is tied to achievement of business objectives over the short term (12 months). The STI is in the form of equity in the Company. STIs are measured on achievement of both financial and non-financial KPIs to create innovation and growth. STI performance targets are based on: Individual KPIs, which are set at the beginning of the performance period, and are aligned to business level strategic priorities. Each participant must meet the service condition for STI to vest.	The new LTI aims to motivate, retain and reward senior management, and has been designed to align the interests of executives and senior management with the interests of shareholders. The LTI is in the form of equity in the Company. LTI is for the period commencing 1 November 2016 ending 30 September 2019.

Principles used to determine the nature and amount of remuneration (continued)

Employee equity plans
The Board has at its disposal the following plans available for the benefit of employees and directors:
- Employee Performance Rights Plan ('EPRP')
- Employee Share Options Plan ('ESOP')

Use of remuneration consultants
With the new management team and organisational restructure in place, remuneration consultants have been engaged to assist the Board in ensuring that employment contracts are contemporary in nature to attract and retain executive talent whilst being totally aligned to creating shareholder value.

Remuneration consultant's fees consisted of the following for the year ended 30 June 2017:

Remuneration consultant name	Fees
Crichton & Associates	$7,864
K & L Gates LLP	$3,204

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from KMP. These protocols include requiring that the consultant not communicate with affected KMP without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected KMP. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Details of remuneration

Executive employment agreements
Remuneration arrangements for executives are formalised in employment agreements. The following outlines the details of contracts with executives:

Chief Executive Officer (CEO)
Mark Coulter is a founder of the business and employed on a permanent basis from 1 September 2016, this contract replaced the fixed 6-month contract where Mark Coulter was the Interim Chief Executive Officer.

Under the terms of the current contract, as disclosed to the ASX on 24 October 2016:

- The CEO receives fixed remuneration of $195,000 per annum and in addition, 9.5% in superannuation entitlements
- The higher of $170,000 cash or 1,000,000 Performance Rights (vesting August 2017 following FY17 results, and in accordance with the Company's Performance Rights Plan)
- Maximum Short-Term Incentive (STI) of 1,800,000 Performance Rights that, subject to certain Company financial, personal performance hurdles and service conditions, may vest following the announcement of the Company's financial results in August 2017.

Chief Financial Officer (CFO)
Mark Tayler is employed on a permanent basis from 24 October 2016, this contract replaced the fixed 6-month contract where Mark Tayler was the Interim Chief Financial Officer.

Under the terms of the current contract:

- The CFO receives fixed remuneration of $235,000 per annum and in addition, 9.5% in superannuation entitlements
- Long Term Incentive (LTI) of 500,000 Performance Rights that, subject to certain Service and Performance conditions, may vest according to the vesting schedule as described in the LTI Plan
- Maximum Short-Term Incentive (STI) of 281,250 Performance Rights that, subject to certain Company financial hurdles, personal performance hurdles and service conditions, may vest following the announcement of the Company's financial results in August 2018.

Details of the Interim contracts for both the CEO and CFO were provided in the Remuneration Report for the year ended 30 June 2016.

Other key terms of the executive employment arrangements for the CEO and CFO are summarised below:

			Notice Period	
	Contract term	Resignation	Termination for cause	Termination payment
Mark Coulter	1 year - renewable	3 months	Nil	3 months
Mark Tayler	No fixed term	3 months	Nil	3 months

Non-executive director remuneration
Non-executive director fees are established relative to the size of the Company and the responsibilities, skills and experience of the directors.

In accordance with the Constitution of Temple & Webster Group Ltd, the total amount provided to all non-executive directors must not exceed in aggregate in any financial year $400,000 as the amount fixed by General Meeting. Additional fees may be payable for consulting services provided by non-executive directors. The Nomination and Remuneration Committee reviews the performance, skills and experience of the Board, and the directors' fees on an annual basis. This process considers remuneration survey data for comparable size companies and relativity of skills and experience held by the Board.

Non-executive director remuneration (continued)

Directors do not qualify for performance based incentives or retirement benefits other than statutory requirements.

The current non-executive directors' fee structure is set out below.

	Chair fee	Member fee
Board	$80,000	$50,000
Audit and Risk Management Committee	$30,000	$10,000
Nomination and Remuneration Committee	$30,000	$10,000

Amounts of remuneration
Details of the remuneration of KMP of the Group are set out in the following tables.

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
2017	Salary and fees $	Cash bonus $	Non-monetary $	Termination payments $	Super-annuation $	Long service leave $	Performance rights [1] $	Total $
Non-Executive Directors:								
Carol Schwartz [2]	28,968	-	-	-	2,752	-	-	31,720
Susan Thomas	82,192	-	-	-	7,808	-	-	90,000
Stephen Heath	100,899	-	-	-	9,585	-	-	110,484
Conrad Yiu	54,795	-	-	-	5,205	-	-	60,000
Other Key Management Personnel:								
Mark Coulter	195,000	-	-	-	18,525	-	373,095	586,620
Mark Tayler	247,154	-	-	-	19,616	-	36,126	302,896
	709,008	-	-	-	63,491	-	409,221	1,181,720

[1] The value of the options and rights granted to key management personnel as part of their remuneration is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.
[2] Resigned as KMP during the financial year

Amounts of remuneration (continued)

2016	Short-term benefits Salary and fees $	Cash bonus $	Non-monetary $	Termination payments $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Performance rights $	Total $
Non-Executive Directors:								
Carol Schwartz	53,594	-	-	-	5,091	-	-	58,685
Susan Thomas [1]	32,877	-	-	-	3,123	-	-	36,000
Stephen Heath [1]	28,823	-	-	-	2,738	-	-	31,561
Conrad Yiu	34,228	-	-	-	3,252	-	-	37,480
Matthew Campbell [2]	3,678	-	-	-	349	-	-	4,027
Executive Directors:								
Brian Shanahan [2]	221,147	256,168	-	-	19,308	-	-	496,623
Other Key Management Personnel:								
Mark Coulter	85,893	-	-	-	8,160	-	-	94,053
Mark Tayler	51,724	-	-	-	4,914	-	-	56,638
Deborah Kelly [2]	162,062	-	-	-	10,566	-	-	172,628
	674,026	256,168	-	-	57,501	-	-	987,695

[1] Appointed as KMP during the previous financial year
[2] Resigned as KMP during the previous financial year

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration 2017	Remuneration linked to performance 2017	Fixed remuneration 2016	Remuneration linked to performance 2016
Non-Executive Directors:				
Carol Schwartz [1]	100%	-	100%	-
Susan Thomas	100%	-	100%	-
Stephen Heath	100%	-	100%	-
Conrad Yiu	100%	-	100%	-
Matthew Campbell	-	-	100%	-
Executive Directors:				
Brian Shanahan [2]	-	-	48%	52%
Other Key Management Personnel:				
Mark Coulter	36%	64%	100%	-
Mark Tayler	88%	12%	100%	-
Deborah Kelly [2]	-	-	100%	-

[1] Resigned as KMP during the financial year
[2] Resigned as KMP during the previous financial year

Amounts of remuneration (continued)

The proportion of the cash bonus paid/payable or forfeited as a percentage (%) of fixed remuneration is as follows:

Name	Cash bonus paid/payable 2017	Cash bonus forfeited 2017	Cash bonus paid/payable 2016	Cash bonus forfeited 2016
Brian Shanahan	-	-	106%	0%
Mark Coulter	-	-	-	-
Mark Tayler	-	-	-	-

Bonuses are paid based on short term incentives as outlined in the 'Principles used to determine the nature and amount of remuneration' section above.

