Annual Report 2018

TEMPLE & WEBSTER

Contents

Temple & Webster Group LTD
ABN 69 608 595 660

MAKING THE WORLD MORE BEAUTIFUL

one room at a time

Summary

FY18 Revenue
$72.6M

H2 Revenue
⇧25%

FY18 EBITDA
($0.6M)

H2 EBITDA
$0.3M

June 30 Cash
$9.9M

EBITDA is a non-IFRS measure that, in the opinion of the Directors, is useful in understanding and appraising the Group's performance.

- Temple & Webster is the online market leader in furniture & homewares

- ~$14b total market, less than 4% moved online

- Business is now profitable with top-line growth accelerating and a strong balance sheet

Sources: Euromonitor International Limited; Home Furnishings and Homewares System 2017 edition.
IBISWorld Industry Report OD4176 Online Household Furniture Sales in Australia.

Chairperson's Report

Dear shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the 2018 Annual Report.

TURNAROUND COMPLETE

The 2018 financial year marks the first full year of results under the turnaround strategy communicated at the end of FY16. That plan involved simplifying the business by moving from a multi-brand to a single-brand strategy, with all sales now made through templeandwebster.com.au.

Through this new strategy, the Group delivered full year revenue of $72.6 million, a 12.6% growth rate compared to last year. Importantly, revenue grew 25% in the second half, which was the first like for like period after the implementation of the new strategy. Significant improvements in the Group's cost base and gross margins resulted in a full year EBITDA loss of $0.6 million, a 91% improvement on FY17's EBITDA loss of $6.8 million.

PROFITABILITY REACHED IN THE SECOND HALF

As part of our strategy, we made a commitment to reach profitability during calendar year 2018 and we are pleased to have been able to deliver on that promise with a second half EBITDA result of $0.3 million. This is a sustainable result given it was delivered by a 25% increase in active customers in the half.

The business ended the year with $9.9 million in cash with zero debt, which represents net cash flows of +$1.2 million. These reserves, combined with a now profitable model, has set the business up well for growth in FY19 and beyond.

CEO COMMITMENT

During the year, the board entered into negotiations with Chief Executive Officer, Mark Coulter, in relation to a long-term contact. Mark has agreed to a package structure which is heavily weighted towards equity with a minimum multi-year service condition which the Board will announce upon completion of the contract documentation. Mark and his team and have done an outstanding job in turning the company around and putting in place the platforms for growth, and the Board is pleased that continuity of leadership will be in place for the next phase of the Company.

MARKET FUNDAMENTALS

Temple & Webster operates in the $13.6 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 3.9% of the total market sales are made online (vs 14.2% in the UK and 13.7% in the US). We expect the structural differences between these markets to improve over time as major offline players further enhance and optimise their online experience, mobile and broadband speeds improve, and logistics becomes cheaper and faster.

We are also starting to benefit from demographic changes, as the oldest millennials have now entered 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

We move into the new financial year with a stronger balance sheet and continued revenue growth. The hard work has been done on ensuring our business is efficient and scalable. We are the leader in a market which has significant tailwinds behind it. We reached profitability in the second half of FY18 and ended the year with $9.9 million in the bank and no debt. Our revenue growth accelerated each quarter last year and has continued to accelerate into financial year 2019. Our timeline has always been for financial year 2019 to be the first full year of profit – and we remain confident in this timeline.

On behalf of the directors of the Group, I would like to thank you, our shareholders, for your continued support and contribution. We look forward to continuing to deliver growth in FY19 and beyond.

STEPHEN HEATH
Non-Executive Chairperson

CEO's Report

Dear fellow shareholders,

Two years ago, we promised you that we would reach profitability during calendar year 2018 without having to raise additional capital, and I am proud to say that we achieved this goal. This is an incredibly important milestone as it validates our business model and the strategic choices we have made since listing.

The work performed on resetting the cost base, improving our gross margins and shipping costs, reducing our cost per first time customer and offshoring our customer care and other support staff has now set the business up for profitable growth. Importantly we achieved our breakeven milestone through strong growth in both active customers and revenue in the second half, which gives us confidence to reiterate our commitment for FY19 to be our maiden year of profit.

Our strong growth was across all of our major categories in both our B2C and B2B customer groups. It is the result of a relentless pursuit of our vision to make the world more beautiful, one room at a time. We have strengthened our strategy of having the largest range, combined with the most inspirational content and services, backed up with world class-service and delivery experience.