Share-based compensation

Issue of shares
There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2017.

Performance rights
Details of performance rights over ordinary shares granted, vested and lapsed for directors and other KMP as part of compensation during the year ended 30 June 2017 are set out below:

Name	Service period start	Grant date	Expiry date	Number of rights granted	Value of rights granted $	Value of rights vested $	Number of rights lapsed	Value of rights lapsed $
STI								
Mark Coulter	01/09/2016	01/09/2016	31/08/2017	1,000,000	$170,000	-	-	-
Mark Coulter	01/07/2016	01/11/2016	31/08/2017	1,800,000	$270,000	-	-	-
Mark Tayler	01/07/2016	01/11/2016	31/08/2018	281,250	$42,188	-	-	-
LTI								
Mark Tayler	01/11/2016	01/11/2016	30/09/2019	500,000	$37,258	-	-	-

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Other (1)	Balance at the end of the year
Ordinary shares						
Carol Schwartz (1)	1,643,235	-	-	-	(1,643,235)	-
Conrad Yiu (2)	2,724,160	-	-	-	-	2,724,160
Mark Coulter (2)	2,476,160	-	-	-	-	2,476,160
	6,843,555	-	-	-	(1,643,235)	5,200,320

(1) Carol Schwartz resigned as a Director effective 25 October 2016

(2) Includes a total of 5,130,286 shares held by AP Ecommerce Pty Ltd and ArdenPoint Fund 1 Pty Ltd of which Conrad Yiu and Mark Coulter have a beneficial interest.

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Mark Coulter	-	2,800,000	-	-	2,800,000
Mark Tayler	-	781,250	-	-	781,250
	-	3,581,250	-	-	3,581,250

This concludes the remuneration report, which has been audited.

Shares issued on the exercise of performance rights

There were no ordinary shares of Temple & Webster Group Ltd issued on the exercise of performance rights during the year ended 30 June 2017 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount), other than a loss arising from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during the financial year and up to the date of this report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Ernst & Young
There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor
Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Stephen Heath
Chairperson

29 August 2017

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Auditor’s Independence Declaration to the Directors of Temple & Webster Group Ltd

As lead auditor for the audit of Temple & Webster Group Ltd for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Temple & Webster Group Ltd and the entities it controlled during the financial year.

Ernst & Young

Christopher George
Partner
29 August 2017

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	2016[1] $'000
Revenue			
Sales revenue		64,481	50,829
Cost of goods sold		(36,982)	(30,875)
Gross margin		27,499	19,954
Net foreign exchange gain/loss		(146)	(44)
Interest		252	205
Expenses			
Distribution		(9,711)	(9,017)
Merchant Fees		(1,080)	(828)
Marketing		(8,160)	(10,659)
Employee benefits	4	(12,364)	(10,719)
Depreciation and amortisation	4	(643)	(476)
Impairment of assets	4	-	(19,392)
Finance costs	4	(2)	(4,575)
Other	4	(3,428)	(2,837)
Costs associated with IPO and business combinations	4	-	(6,514)
Loss before income tax benefit		(7,783)	(44,902)
Income tax benefit [2]	5	18	1,319
Loss after income tax benefit for the year attributable to the owners of Temple & Webster Group Ltd		(7,765)	(43,583)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		11	(11)
Other comprehensive income for the year, net of tax		11	(11)
Total comprehensive income for the year attributable to the owners of Temple & Webster Group Ltd		(7,754)	(43,594)
		Cents	**Cents**
Basic earnings per share [2]	32	(7.35)	(56.21)
Diluted earnings per share [2]	32	(7.35)	(56.21)

[1] In accordance with AASB 101 Presentation of Financial Statements (para 41) "if an entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable". The following changes have been made in the comparatives in the current financial report:

- *Cost of goods sold expense of $105,000 was reclassified from Distribution to Cost of goods sold,*
- *Other expense of $351,000 was reclassified from Employee benefits to Other expenses,*
- *Merchant fees of $828,000 and Distribution expense of $161,000 were reclassified from Other expense to Merchant fees and Distribution respectively.*

[2] In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a consequence, intangibles, deferred tax asset, deferred tax liability and income tax benefit were increased by $834,000 in the financial year ended 30 June 2016. This resulted in both basic and diluted earnings per share increased from (57.28) to (56.21) cents in the financial year ended 30 June 2016 (refer to note 28).

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of Financial Position

As at 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016[1] $'000
Assets			
Current assets			
Cash and cash equivalents	6	8,728	18,437
Trade and other receivables		5	120
Inventories	7	1,385	3,530
Other	8	815	964
Total current assets		10,933	23,051
Non-current assets			
Property, plant and equipment		227	234
Intangibles [2]	9	7,659	8,123
Other		51	69
Total non-current assets		7,937	8,426
Total assets		18,870	31,477
Liabilities			
Current liabilities			
Trade and other payables	10	5,535	9,028
Employee benefits	11	425	442
Provisions	12	1,092	671
Deferred consideration	13	-	2,000
Deferred revenue	14	1,565	1,993
Other	20	21	-
Total current liabilities		8,638	14,134
Non-current liabilities			
Deferred tax [2]	15	-	18
Employee benefits		123	113
Provisions		60	-
Total non-current liabilities		183	131
Total liabilities		8,821	14,265
Net assets		10,049	17,212
Equity			
Contributed capital	16	76,566	76,666
Reserves	17	792	90
Accumulated losses [2]		(67,309)	(59,544)
Total equity		10,049	17,212

[1] In accordance with AASB 101 Presentation of Financial Statements (para 41) "if an entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable". As a result, Deferred revenue of $88,000 were reclassified from Trade and other payables to Deferred revenue in the comparatives in the current financial report.

[2] In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a result, intangibles, deferred tax asset, deferred tax liability and income tax benefit were increased by $834,000 in the financial year ended 30 June 2016 (refer to note 28).