RANGE

We continue to build out the depth & breadth of our range in our categories ensuring we are a one-stop-shop for the home. All key categories experienced strong year on year growth including furniture, bedding, rugs, lighting and office. We launched the Temple & Webster private label, and we now import hundreds of lines under the Temple & Webster brand. We expanded our private label categories and now feature Home by Temple & Webster and Art by Temple & Webster. Our range improvements, along with how we merchandise and display our products, has led to a 20% increase in conversion rate year on year.

COLOUR BY TEMPLE & WEBSTER

This year saw the launch of our own premium paint range. Colour by Temple & Webster is a premium paint range, designed using the wealth of experience of Temple & Webster's colour experts, backed by the global expertise and knowledge of PPG (owners of the Taubmans brand), to create a collection that combines excellent finish quality with durability. Paint is one of the easiest ways to instantly change the feeling of a space so we have created a versatile range that makes it simple to create a beautiful, long-lasting look, regardless of your skills or experience.

INSPIRATIONAL CONTENT

Temple & Webster continues to set the bar for inspirational content. We partner with some of Australia's leading interior design schools, including the Sydney Design School, our partner for our innovative online education series. We have over 465k followers across our various social channels and our engagement is high. Our imagery and content have been featured in numerous leading publications and we are the go to style expert for the Sunrise morning show. This year we will be moving our studio into a bigger and better space, so that we can do more shoots and create more beautiful content, including adding video to our best sellers.

CUSTOMER SERVICE

During the year we implemented a major process change in our customer care team whereby now our customers have a dedicated customer care agent to help them through the entire contact resolution process. Our customers have enthusiastically embraced the change and we have already seen significant improvements in resolution times and customer satisfaction levels. Next year we will be adding more style experts into our "Style Squad", to provide free advice to help our customers make their homes more beautiful. We will also be a launching a Design Studio, offering a space for our customers to come and talk to us in person for bigger projects like complete rooms or homes.

DELIVERY EXPERIENCE

Our speed of delivery continues to improve with the average time for an order to be dispatched now 2 business days. Our focus continues to be around improving the experience of bulky deliveries and we have now launched a trial of our first delivery van in Melbourne. Our goal with this pilot program is to understand whether we can cost-effectively improve the customer experience around bulky delivery. Keep an eye out for a duck egg blue truck on the streets of Melbourne, quite literally delivering beautiful solutions!

TRADE & COMMERCIAL (B2B)

Our B2B division continues to outperform growing at +50% in the second half year on year. This growth was driven through our focus on our core client groups of developers, aged care providers, interior designers & decorators, serviced apartments and offices. During the first half of FY19 we will be opening a by-appointment showroom for our Trade & Commercial customers in Sydney, allowing them to meet one of our team to discuss their project needs. We continue to be bullish about the opportunities in our B2B division.

VISUAL SEARCH & ARTIFICIAL INTELLIGENCE

This year we were the first Australian furniture and homewares retailer to launch visual search technology, allowing customers to search Temple & Webster's catalogue by simply taking a picture using a mobile phone. Developed with US-based AI experts

CEO's Report (cont.)

GrokStyle, the tool uses deep machine learning technology to recognise products accurately and quickly. By recognising which products are being clicked on the most in the visual search results, the technology refines how it matches items to images, learning which products are most relevant to customers. Buying furniture and homewares is an emotional decision, and as we've always known, imagery is key to tapping into that emotion.

CUSTOMER ACQUISITION MILESTONES

We continue to refine our marketing efforts, and we added more first-time customers at the lowest cost per first-time customer during the 2nd half than ever before. When you combine these metrics with our strong margins and high average order values, our customers are profitable during their first year with the Group. This means that we can now begin to accelerate our marketing spend beyond digital channels to ensure more of Australia is aware of Temple & Webster.

WOMEN'S COMMUNITY SHELTERS PARTNERSHIP

I am proud to announce that Temple & Webster has entered into a partnership with Women's Community Shelters (WCS), the leading sector expert in establishing and running shelters for victims of domestic violence and homelessness in NSW. WCS's mission is to "work with communities to establish new shelters, which provide short term emergency accommodation and support in a safe environment that enables homeless women to rebuild self-esteem and achieve control and fulfilment of their lives." Temple & Webster will be providing furniture & styling services for each new shelter, welcome packs for kids and their mums, and providing help for back office services such as technology and finance. Our vision is to make the world a more beautiful place, and the aim of this partnership is to extend that vision (even a little bit) to those who need it more than most.

WHERE TO FROM HERE

My co-founders and I believe Temple & Webster is in the strongest position that it has ever been. We have best in class marginal economics, a streamlined cost base, growth which is accelerating due to a differentiated customer offering, and a strong balance sheet with no debt.

While we continue to strengthen our core offering, increasingly we will be investing in future growth opportunities. These include launching a mobile app to capitalise on the continued growth of mobile as a primary device, international expansion through a New Zealand pilot, expanding into new categories such as home improvement, and investing further into our B2B Trade & Commercial division.

The next phase of our journey is all about growth, and it is great to see that growth accelerated over the year and has continued to accelerate into FY19.

THANK YOU

Finally, I want to thank the incredible team that are the Tempsters. Their unwavering belief in Temple & Webster is the reason we have been able to achieve so many amazing goals. Their hard work and commitment is humbling, and they are the reason why I am confident that Temple & Webster will continue to deliver value to you, our shareholders, for many years to come.

MARK COULTER
Chief Executive Officer

Financial Report 2018

The Directors of the Temple & Webster Group present the report, together with the consolidated financial report for the year ended 30 June 2018.

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 2018.

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
Susan Thomas
Conrad Yiu

Principal activities
Temple & Webster is Australia's leading online retailer of furniture and homewares.

Temple & Webster has over 125,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model, whereby products are sent directly to customers by suppliers which enables faster delivery times and reduces the need to hold inventory, thereby allowing a larger product range.

The drop ship range is complemented by a private label range which is sourced directly by Temple and Webster from overseas suppliers.

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.

Financial and operational review
Revenue for financial year 2018 was $72,595,000 (2017: $64,481,000) with a net loss after tax of $21,000 (2017: loss of $7,765,000).

Full Year 2018	30/06/2018 $m	30/06/2017 $m
Revenue	72.6	64.5
Gross Margin	32.1	27.5
%	*44.2%*	*42.7%*
Pro Forma EBITDA	(0.6)	(6.8)
Net Loss After Tax	(0.0)	(7.8)
Cash Balance	9.9	8.7

Due to the Milan Direct restructure in December 2016, the comparison between the current and the previous financial year was not a "like-for-like" comparison. The business was comparable on a like for like basis from the second half of financial year 2018. Please see analysis below.

	Half-year ended	
	30/06/2018 $m	30/06/2017 $m
Revenue	38.2	30.5
Gross Margin	16.9	13.2
%	*44.2%*	*43.3%*
Pro Forma EBITDA	0.3	(1.8)
Net Profit/(Loss) After Tax	0.9	(2.4)

Pro Forma EBITDA is a non-IFRS measure that, in the opinion of the Directors, is useful in understanding and appraising the Group's performance. Non-IFRS measures are not reviewed by the auditor. Pro Forma EBITDA comparisons exclude all costs associated with the acquisition and restructuring of Milan Direct and Zizo, interest, tax, depreciation, and amortisation.

At the end of financial year 2016, the Group communicated a goal to reach profitability during calendar year 2018. The Directors are pleased to confirm that this goal was achieved in the second half of financial year 2018 with an EBITDA result of $0.3m.

Key financial and operational metrics for the half-year ended 30 June 2018 include:

- Revenue growth of 25%
- Active customer growth of 25%
- 44% of orders from repeat customers
- Gross margin growth of 28%
- Gross margin % increased from 43% to 44%
- Cost per first time customer fell to $54 (down from $58 in the half year ended 31 December 2017)

Further commentary on the Group’s operations and financial results can be found in the Group’s Results Presentation.

Significant changes in the state of affairs

There were no 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 2018 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 Chairperson’s and the CEO’s reports.

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 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:	184,000

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:	Board Chairperson of Alexium International Group Limited (appointed to Board on 10 December 2017, Chairperson on 8 May 2018), 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, the CEO of Temple & Webster Group Ltd.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Strategic Growth Committee (appointed on 1 February 2018)
Interests in shares:	3,224,160 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 Group's Board of Directors ('the Board') held during the year ended 30 June 2018, 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	6	6	4	4	4	4
Susan Thomas	6	6	4	4	4	4
Conrad Yiu	6	6	-	-	4	4

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 2018. 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 Group 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'), the Chief Financial Officer ('CFO') and the Chief Experience Officer ('CXO'). 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

Executives

Mark Coulter	Chief Executive Officer
Mark Tayler	Chief Financial Officer
Adam McWhinney	Chief Experience Officer (part of key management personnel from 1 July 2017)

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 Group 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 Group.

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 or cash 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

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 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.

Short term incentive

The STI is tied to achievement of business objectives over the short term (12 months).

The STI could be a combination of equity in the Company and/or cash, the make-up of which is determined at the Board's discretion.