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the year ended 30 June 2017

Consolidated	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2015	8,222	-	(15,961)	(7,739)
Loss after income tax benefit for the year	-	-	(43,583)	(43,583)
Other comprehensive income for the year, net of tax (note 17)	-	(11)	-	(11)
Total comprehensive income for the year	-	(11)	(43,583)	(43,594)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 16)	68,444	-	-	68,444
Share-based payments (note 18)	-	101	-	101
Balance at 30 June 2016	76,666	90	(59,544)	17,212

Consolidated	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2016	76,666	90	(59,544)	17,212
Loss after income tax benefit for the year	-	-	(7,765)	(7,765)
Other comprehensive income for the year, net of tax (note 17)	-	11	-	11
Total comprehensive income for the year	-	11	(7,765)	(7,754)
Share-based payments (note 18)	-	691	-	691
Shares forfeited (note 16)	(100)	-	-	(100)
Balance at 30 June 2017	76,566	792	(67,309)	10,049

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

Statement of Cash Flows
For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		70,614	55,356
Payments to suppliers and employees (inclusive of GST)		(78,450)	(71,249)
		(7,836)	(15,893)
Interest received		252	205
Interest and other finance costs paid		(3)	(21)
Net cash used in operating activities	31	(7,587)	(15,709)
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	28	(2,000)	(13,714)
Payments for property, plant and equipment		(112)	(168)
Payments for intangibles	9	(20)	(253)
Proceeds from disposal of property, plant and equipment		10	-
Net cash from/(used in) investing activities		(2,122)	(14,135)
Cash flows from financing activities			
Proceeds from issue of shares	16	-	61,914
Proceeds from convertible notes		-	12,000
Payments to shareholders		-	(21,621)
Share issue transaction costs		-	(5,939)
Net cash from financing activities		-	46,355
Net increase/(decrease) in cash and cash equivalents		(9,709)	16,511
Cash and cash equivalents at the beginning of the financial year		18,437	1,926
Cash and cash equivalents at the end of the financial year	6	8,728	18,437

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

Notes to the Financial Statements

Note 1. Corporate information

The financial statements cover Temple & Webster Group Ltd (referred to as 'Company' or 'parent entity') as a Group consisting of Temple & Webster Group Ltd and the entities it controlled at the end of, or during, the year (collectively referred to in these financial statements as the 'Group'). The financial statements are presented in Australian dollars, which is Temple & Webster Group Ltd's functional and presentation currency.

Temple & Webster Group Ltd is a for profit company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The Group's principal place of business is:

1A / 1-7 Unwins Bridge Road
St Peters, NSW 2044

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of LTI performance rights is determined by using either the Trinomial, Monte Carlo or Black-Scholes models, as appropriate, taking into account the terms and conditions upon which the instruments were granted. The fair value of STI performance rights is based on the market value of Temple & Webster Group Ltd shares less dividend yield at the date each performance right is accepted by the participant. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Refunds and replacements provision
In determining the level of provision, the Group has made judgements in respect of the expected return of products, number of customers who will actually return the products and how often, and the costs of fulfilling the return. Historical experience and current knowledge of the performance of the products have been used in determining this provision. Refer to Note 12 for further details.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Goodwill and other indefinite life intangible assets
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Going concern
These financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The board approved budget and cash flow projections have been used to assess the group will be able to pay its debt as and when they fall due and that the going concern assumption can be used.

Note 3. Operating segments

Identification of reportable operating segments
The Group operates in one segment being the sale of furniture, homewares, and other lifestyle products through its online platform. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated.

The information reported to the CODM is on at least a monthly basis.

Note 4. Expenses

	Consolidated	
	2017 $'000	2016 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	162	99
Motor vehicles	-	24
Total depreciation	162	123
Amortisation		
Software and websites	260	280
Development costs	136	25
Customer relationships	85	48
Total amortisation	481	353
Total depreciation and amortisation	643	476
Impairment		
Goodwill	-	17,902
Software & websites	-	1,474
Development	-	16
Total impairment	-	19,392
Costs associated with IPO and business combinations		
Costs associated with IPO	-	2,521
Milan Direct Pty Ltd acquisition	-	176
Zizo Home Pty Ltd acquisition	-	881
Employee benefits settled on IPO	-	2,936
Total costs associated with IPO and business combinations	-	6,514

Note 4. Expenses (continued)

	Consolidated	
	2017	2016
	$'000	$'000
Other expenses		
Hosting and other IT	933	1,087
Consulting	609	859
Rent and occupancy	872	585
Travelling expenses	156	132
Employee benefits paid on termination (1)	298	-
Onerous lease (1)	167	-
Other	393	174
Total other expenses	3,428	2,837
Finance costs		
Convertible notes finance costs - non-cash	-	4,555
Other interest and finance charges	2	20
Finance costs expensed	2	4,575
Employee benefits expense		
Employee benefits expense excluding superannuation	11,481	9,931
Defined contribution superannuation expense	883	788
Total employee benefits expense	12,364	10,719

(1) *The costs resulted from the consolidation of the Milan Direct and Temple & Webster websites (refer to note 9).*

Accounting for finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred. The difference between the fair value and the previous carrying amount of the option in the convertible notes is also expensed as a finance cost as well as the capitalised interest expense on the notes.

Accounting for rent and occupancy
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Note 5. Income tax benefit

	Consolidated 2017 $'000	Consolidated 2016 $'000
Income tax benefit		
Deferred tax - origination and reversal of temporary differences	(18)	(1,319)
Aggregate income tax benefit	(18)	(1,319)
Deferred tax included in income tax benefit comprises:		
Decrease in deferred tax liabilities (note 15)	(18)	(1,319)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(7,783)	(44,902)
Tax at the statutory tax rate of 30%	(2,335)	(13,471)
Current year tax losses not recognised	2,317	12,152
Income tax benefit	(18)	(1,319)

	Consolidated 2017 $'000	Consolidated 2016 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised [1]	47,534	8,609
Potential tax benefit @ 30%	14,260	2,583

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

[1] *Additional tax losses disclosed in the financial year ended 30 June 2017 resulted from the current year tax losses and the prior year losses transferred into the Temple & Webster Group Ltd income tax consolidated group in the financial year ended 30 June 2016. As per the Group's assessment these losses satisfied either the continuity of ownership test, or failing that, the same business test.*

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Deductible capital raising costs	697	96
Intangibles	334	362
Accrued expenses	42	120
Employee benefits	185	212
Provisions for returns, refunds, inventory and bad debtors	430	326
Foreign exchange	15	18
Deferred revenue	153	20
Total deferred tax assets not recognised	1,856	1,154

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Note 5. Income tax benefit (continued)

Accounting for tax
Income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

(i) when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

(ii) when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised 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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidated group
Temple & Webster Group Ltd (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group ('tax group') under the tax consolidation regime during the previous financial year. Each entity in the tax group continues to account for their own current and deferred tax amounts. The tax group has applied the 'group allocation' approach in determining the appropriate amount of taxes to allocate to group members. In addition to its own tax amounts, the head entity also recognises the tax arising from unused tax losses and tax credits assumed from each subsidiary in the tax group.

Assets or liabilities arising under tax funding agreements are recognised as amounts receivable from or payable to other entities in the tax group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2017 $'000	2016 $'000
Cash at bank	4,046	8,637
Cash on deposit	4,682	9,800
	8,728	18,437

Accounting policy for cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For cash flow purposes, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Note 7. Current assets - inventories

	Consolidated 2017 $'000	Consolidated 2016 $'000
Stock in transit	290	577
Stock on hand	1,305	3,308
Less: Provision for impairment	(210)	(355)
	1,385	2,953
	1,385	3,530

Inventory that was recognised as an expense in profit or loss amounted to $36,982,000 (2016: $30,875,000) for the year ended 30 June 2017.

Accounting policy for inventories
Stock in transit and stock on hand are stated at the lower of cost and net realisable value. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Both stock in transit and stock on hand are finished goods for which net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 8. Current assets - other

	Consolidated 2017 $'000	Consolidated 2016 $'000
Prepayments	714	786
Security deposits	101	178
	815	964

Note 9. Non-current assets - intangibles

	Consolidated 2017 $'000	Consolidated 2016 $'000
Goodwill - at cost[1]	22,434	22,434
Less: Accumulated Impairment	(17,902)	(17,902)
	4,532	4,532
Brands - at cost	2,781	2,781
Software and websites - at cost[2]	1,926	2,155
Less: Accumulated amortisation[2]	(311)	(280)
Less: Accumulated Impairment	(1,474)	(1,474)
	141	401
Development - at cost[2]	-	2,039
Less: Accumulated amortisation[2]	-	(828)
Less: Accumulated Impairment[2]	-	(1,092)
	-	119
Customer relationships - at cost	338	338
Less: Accumulated amortisation	(133)	(48)
	205	290
	7,659	8,123

[1] In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a result, both goodwill and deferred tax liability were increased by $834,000 in the financial years ended 30 June 2017 and 30 June 2016 (refer to note 28).
[2] In the financial year ended 30 June 2017 the Group removed from the fixed asset register fully amortised intangibles no longer in use (at cost software and websites of $229,000 and development of $2,056,000).

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Brands $'000	Software and websites $'000	Development $'000	Customer relationships $'000	Total $'000
Balance at 1 July 2015	-	-	-	38	-	38
Additions	-	-	131	122	-	253
Additions through business combinations (note 26)	22,434	2,781	2,024	-	338	27,577
Impairment of assets	(17,902)	-	(1,474)	(16)	-	(19,392)
Amortisation expense	-	-	(280)	(25)	(48)	(353)
Balance at 30 June 2016	4,532	2,781	401	119	290	8,123
Additions	-	-	-	17	-	17
Amortisation expense	-	-	(260)	(136)	(85)	(481)
Balance at 30 June 2017	4,532	2,781	141	-	205	7,659

Note 9. Non-current assets - intangibles (continued)

Impairment testing

In the previous financial year, the Group increased its intangible assets through two business combinations as disclosed in note 28. At 31 December 2016, consistent with the approach taken at 30 June 2016, the Group's asset base was split into two cash generating units, Temple & Webster ('TPW) and Milan Direct ('MD'). On 13 December 2016, the Group announced the consolidation of the Milan Direct and Temple & Webster retail websites. In the 3rd quarter of the financial year ended 30 June 2017 and as part of the consolidation, the Milan Direct office in Melbourne was closed and key personnel were relocated to Sydney. In the last quarter of the financial year ended 30 June 2017 Milan Direct underwent further organisational changes, resulting in a rebranding of the Milan Direct Showroom to Temple & Webster Outlet and the integration of the commercial division into the Temple and Webster operations. Consequently, Milan Direct became solely dependent on Temple & Webster and is not able to generate independent cash flows. As a brand, Milan Direct maintained its product supply and inventory operations and became a permanent private label range available through the Temple & Webster online store.

As a result, the Group has changed its cash generating units ('CGU') determination, resulting in one CGU being identified, Temple and Webster (including the Milan Direct brand) ('TPW'). The goodwill and the brands allocated to TPW, after the impairment recognised in the previous financial year, amounted to $7,313,000.

Goodwill and brands acquired through business combinations were therefore allocated to the following cash-generating units:

	Consolidated 2017 $'000	Consolidated 2016 [1] $'000
TPW [1]	7,313	-
MD [1]	-	7,313
	7,313	7,313

[1] restated balances by $834,000 resulting from an additional deferred tax liability being recognised on the brand which increased goodwill (refer to note 28)

The recoverable amount of the Group's goodwill and brands has been determined based on value-in-use calculations, using a discounted cash flow model, based on a five-year projection period including the budget approved by the Directors for the financial year ended 30 June 2018. The growth rates applied in the value-in-use model were calculated based on the combination of the historical growth rates over the past 3 years as well as external industry data. The cash flows beyond a five-year period, representing the terminal value, are extrapolated using a steady rate.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the TPW cash-generating unit:

a) 15.8% pre-tax discount rate;
b) revenue growth in years 1 to 5 is consistent with the underlying revenue growth in the second half of the current financial year post the Milan Direct restructure;
c) 4% terminal growth rate.

In the value-in-use calculation, management has taken into account the consolidation of the Milan Direct operations. Based on the above assumptions, the calculated recoverable amount was higher than the carrying value of the TPW CGU and therefore no impairment charge was expensed to profit or loss for the year ended 30 June 2017.

The key estimates and assumptions used to determine the value-in-use of the cash generating unit are based on the Directors' current expectations. They are considered to be reasonably achievable, however, significant changes in any of these key estimates, assumptions or regulatory environments may result in the cash generating unit carrying value exceeding its recoverable value, requiring an impairment charge to be recognised. A reasonably possible change in any of the assumptions used does not result in an impairment charge at 30 June 2017.

In accordance with AASB136 'Impairment of assets', forecasts do not include estimated future cash inflows or outflows that are expected to arise from improving or enhancing the CGU's performance.

Note 9. Non-current assets - intangibles (continued)

Accounting policy for impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Accounting policy for intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Brands
Brand costs acquired are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life, instead they are tested annually for impairment.

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between four to seven years.

Research and development
Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of four years.

Customer relationships
Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of four years.

Note 10. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	$'000	$'000
Trade payables	2,911	4,396
Accrued payables	1,783	3,095
Employee related payables	583	1,041
Other payables	258	496
	5,535	9,028

Refer to note 20 for further information on financial instruments.

Accounting policy for trade and other payables
These amounts represent liabilities for wages, salaries and goods and services provided to the Group prior to the end of the reporting period and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 11. Current liabilities - employee benefits

	Consolidated	
	2017	2016
	$'000	$'000
Annual leave	425	442

Accounting policy for employee benefits

Employee benefits

Annual leave
Liabilities for annual leave are calculated based on remuneration rates the Group expects to pay, including related on-costs when the liability is expected to be settled. Annual leave is a long-term benefit and is measured using the projected credit unit method.

Long service leave
The Group's net obligation in respect of long term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using rates attached to bonds with sufficiently long maturities at the balance sheet date, which have maturity dates approximating to the terms of the Group's obligations.

Note 12. Current liabilities - provisions

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease make good	30	30
Refunds and replacements	940	641
Restructuring	122	-
	1,092	671

Accounting policy for provisions

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Refunds and replacements
The provision represents the expected value replacement of goods made to customers and returns by customers. The provision is estimated based on historical data using the percentage of actual refunds and replacements against sales revenue.

Restructuring
The provision represents the estimated costs in relation to the Milan Direct integration which occurred in December 2016, with the Group announcing a number of strategic initiatives designed to accelerate the Group's path to profitability. Costs incurred as part of the restructure included redundancy expenses and onerous lease costs.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated	Restructuring $'000	Lease make good $'000	Refunds and replacements $'000
Carrying amount at 1 July 2015	-	-	169
Additional provisions recognised	-	-	5,086
Additions through business combinations (note 28)	-	30	-
Amounts used	-	-	(4,524)
Unused amounts reversed	-	-	(90)
Carrying amount at 1 July 2016	-	30	641
Additional provisions recognised	229	-	5,807
Amounts used	(107)	-	(5,271)
Unused amounts reversed	-	-	(237)
Carrying amount at 30 June 2017	122	30	940

Accounting policy for provisions
Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost in profit or loss.