STIs are measured on achievement of both financial and non-financial KPIs to create innovation and growth.

STI performance targets are based on Group and Individual KPIs, which are set at the beginning of the performance period and are aligned to business level strategic priorities.

Each participant might need to meet a service condition for STI (performance rights) to vest.

Long term incentive

The 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 performance targets are based on share price hurdles and TSR, which are set at the beginning of the performance period and are aligned to business level strategic priorities.

Each participant might need to meet a service condition for LTI (performance rights) to vest.

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
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 2018:

Remuneration Consultant	Fees
Godfrey Remuneration Group	$48,500
Trak HR Consulting	$2,000

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 was employed on a permanent basis from 1 September 2016. His permanent contract was renewed on 1 September 2017 for a further 12 months.

Under the terms of the current contract, as disclosed to the ASX on 8 September 2017:

- the CEO receives fixed remuneration of $295,000 per annum and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CEO is eligible to participate in the Group's STI in accordance with the rules of the Performance Rights Plan. The number of rights awarded will be a maximum of 1.5 million, based on achieving agreed targets including budget revenue and EBITDA.

Chief Financial Officer (CFO)
Mark Tayler has been employed on a permanent basis since 24 October 2016.

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 (up to the Upper Superannuation Guarantee Limit),
- the CFO may be eligible to participate in the Group's STI plan in accordance with the rules of the Performance Rights Plan,
- the CFO may be eligible to participate in the LTI plan on terms determined by the Board, in accordance with the rules of the Group's Performance Rights Plan.

Details of remuneration (continued)

Chief Experience Officer (CXO)
Adam McWhinney is employed on a permanent basis with the current contract taking effect 1 January 2017.

Under the terms of the current contract:

- the CXO receives fixed remuneration of $220,000 per annum and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CXO may be eligible to participate in the Group's STI plan in accordance with the rules of the Performance Rights Plan,
- the CXO may be eligible to participate in the LTI plan on terms determined by the Board, in accordance with the rules of the Group's Performance Rights Plan.

Other key terms of the executive employment arrangements for the CEO, CFO and CXO 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
Adam McWhinney	No fixed term	2 months	Nil	2 months

Non-executive director remuneration
Non-executive director fees are established relative to the size of the Group 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.

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.

	Fee paid to chair	Fee paid to member
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.

2018	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
	Salary and fees	Cash bonus [1]	Non-monetary	Termination payments	Super-annuation	Long service leave	Performance rights [2]	Total
	$	$	$	$	$	$	$	$
Non-Executive Directors:								
Susan Thomas	82,192	-	-	-	7,808	-	-	90,000
Stephen Heath	109,589	-	-	-	10,411	-	-	120,000
Conrad Yiu [3]	66,009	-	-	-	6,271	-	-	72,280
Other Key Management Personnel:								
Mark Coulter	278,333	-	-	-	20,049	-	458,797	757,179
Mark Tayler	235,000	34,920	-	-	20,049	-	49,635	339,604
Adam McWhinney	220,000	32,284	-	-	20,049	-	136,045	408,378
	991,123	67,204	-	-	84,637	-	644,477	1,787,441

[1] Share-based payment settled in cash.
[2] 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.
[3] Short-term benefits also include Conrad Yiu's remuneration for his role as Chairperson of a Board approved Management Strategic Growth Committee which commenced in February 2018. The agreed fee for chairing this committee is $30,000 per annum including Superannuation.

2017	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments	
	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 previous financial year.

Amounts of remuneration (continued)

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

	Fixed remuneration 2018	Remuneration linked to performance 2018	Fixed remuneration 2017	Remuneration linked to performance 2017
Non-Executive Directors:				
Carol Schwartz [(1)]	-	-	100%	-
Susan Thomas	100%	-	100%	-
Stephen Heath	100%	-	100%	-
Conrad Yiu	100%	-	100%	-
Other Key Management Personnel:				
Mark Coulter	39%	61%	36%	64%
Mark Tayler	75%	25%	88%	12%
Adam McWhinney	59%	41%	-	-

(1) Resigned as KMP during the previous financial year.