Note 13. Current liabilities - deferred consideration

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred consideration	-	2,000

Deferred consideration related to the acquisition of Wayfair Australia Pty Limited. The purchase price for this acquisition was $6,073,000 of which $4,000,000 and $73,000 was paid on 31 July and 5 November 2015 respectively. The remaining balance of $2,000,000 was paid on 3 August 2016. Refer for further details to note 28.

Note 14. Current liabilities – deferred revenue

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred revenue	1,565	1,993

Movements in deferred revenue
Movements in deferred revenue during the current financial year are set out below:

	Deferred revenue $'000
Balance at 1 July 2015	1,792
Additional provisions recognised	51,030
Amounts used	(50,829)
Balance at 1 July 2016	1,993
Additional provisions recognised	64,053
Amounts used	(64,481)
Carrying amount at 30 June 2017	1,565

Accounting policy for revenue

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue - sale of goods
Sale of goods revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This transfer of risks and rewards of ownership is occurring on shipment of the goods. Prior to these conditions being met, receipts from the sale of goods are recorded in deferred revenue. Revenue from the sale of goods is measured net of returns, allowances and discounts.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Note 15. Non-current liabilities - deferred tax

	Consolidated 2017 $'000	Consolidated 2016 $'000
Deferred tax comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Deferred tax asset		
Tax losses [(1)]	-	834
Deferred tax liability		
Property, plant and equipment	-	(10)
Intangibles [(1)]	-	(842)
Deferred tax liability	-	(18)
Movements:		
Opening balance	(18)	-
Credited to profit or loss (note 5) [(1)]	18	1,319
Additions through business combinations (note 28) [(1)]	-	(1,337)
Closing balance	-	(18)

[(1)] In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a result, intangibles, deferred tax asset, deferred tax liability and income tax benefit were increased by $834,000 in the financial year ended 30 June 2016 (refer to note 28).

Note 16. Equity - contributed capital

Group reorganisation

During the year ended 30 June 2016, an internal restructure took place in preparation of the listing of the Group on the Australian Securities Exchange (‘ASX’). This resulted in a newly incorporated company, Temple & Webster Group Ltd, becoming the legal parent of the Group. The internal restructure was conditional on the listing of the Group on the ASX.

Temple & Webster Group Ltd determined that this internal restructure, that resulted in the Company acquiring Temple & Webster Pty Ltd (‘T&W’) (former parent entity), represented a common control transaction rather than a business combination. The appropriate accounting treatment for recognising the new group structure was on the basis that the transaction was a form of capital reconstruction and group reorganisation. Therefore, the financial information was prepared using the principles of a reverse acquisition by the existing Group of Temple & Webster Group Ltd.

As a result, the prior year financial statements of Temple & Webster Group Ltd were prepared as a continuation of the financial statements of the accounting acquirer, T&W. Refer to basis of preparation in note 33.

The number of shares on issue shown reflects those of Temple & Webster Group Ltd after the reconstruction. Certain shareholdings held by existing shareholders amounting to 6,358,553 were subject to voluntary escrow agreements.

	Consolidated 2017 Shares	Consolidated 2016 Shares	Consolidated 2017 $'000	Consolidated 2016 $'000
Ordinary shares - fully paid	105,673,725	105,780,680	76,566	76,666

Note 16. Equity - contributed capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	1,969,121		8,222
Conversion of convertible notes Tranches 1 and 2	4 December 2015	378,666	$22.73	8,607
Share split in the capital reorganisation	4 December 2015	46,166,092	$0.00	-
Conversion of convertible note Tranche 3	4 December 2015	13,405,266	$0.93	12,534
Shares issued as part of the Milan Direct purchase consideration	4 December 2015	7,306,394	$1.10	8,037
Equity generated on closure of the TW East Share Plan	7 December 2015	-	$0.00	1,541
Shares issued at IPO	10 December 2015	36,363,635	$1.10	40,000
Shares issued to employees under bonus schemes	10 December 2015	106,955	$0.93	100
Shares issued to employees under new incentive plan	10 December 2015	84,551	$1.10	93
Transaction costs arising on IPO able to be offset against share capital	10 December 2015	-	$0.00	(2,468)
Balance	30 June 2016	105,780,680		76,666
Forfeited shares	25 October 2016	(106,955)	$0.93	(100)
Balance	30 June 2017	105,673,725		76,566

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings, trade and other payables, less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group has pursued investments to integrate and grow its existing businesses in order to maximise synergies.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2017 and 30 June 2016.

The group used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives in the financial year ended 30 June 2017 and 30 June 2016.

Note 16. Equity - contributed capital (continued)

Accounting policy for contributed capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 17. Equity - reserves

	Consolidated 2017 $'000	Consolidated 2016 $'000
Foreign currency reserve	-	(11)
Share-based payments reserve	792	101
	792	90

Accounting policy for reserves

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Share-based payments $'000	Total $'000
Balance at 1 July 2015	-	-	-
Foreign currency translation	(11)	-	(11)
Share-based payments	-	101	101
Balance at 30 June 2016	(11)	101	90
Foreign currency translation	11	-	11
Share-based payments	-	691	691
Balance at 30 June 2017	-	792	792

Note 18. Share-based payments

Long-term incentive ('LTI') plans were established by the Group and approved by the Board, whereby the Group may, at the discretion of the Committee, grant performance rights over ordinary shares in the Company to employees and directors of the Group. The rights are issued for nil consideration and were granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Note 18. Share-based payments (continued)

Set out below are summaries of performance rights granted under the LTI plans as at 30 June 2017:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
10/12/2015	09/12/2020	$0.00	818,182	-	-	-	818,182
10/12/2015	09/12/2020	$0.00	77,955	-	-	-	77,955
01/11/2016	30/09/2019	$0.00	-	2,200,000	-	(150,000)	2,050,000
			896,137	2,200,000	-	(150,000)	2,946,137

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 3 years.

Set out below are summaries of performance rights granted under the LTI plans as at 30 June 2016:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
10/12/2015	09/12/2020	$0.00	-	1,818,182	-	(1,000,000)	818,182
10/12/2015	09/12/2020	$0.00	-	171,819	-	(93,864)	77,955
			-	1,990,001	-	(1,093,864)	896,137

For the LTI performance rights granted during the current and previous financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/12/2015	09/12/2020	$0.90	$0.00	34.75%	-	2.12%	$0.900
10/12/2015	09/12/2020	$0.90	$0.00	50.00%	-	2.12%	$0.432
1/11/2016	30/09/2019	$0.16	$0.00	65.00%	-	1.68%	$0.075

A short-term incentive ('STI') plan was also established by the Group and approved by the Board, whereby the Group may, at the discretion of the Committee, grant performance rights over ordinary shares in the Company to employees and directors of the Group. The rights are issued for nil consideration and were granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of performance rights granted under the STI plan as at 30 June 2017:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year	Fair Value at grant date
01/09/2016	31/08/2017	$0.00	-	1,000,000	-	-	1,000,000	$0.170
01/11/2016	31/08/2017	$0.00	-	1,800,000	-	-	1,800,000	$0.150
01/11/2016	31/08/2018	$0.00	-	1,390,402	-	(150,000)	1,240,402	$0.160
			-	4,190,402	-	(150,000)	4,040,402	-

Note 18. Share-based payments (continued)

Accounting policy for share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. The cost of equity-settled transactions is measured at fair value on grant date. For the LTI performance rights fair value is independently determined using either the Trinomial, Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions and hurdles that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions. For the STI performance rights the valuation model used to determine the fair value at the issue date is based on the market value of Temple & Webster Group Ltd shares less dividend yield at the date each performance right was accepted by the participant.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 19. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 20. Financial instruments

Financial risk management objectives
The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Note 20. Financial instruments (continued)

Market risk

Foreign currency risk
The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group uses foreign exchange forward contracts to manage some of its transaction exposures resulting from purchases in USD. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 3 months. The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates. The foreign exchange forward contracts are measured at fair value through profit or loss.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
Consolidated	2017 $'000	2016 $'000	2017 $'000	2016 $'000
US dollars	-	-	19	112
	-	-	19	112

Based on this net position, the Group is not exposed to any significant foreign currency sensitivity from its existing liabilities.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The Group is not materially exposed to any significant interest rate risk.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is not materially exposed to any significant credit risk. All receivables are neither past due nor impaired.

Liquidity risk
Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 20. Financial instruments (continued)

Remaining contractual maturities
The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2017	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,911	-	-	-	2,911
Other payables	-	258	-	-	-	258
Total non-derivatives		3,169	-	-	-	3,169
Other						
Derivatives - Foreign exchange forward contracts	-	21	-	-	-	21
Total derivatives	-	21	-	-	-	21

Consolidated - 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	-	4,396	-	-	-	4,396
Other payables	-	496	-	-	-	496
Deferred consideration	-	2,000	-	-	-	2,000
Total non-derivatives		6,892	-	-	-	6,892

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 21. Fair value measurement

The carrying amounts of trade and other receivables, trade and other payables and other financial assets and liabilities approximate their fair values due to their short-term nature.

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 21. Fair value measurement (continued)

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 22. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2017	2016
	$	$
Short-term employee benefits	709,008	930,194
Post-employment benefits	63,491	57,501
Share-based payment	409,221	-
	1,181,720	987,695

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young Australia, the auditor of the Company:

	Consolidated	
	2017	2016
	$	$
Audit services - Ernst & Young Australia		
Audit or review of the financial report	177,100	295,130
Other services - Ernst & Young Australia		
Tax compliance	-	27,000
Due diligence, assurance and tax services for IPO	-	772,715
	177,100	799,715
	177,100	1,094,845

Note 24. Contingent liabilities

The Group had no contingent liabilities at 30 June 2017 and 30 June 2016.

Note 25. Commitments

	Consolidated 2017 $'000	Consolidated 2016 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	437	393
One to five years	614	1,146
	1,051	1,539

Operating lease commitments includes contracted amounts for various offices and retail showrooms under non-cancellable operating leases expiring within one to four years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The Group had no capital commitments at 30 June 2017 and 30 June 2016.

Note 26. Related party transactions

Parent entity
Temple & Webster Group Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 2017 $	Consolidated 2016 $
Payment for other expenses:		
Payment for services from ArdenPoint Pty Ltd (director-related entity of Conrad Yiu and Mark Coulter)	-	505,000
Payment for services from Heath Investments (Aust) Pty Ltd (director-related entity of Stephen Heath)	-	4,300

The services paid to ArdenPoint Pty Ltd and Heath Investments (Aust) Pty Ltd included consulting, planning and business advisory. The contract with ArdenPoint was cancelled in February 2016 and no further services were provided to the Group afterwards.

Receivable from and payable to related parties
There were no outstanding balances in relation to transactions with related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
Except for the related party balance which was interest free, all transactions were made on normal commercial terms and conditions and at market rates.

Note 27. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2017 $'000	2016 $'000
Loss after income tax	(42,900)	(21,727)
Total comprehensive income	(42,900)	(21,727)

Statement of financial position

	2017 $'000	2016 $'000
Total current assets	27,672	27,672
Total assets	33,712	75,164
Total current liabilities	2,770	2,014
Total liabilities	2,770	2,014
Net assets	30,942	73,150
Equity		
Contributed capital	94,878	94,878
Reserves	792	-
Accumulated losses	(64,728)	(21,727)
Total equity	30,942	73,150

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 33, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Deed of cross guarantee
The parent entity is a party to a deed of cross guarantee (refer to note 30).

Note 28. Business combinations

Temple & Webster Pty Limited
The acquisition of Temple & Webster Pty Limited on 4 December 2015 by the Company was accounted as a common control transaction rather than a business combination (refer to note 16).

Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd)
Temple & Webster Pty Limited acquired 100% of Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd and subsequently to Temple & Webster Services Pty Ltd) on 31 July 2015 for a purchase price of $6,073,000. This business combination was finalised in the previous financial year and remaining consideration due was paid in the current financial year.

Details of the purchase consideration, the fair value of the net liabilities acquired and goodwill were final and determined in the financial year ended 30 June 2016:

	Fair value $'000
Cash and cash equivalents	112
Trade and other receivables	60
Plant and equipment	16
Software and websites	1,562
Trade and other payables	(662)
Deferred tax liability	(469)
Other provisions	(187)
Deferred revenue	(130)
Net assets acquired	302
Goodwill	5,771
Acquisition-date fair value of the total consideration transferred	6,073
Representing:	
Cash paid or payable to vendor	4,073
Deferred consideration (refer to note 13)	2,000
	6,073
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	6,073
Less: cash and cash equivalents	(112)
Less: deferred payment consideration	(2,000)
Net cash used	3,961

Note 28. Business combinations (continued)

Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd
On 4 December 2015, the Company acquired 100% of the issued share capital of the Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd. The purchase price for this acquisition was $17,575,000, which was settled by the issue of 7,306,394 shares in the Company (fair value of $1.10 per share based on IPO share issue price) amounting to $8,037,000 and $9,538,000 in cash. This business combination was finalised in the previous financial year.

Details of the purchase consideration, the fair value of the net liabilities acquired and goodwill were determined in the financial year ended 30 June 2016:

	Fair value $'000
Cash and cash equivalents (net)	(215)
Trade and other receivables	53
Inventories	2,945
Plant and equipment	59
Brands	2,781
Software and websites	462
Customer relationships	338
Trade and other payables	(3,887)
Deferred tax liability (1)	(868)
Lease make good provision	(30)
Other provisions	(112)
Deferred revenue	(614)
Net assets acquired	912
Goodwill (1)	16,663
Acquisition-date fair value of the total consideration transferred	17,575
Representing:	
Cash paid or payable to vendor	9,538
Temple & Webster Group Ltd shares issued to vendor	8,037
	17,575
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	17,575
Add: cash and cash equivalents (net)	215
Less: shares issued by Company as part of consideration	(8,037)
Net cash used	9,753

(1) In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a result, goodwill and deferred tax liability arising on Milan Direct acquisition were increased by $834,000 in the financial year ended 30 June 2016.