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

Name	Cash bonus paid/payable 2018	Cash bonus forfeited 2018	Cash bonus paid/payable 2017	Cash bonus forfeited 2017
Mark Coulter	-	-	-	-
Mark Tayler	14%	-	-	-
Adam McWhinney	13%	-	-	-

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

Details of shares issued to key management personnel during the year ended 30 June 2018 as a result of performance rights vesting are as follows:

Name	Shares issued	Class of shares
Mark Coulter	2,800,000	Ordinary

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 2018 are set out below:

Name	Service period start	Grant date	Vesting date	Number of rights granted	Value of rights granted $	Value of rights vested $	Number of rights Vested	Number of rights lapsed
STI								
Mark Coulter	01/09/2016	01/09/2016	31/08/2017	1,000,000	170,000	170,000	1,000,000	-
Mark Coulter	01/07/2016	01/11/2016	31/08/2017	1,800,000	270,000	270,000	1,800,000	-
Mark Tayler	01/07/2016	01/11/2016	31/08/2018	281,250	42,188	-	-	-
Adam McWhinney	01/07/2016	01/11/2016	31/08/2018	160,089	28,816	-	-	-
Mark Coulter	01/07/2017	01/09/2017	31/08/2018	1,428,775	457,208	-	-	-
Mark Tayler	01/07/2017	31/08/2017	31/08/2019	46,997	34,920	-	-	-
Adam McWhinney	01/07/2017	31/08/2017	31/08/2019	43,449	32,284	-	-	-

Share-based compensation (continued)

Name	Service period start	Grant date	Vesting date	Number of rights granted	Value of rights granted $	Value of rights vested $	Number of rights vested	Number of rights lapsed
LTI								
Mark Tayler	01/11/2016	01/09/2016	30/09/2019	500,000	37,258	13,633	166,667	-
Adam McWhinney	09/12/2015	09/12/2015	31/08/2018	77,955	70,160	46,773	51,970	25,985
Adam McWhinney	09/12/2015	09/12/2015	31/08/2020	818,182	345,273	-	-	-

Share-based compensation paid in cash
Details of share-based payments compensation payable in cash to KMP as part of their compensation during the year ended 30 June 2018 are set out below:

Name	Service period start	Grant date	Vesting date	Cash bonus $
STI				
Mark Tayler	01/07/2017	31/08/2017	30/06/2018	34,920
Adam McWhinney	01/07/2017	31/08/2017	30/06/2018	32,284

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	Balance at the end of the year
Ordinary shares						
Conrad Yiu (1)	2,724,160	-	500,000	-	-	3,224,160
Mark Coulter (2)	2,476,160	2,800,000	-	-	-	5,276,160
Stephen Heath	-	-	184,000	-	-	184,000
Adam McWhinney	2,205,389	-	-	-	-	2,205,389
	7,405,709	2,800,000	684,000	-	-	10,889,709

(1) The balance at the end of the year includes 2,138,914 shares held by AP Ecommerce Pty Ltd, 85,246 shares held by ArdenPoint Fund 1 Pty Ltd (all of which Conrad Yiu has a beneficial interest in) and 1,000,000 shares held by Bariloche Investments Pty Ltd.
(2) The balance at the end of the year includes 2,138,914 shares held by AP Ecommerce Pty Ltd, 85,246 shares held by ArdenPoint Fund 1 Pty Ltd (all of which Mark Coulter had a beneficial interest in), 252,000 shares held by Macpoint Pty Ltd, and 2,800,000 shares held by Mark Coulter directly.

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/ Exercised	Expired/ forfeited/ lapsed	Balance at the end of the year
Performance rights over ordinary shares					
Mark Coulter	2,800,000	1,428,775	(2,800,000)	-	1,428,775
Mark Tayler (1)	781,250	46,997	(166,667)	-	661,580
Adam McWhinney (1)	1,056,226	43,449	(51,970)	(25,985)	1,021,720
	4,637,476	1,519,221	(3,018,637)	(25,985)	3,112,075

(1) Performance rights vested during the financial year ended 30 June 2018 as per the vesting conditions of the performance rights plan. Shares were not issued as at 30 June 2018.

This concludes the remuneration report, which has been audited.

Shares issued on the exercise of performance rights

During the financial year, employees and executives have exercised performance rights to acquire 3,007,500 fully paid ordinary shares in Temple & Webster Group Ltd (refer to note 16).

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 during the financial year are outlined in note 21 to the financial statements. No non-audit services were provided by the auditor during the current and previous financial year.

The directors are of the opinion that the services as disclosed in note 21 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
21 August 2018

Building a better
working world

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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 2018, 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
21 August 2018

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue			
Sales revenue		72,595	64,481
Cost of goods sold		(40,478)	(36,982)
Gross margin		32,117	27,499
Net foreign exchange gain/(loss)		59	(146)
Interest income		98	252
Expenses			
Distribution		(9,568)	(9,711)
Merchant Fees		(984)	(1,080)
Marketing		(8,135)	(8,160)
Employee benefits	4	(11,623)	(12,364)
Depreciation and amortisation	4	(242)	(643)
Finance costs	4	(3)	(2)
Other	4	(2,422)	(3,428)
Loss before income tax benefit		(703)	(7,783)
Income tax benefit	5	682	18
Loss after income tax benefit for the year attributable to the owners of Temple & Webster Group Ltd		(21)	(7,765)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		-	11
Other comprehensive income for the year, net of tax		-	11
Total comprehensive income for the year attributable to the owners of Temple & Webster Group Ltd		(21)	(7,754)
		Cents	**Cents**
Basic earnings per share	29	(0.02)	(7.35)
Diluted earnings per share	29	(0.02)	(7.35)

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 2018

	Note	Consolidated 2018 $'000	Consolidated 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	6	9,933	8,728
Trade and other receivables		30	5
Inventories	7	2,218	1,385
Other	8	1,123	815
Total current assets		13,304	10,933
Non-current assets			
Property, plant and equipment		187	227
Intangibles	9	7,516	7,659
Other		34	51
Deferred tax assets	5	682	-
Total non-current assets		8,419	7,937
Total assets		21,723	18,870
Liabilities			
Current liabilities			
Trade and other payables	10	7,177	5,535
Employee benefits	11	491	425
Provisions	12	1,029	1,092
Deferred revenue	13	1,936	1,565
Other	18	-	21
Total current liabilities		10,633	8,638
Non-current liabilities			
Employee benefits		208	123
Provisions		60	60
Total non-current liabilities		268	183
Total liabilities		10,901	8,821
Net assets		10,822	10,049
Equity			
Contributed capital	14	76,566	76,566
Reserves	15	1,586	792
Accumulated losses		(67,330)	(67,309)
Total equity		10,822	10,049

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 2018

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 15)	-	11	-	11
Total comprehensive income for the year	-	11	(7,765)	(7,754)
Share-based payments (note 16)	-	691	-	691
Shares forfeited (note 14)	(100)	-	-	(100)
Balance at 30 June 2017	76,566	792	(67,309)	10,049

Consolidated	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	76,566	792	(67,309)	10,049
Loss after income tax benefit for the year	-	-	(21)	(21)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(21)	(21)
Share-based payments (note 16)	-	794	-	794
Balance at 30 June 2018	76,566	1,586	(67,330)	10,822

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 2018

	Note	Consolidated 2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		80,238	70,613
Payments to suppliers and employees (inclusive of GST)		(79,063)	(78,450)
		1,175	(7,837)
Interest received		98	252
Interest and other finance costs paid		(3)	(2)
Net cash from/(used in) operating activities	28	1,270	(7,587)
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired		-	(2,000)
Payments for property, plant and equipment		(65)	(112)
Payments for intangibles	9	-	(20)
Proceeds from disposal of property, plant and equipment		-	10
Net cash used in investing activities		(65)	(2,122)
Cash flows from financing activities			
Net cash from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		1,205	(9,709)
Cash and cash equivalents at the beginning of the financial year		8,728	18,437
Cash and cash equivalents at the end of the financial year	6	9,933	8,728

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

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 21 August 2018. 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.

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 amount of the cash-generating unit has been determined based on value-in-use calculations. This calculation requires the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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, or a fixed percentage of remuneration as determined by the Performance Rights Plan. 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 provision
In determining the level of the 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.

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 2018 $'000	Consolidated 2017 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	99	162
Total depreciation	99	162
Amortisation		
Software and websites	59	260
Development costs	-	136
Customer relationships	84	85
Total amortisation	143	481
Total depreciation and amortisation	242	643
Other expenses		
Hosting and other IT	675	933
Consulting	506	609
Rent, occupancy and property insurance (1)	527	610
Business and other insurance (1)	295	262
Travelling expenses	145	156
Employee benefits paid on termination (2)	-	298
Onerous lease (2)	-	167
Other	274	393
Total other expenses	2,422	3,428

(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". To conform to the current year presentation, Business and other insurance of $262,000 was reclassified from Rent, occupancy and property insurance to Business and other insurance in the comparatives in the current financial report.

(2) Costs in the financial year ended 30 June 2017 resulted from the consolidation of the Milan Direct and Temple & Webster websites (refer to note 9).

Note 4. Expenses (continued)

	Consolidated 2018 $'000	Consolidated 2017 $'000
Finance costs		
Other interest and finance charges	3	2
Finance costs expensed	3	2
Employee benefits expense		
Employee benefits expense excluding superannuation	9,883	10,790
Cash-settled share-based payment expense (refer to note 16)	175	-
Equity-settled share-based payment expense (refer to note 16)	794	691
Superannuation contribution expense	771	883
Total employee benefits expense	11,623	12,364

Accounting for finance costs
Finance costs are expensed in the period in which they are incurred.