Note 28. Business combinations (continued)

Change of Accounting Policy
In the previous financial year, the Directors applied a commonly accepted accounting policy for the determination of deferred taxes on indefinite life intangibles, i.e. on the Milan Direct brand carried at $2,781,000. The Directors considered the Milan Direct brand to be non-depreciable, and accordingly a related deferred tax liability of $834,000 was not recognised on the basis that the deferred tax could be calculated on the assumption of sale rather than use. On identification of divergent practice arising the matter was taken to IFRS Interpretation Committee (IFRIC). IFRIC acknowledged the diversity in practice and in November 2016 IFRIC issued a final agenda decision clarifying that indefinite life assets are subject to consumption by the entity, it is just that the entity cannot reliably predict the time period over which the asset will be consumed. IFRIC therefore concluded that the assumption of sale could not be presumed in calculating the deferred tax on indefinite life intangibles and the normal principles of AASB 112 needed to be applied.

As a consequence, the Directors have amended the accounting policy to comply with the revised guidance. The impact of the restatement is to increase deferred tax liability by $834,000 and to increase goodwill by the same amount recognised on acquisition of Milan Direct. The Group has recognised a deferred tax asset of $834,000 to offset the deferred tax liability. This resulted in additional income tax benefit of $834,000 in the financial year ended 30 June 2016.

Accounting policy for business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 29. Interests in subsidiaries

The consolidated financial statements of the Group include the following subsidiaries :

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
Temple & Webster Pty Ltd	Australia	100.00%	100.00%
Temple & Webster Services Pty Ltd *	Australia	100.00%	100.00%
TPW Group Services Pty Ltd	Australia	100.00%	100.00%
Milan Direct Group Investments Pty Ltd	Australia	100.00%	100.00%
Milan Direct Pty Ltd	Australia	100.00%	100.00%
Milan Direct UK Pty Ltd	United Kingdom / Australia	100.00%	100.00%

* previously known as ZIZO Home Pty Ltd.

The principal continuing activities of the Group consisted of the sale of furniture, homeware, and other lifestyle products.

Note 30. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Temple & Webster Group Ltd (Holding Entity)
Temple & Webster Pty Ltd
Temple & Webster Services Pty Ltd
TPW Group Services Pty Ltd
Milan Direct Group Investments Pty Ltd
Milan Direct Pty Ltd
Milan Direct UK Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the ASIC Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Temple & Webster Group Ltd, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Loss after income tax benefit for the year	(7,765)	(43,583)
Adjustments for:		
Share based payment expense	691	-
Forfeited shares	(100)	-
Depreciation and amortisation	642	476
Impairment of intangibles	-	19,392
Convertible notes interest expense - non-cash	-	4,554
Costs associated with IPO and business combinations	-	5,433
Movements in make good provision	(60)	-
Income tax benefit	(18)	(1,319)
Foreign exchange differences	11	44
Doubtful debts	15	15
Change in operating assets and liabilities:		
Decrease in trade and other receivables	111	2
Decrease in inventories	2,145	728
Decrease/(increase) in other operating assets	167	(911)
Decrease in trade and other payables	(3,472)	(720)
(Decrease)/increase in employee benefits	(7)	365
Increase in other provisions	481	174
Decrease in deferred revenue	(428)	(543)
Net interest received	-	184
Net cash used in operating activities	(7,587)	(15,709)

Note 32. Earnings per share

	Consolidated 2017 $'000	Consolidated 2016 $'000
Loss after income tax attributable to the owners of Temple & Webster Group Ltd	(7,765)	(43,583)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	105,707,717	77,538,213
Weighted average number of ordinary shares used in calculating diluted earnings per share	105,707,717	77,538,213
	Cents	Cents
Basic earnings per share (1)	(7.35)	(56.21)
Diluted earnings per share (1) (2)	(7.35)	(56.21)

(1) In the financial year ended 30 June 2017 the Group amended its accounting policy to comply with IFRS Interpretation Committee guidance in relation to the determination of deferred taxes on indefinite life intangibles. As a consequence, intangibles, deferred tax asset, deferred tax liability and income tax benefit were increased by $834,000 in the financial year ended 30 June 2016. This resulted in both basic and diluted earnings per share increased from (57.28) to (56.21) cents in the financial year ended 30 June 2016 (refer to note 28).
(2) Losses are not dilutive and therefore basic earnings per share is used for diluted earnings per share. There are items which could be dilutive and they have been disclosed in note 18.

Note 32. Earnings per share (continued)

Accounting policy for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Temple & Webster Group Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 33. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting year. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year ended 30 June 2017.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

For presentation purposes, the comparative information presented in these financial statements represent those of T&W from 1 July 2015 and its subsidiary Wayfair Australia Pty Limited (renamed as Zizo Home Pty Limited and subsequently as Temple & Webster Services Pty Ltd, further called 'Zizo') from the date of acquisition on 31 July 2015, and Temple & Webster Group Ltd from the date of its incorporation on 6 October 2015. On completion of the listing of the Group on the ASX the Group acquired Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd (collectively called 'Milan Direct'). The acquisitions of the Milan Direct and Zizo businesses were accounted for as business combinations. The consideration paid was allocated to the identifiable assets and liabilities at the respective acquisition dates.

Historical cost convention
The financial statements have been prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Temple & Webster Group Ltd as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Note 33. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars 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 translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Note 33. Significant accounting policies (continued)

Financial assets are derecognised 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.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Reclassification
Comparative figures in the statement of profit or loss and other comprehensive income have been reclassified to conform to the current year presentation.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 34. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018. The Group uses limited financial instruments and as such assessed the impact of its adoption as not significant.

Note 34. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018. Based on an initial impact assessment, the new standard may delay the recognition of revenue, however the net, year on year impact is not expected to significantly impact on the Group’s financial results.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 ‘Leases’ and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a ‘right-of-use’ asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a ‘right-of-use’ asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019. While leases will come on balance sheet, based on an initial assessment, the net balance sheet result is not expected to impact on the Group’s financial results.

Note 35. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 33 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 30 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Stephen Heath
Chairperson

29 August 2017
Sydney

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Independent Auditor's Report to the Members of Temple & Webster Group Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Temple & Webster Group Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Going Concern

Why significant	How our audit addressed the Key Audit Matter
As disclosed in note 2 to the financial report the Directors concluded that in their opinion despite the business being loss making there are reasonable grounds to believe that the Group has the ability to pay its debts as and when they fall due. The financial report has been prepared on a going concern basis. The going concern assumption is fundamental to the basis of preparation of the financial report. As the Group has not generated a profit since it started operations and given the judgment involved in preparing cash flow forecasts, we consider this matter and the related disclosures to be a Key Audit Matter.	Our audit procedures included the following: - Evaluated the assumptions made in the budget and the cash flow forecasts approved by the Board. - Considered the historical accuracy of the Group's cash flow forecasting by reference to actual results in prior periods compared to Board approved budgets. - Considered the impact of a range of sensitivities to the cash flow model to assess the breakeven position. - Assessed the consistency of the assumptions included in the going concern cash flow model with statements related to future plans and commitments contained in the other information set out in the annual report. - Reviewed the consistency of the forecasts used by the Group in the going concern forecast and in the impairment testing models (discussed in Key Audit Matter #2 below). - Assessed the adequacy of the going concern disclosures.