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 2018 $'000	Consolidated 2017 $'000
Income tax benefit		
Deferred tax - origination and reversal of temporary differences	682	18
Income tax benefit reported in the statement of profit or loss	682	18
Reconciliation of income tax benefit and the accounting loss at the statutory tax rate		
Accounting loss before income tax benefit	**(703)**	**(7,783)**
Income tax benefit at the statutory tax rate of 30%	(211)	(2,335)
Adjustments in respect of current income tax of previous years	(225)	(68)
Non-deductible expenses for tax purposes	257	184
Current tax losses not recognised	179	2,201
Temporary differences recognised	(682)	-
Income tax benefit reported in the statement of profit or loss	**(682)**	**(18)**

Note 5. Income tax benefit (continued)

Deferred tax
Deferred tax asset recognised comprises temporary differences attributable to:

	Consolidated	
	2018 $'000	2017 $'000
Deductible capital raising costs	457	500
Provisions for returns, refunds, inventory and bad debtors	385	-
Employee benefits	271	-
Deferred revenue	160	-
Accrued expenses	83	-
Intangibles	(651)	(500)
Foreign exchange	(18)	-
Prepayments	(5)	-
	682	-

Deferred tax asset not recognised comprises temporary differences attributable to:

	Consolidated	
	2018 $'000	2017 $'000
Deductible capital raising costs	-	197
Provisions for returns, refunds, inventory and bad debtors	-	430
Employee benefits	-	185
Deferred revenue	-	153
Accrued expenses	-	42
Foreign exchange	-	15
	-	1,022

Deferred tax assets have been recognised to the extent the Group has estimated it will be probable that future taxable amounts will be available to utilise those temporary differences.

The below potential tax benefit resulting from accumulated tax losses has not been recognised in the statement of financial position as the recovery of this benefit is uncertain. 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.

	Consolidated	
	2018 $'000	2017 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	49,398	48,803
Potential tax benefit @ 30%	14,820	14,641

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:

Note 5. Income tax benefit (continued)

(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.

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	
	2018	2017
	$'000	$'000
Cash at bank	2,728	4,046
Cash on deposit	7,205	4,682
	9,933	8,728

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	
	2018	2017
	$'000	$'000
Stock in transit	555	290
Stock on hand	1,807	1,305
Less: Provision for impairment	(144)	(210)
	1,663	1,095
	2,218	1,385

Note 7. Current assets - inventories (continued)

Inventory that was recognised as an expense in profit or loss amounted to $40,478,000 (2017: $36,982,000) for the year ended 30 June 2018.

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 selling costs necessary to make the sale.

Note 8. Current assets - other

	Consolidated	
	2018 $'000	2017 $'000
Prepayments	1,003	714
Security deposits	120	101
	1,123	815

Note 9. Non-current assets - intangibles

	Consolidated	
	2018 $'000	2017 $'000
Goodwill - at cost	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	1,926	1,926
Less: Accumulated amortisation	(370)	(311)
Less: Accumulated Impairment	(1,474)	(1,474)
	82	141
Customer relationships - at cost	338	338
Less: Accumulated amortisation	(217)	(133)
	121	205
	7,516	7,659

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

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 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
Additions	-	-	-	-	-	-
Amortisation expense	-	-	(59)	-	(84)	(143)
Balance at 30 June 2018	4,532	2,781	82	-	121	7,516

Impairment testing
For impairment testing, goodwill and brands acquired through business combinations are allocated to the Temple and Webster CGU ('TPW') and amounted to $7,313,000 in the current and previous financial year. The Group performed its annual impairment test in June 2018 and 2017. The recoverable amount of the TPW CGU has been determined based on a value-in-use calculation, using a discounted cash flow model, based on a five-year projection period including the budget approved by the board for the financial year ended 30 June 2019. The key assumptions used to determine the value-in-use of the TPW CGU 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 TWP CGU 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 2018. The key assumptions are those to which the recoverable amount of an asset or CGU is most sensitive.

The following key assumptions were used in the value-in-use calculation for the TPW CGU:

a) 15.5% pre-tax discount rate (15.8% in the previous financial year),
b) revenue growth in year 1 as per the next financial year budget approved by the board (consistent approach with the previous financial year),
c) revenue growth in years 2 to 5 calculated based on the combination of the historical growth rates over the past 3 years as well as external industry data (consistent approach with the previous financial year),
d) 4% terminal growth rate in the current and the previous financial year.