2. Impairment of goodwill and other intangible assets

Why significant	How our audit addressed the Key Audit Matter
As disclosed in note 9 to the financial report at 30 June 2017 the Group's goodwill and other intangible assets balance is $7.7 million which represents 41% of total assets. The Director's assessment of the recoverable amount of the goodwill and other intangible assets has been identified as a Key Audit Matter as the impairment assessment is complex and judgmental and is based on assumptions relating to the future performance of the Group. The Director's assessed that the cash generating units within the Group changed during the year following the restructure of the business. This resulted in a single cash generating unit at the reporting date.	Our audit procedures included the following: - Assessed whether the methodology used by the Group met the requirements of Australian Accounting Standard - AASB 136 *Impairment of Assets*, including the appropriateness of the identified cash generating unit. - Tested whether the models used were mathematically accurate. - Evaluated the assumptions made in the Board approved budget and the cash flow forecasts. - Considered the historical accuracy of the Group's cash flow forecasting by reference to actual results in prior periods compared to Board approved budgets. - Involved our valuation specialists to assist in the work outlined above where we considered such expertise was required. - Reviewed the consistency of the forecasts used by the Group in the going concern cash flow forecast (discussed in Key Audit Matter #1 above) and in the impairment testing models. - Assessed the adequacy of the disclosures included in the financial report in respect of the carrying value of intangible assets and impairment testing.

3. Revenue recognition

Why significant	How our audit addressed the Key Audit Matter
As disclosed in note 14 to the financial report, revenue is recognised when the significant risks and rewards of ownership of goods sold have passed to the customer and the amount of revenue can be measured reliably. Given the volume of online retail transactions processed on a daily basis and arrangements in place with suppliers, whereby suppliers dispatch goods directly to the Group's customers, the timing of when revenue is recognised is considered to be a Key Audit Matter.	Our audit procedures included the following: - For a sample of revenue transactions during the year, near year end and subsequent to year end we tested whether the revenue was recorded in the appropriate period including testing whether the sale transactions were included as deferred revenue at balance date where applicable. - Considered the impact of customer returns and credit notes issued post balance date, where these related to sales recognised in the 2017 financial year. - Assessed whether the revenue recognition policy applied to the terms and conditions of sale was in accordance with Australian Accounting Standard - AASB 118 *Revenue*. - Considered the adequacy of the revenue recognition policy disclosure contained in note 14.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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 in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Building a better working world

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the Key Audit Matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 19 of the Annual Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Temple & Webster Group Ltd for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Christopher George
Partner
Sydney
29 August 2017

Shareholder Information

The shareholder information set out below is applicable as at 31 July 2017.

Number of Equity Security Holders

The number of holders of Ordinary equity securities was 430.

Distribution of Equity Securities

Analysis of number of equity security holders by size of holding:

Range	Securities	%	No. of holders of ordinary shares	%
100,001 and Over	99,872,576	94.51	51	11.86
10,001 to 100,000	4,855,824	4.60	118	27.44
5,001 to 10,000	542,503	0.51	65	15.12
1,001 to 5,000	311,186	0.29	83	19.30
1 to 1,000	91,636	0.09	113	26.28
Total	105,673,725	100.00	430	100.00

Marketable parcel

The number of holders holding less than a marketable parcel of Ordinary securities was 123.

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

		Ordinary shares	
Name		Number held	% of issued share
Macquarie Corporate Holdings Pty Ltd		15,217,673	14.40
Citicorp Nominees Pty Limited		14,644,992	13.86
HSBC Custody Nominees (Australia) Limited		12,527,395	11.85
Bond Street Custodians Limited	(HTT - V56243 A/C)	8,964,105	8.48
Lolek Raja Pty Ltd	(Ramler)	7,306,394	6.91
Sandhurst Trustees Ltd	(JMFG Consol A/C)	5,637,550	5.33
Hingtai Pty Limited	(Hingtai A/C)	4,911,899	4.65
AP Ecommerce Pty Ltd	(Ardenpoint E Fund Unit A/C)	4,277,828	4.05
Brian Shanahan & Jacqueline Shanahan	(The Shanahan Fam A/C)	3,205,324	3.03
Super Properties Pty Ltd	(The Shayne Smyth A/C)	2,449,000	2.32
Adam Richard McWhinney	(The McWhinney Fam A/C)	2,205,389	2.09
Super Properties P/L	(The Shayne Smyth A/C)	1,676,028	1.59
Jewelcross Proprietary Limited	(Schwartz Children's A/C)	1,643,235	1.56
Perle Ventures Pty Ltd	(PV Investments 3 A/C)	1,225,899	1.16
Perle Ventures Pty Ltd	(877 Cap Investments 2 A/C)	1,213,994	1.15
Wildflower Pty Limited		1,151,000	1.09
PMF Investments Pty Limited		977,000	0.92
Ben Buckler Investments Pty Ltd	(Ben Buckler Investment A/C)	925,000	0.88
Anglo Ports Pty Limited	(Anglo Ports Investment A/C)	916,081	0.87
Ardenpoint Fund 1 Pty Ltd	(APF 2 Unit Trust A/C)	852,458	0.81
Total		91,928,244	87.00
Balance of register		13,745,481	13.00
Grand total		105,673,725	100.00

Securities subject to voluntary escrow

	Number of shares
Ordinary shares subject to voluntary escrow	6,358,553

These shares are escrowed until the date on which the Company's audited full year results for the period ending 30 June 2017 are released to the ASX.

Substantial holders

Substantial holders as disclosed in substantial holding notices given to the Company are:

	Ordinary shares	
	Number held	% of total shares issued
Macquarie Group Limited	15,217,673	14.4%
Kinderhook 2 LP	13,740,229	13.0%
IG Investment Management, Inc	12,308,490	11.6%
Mr Dean J Ramler	7,306,394	6.9%
JM Financial Group Limited and No Plan B Pty Ltd	6,418,482	6.0%
Tackelly Pty Limited as Trustee for Tackelly Trust	5,988,884	5.7%
Super Properties Pty Ltd as Trustee for Shayne Smyth Trust	5,880,810	5.4%

Unquoted equity securities

	Number on issue	Number of holders
Performance rights over ordinary shares	6,986,539	20

Voting rights

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Corporate Directory

Directors	Stephen Heath, chairperson and independent non-executive director Susan Thomas, independent non-executive director Conrad Yiu, non-executive director
Company secretary	Michael Egan
Notice of annual general meeting	The details of the annual general meeting of Temple & Webster Group Ltd are: Wentworth Sofitel Sydney, NSW 2000 Tuesday 25 October at 10:30 am (AEDT)
Registered office / principal place of business	1A/1-7 Unwins Bridge Road St Peters, NSW 2044
Telephone Number	(02) 9698 4548
Share register	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Share registry telephone: 1300 554 474
Auditor	Ernst & Young 200 George Street Sydney, NSW 2000
Solicitors	Norton Rose Fulbright Australia Level 18, Grosvenor Place 225 George Street Sydney, NSW 2000
Bankers	Westpac Retail & Business Banking Level 5 24-32 Lexington Drive Bella Vista, NSW 2153
Stock exchange listing	Temple & Webster Group Ltd shares are listed on the Australian Securities Exchange (ASX code: TPW)
On-market buy-back	There is no current on-market buy-back.
Website	www.templeandwebstergroup.com.au
Business objectives	Please refer to the Directors' report, section 'Review of operations'
Corporate Governance Statement	Refer to the Company's website for all corporate governance information www.templeandwebstergroup.com.au/Home/?page=corporate-governance

TEMPLE & WEBSTER

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