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.

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 2018.

In the previous financial year, the Group consolidated the Milan Direct and Temple & Webster retail websites. As part of the consolidation, the Milan Direct office in Melbourne was closed, key personnel were relocated to Sydney, the Milan Direct Showroom was rebranded to Temple & Webster Outlet and the commercial division was integrated into the Temple and Webster operations. Consequently, Milan Direct became solely dependent on Temple & Webster and was 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 changed its CGU determination, resulting in one CGU being identified, TPW, which includes the Milan Direct brand. No further changes to the CGU structure have been made in the current financial year.

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	
	2018 $'000	2017 $'000
Trade payables	4,354	2,911
Accrued payables	1,773	1,783
Employee related payables	454	532
Cash-settled share-based payments	175	-
On-costs on share-based payments	86	51
Other payables	335	258
	7,177	5,535

Note 10. Current liabilities - trade and other payables (continued)

Refer to note 18 for further information on financial instruments and note 16 on share-based payments.

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	
	2018 $'000	2017 $'000
Annual leave	491	425

Accounting policy for employee benefits

Employee benefits

Annual leave
Liabilities for annual leave are calculated based on remuneration rates the Group expects to pay 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	
	2018 $'000	2017 $'000
Lease make good	24	30
Refunds and replacements	1,005	940
Restructuring	-	122
	1,029	1,092

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 refunds provision represents the value of goods expected to be returned by customers as a result of ‘change of mind’ or defective goods receipted by customers. The replacement provision represents the value of goods expected to be replaced by the Group as a result of defective goods receipted by customers. The provisions are estimated based on historical data using the percentage of actual refunds and replacements against sales revenue and cost of goods sold.

Note 12. Current liabilities - provisions (continued)

Restructuring
The provision represented 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 are set out below:

Consolidated	Restructuring $'000	Lease make good $'000	Refunds and replacements $'000
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
Additional provisions recognised	-	-	6,533
Amounts used	(122)	(6)	(5,548)
Unused amounts reversed	-	-	(920)
Carrying amount at 30 June 2018	-	24	1,005

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 revenue

	Consolidated 2018 $'000	Consolidated 2017 $'000
Deferred revenue	1,936	1,565

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

	Deferred revenue $'000
Carrying amount at 1 July 2016	1,993
Additional provisions recognised	64,053
Amounts used	(64,481)
Carrying amount at 30 June 2017	1,565
Additional provisions recognised	72,966
Amounts used	(72,595)
Carrying amount at 30 June 2018	1,936

Note 13. Current liabilities – deferred revenue (continued)

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, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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 in accordance with the terms and conditions of sale. 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.

Shipping revenue & purchase protection
Shipping revenue is earned from the shipment of goods to customers. Purchase protection, which includes freight protection and refund guarantee, is optional and can be purchased by customers together with goods. The Group recognises the revenue from shipping revenue and purchase protection when the obligation to the customer, in line with the terms and conditions of sale, is fulfilled. The revenue is measured net of returns, allowances and discounts and is deferred when a customer has paid upfront, i.e. before the goods are shipped.

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 14. Equity - contributed capital

	Consolidated			
	2018 Shares	2017 Shares	2018 $'000	2017 $'000
Ordinary shares - fully paid	108,681,225	105,673,725	76,566	76,566

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 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
Shares issued to employees under STI scheme	29 August 2017	2,800,000	$0.00	-
Shares issued to employees under STI scheme	9 May 2018	157,500	$0.00	-
Shares issued to employees under LTI scheme	9 May 2018	50,000	$0.00	-
Balance	30 June 2018	108,681,225		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.

Note 14. Equity - contributed capital (continued)

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 or issue new shares.

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 2018 and 30 June 2017.

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 2018 and 30 June 2017.

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 15. Equity - reserves

	Consolidated	
	2018 $'000	2017 $'000
Share-based payments reserve	1,586	792
	1,586	792

Accounting policy for reserves

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 to other parties as part of their compensation for services.

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.

Note 15. Equity – reserves (continued)

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 2016	(11)	101	90
Foreign currency translation	11	-	11
Share-based payments	-	691	691
Balance at 30 June 2017	-	792	792
Share-based payments	-	794	794
Balance at 30 June 2018	-	1,586	1,586

Note 16. 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 are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. LTI performance targets are based on share price hurdles, which are set at the beginning of the performance period and are aligned to business level strategic priorities. Each participant might need to meet a service condition for LTI (performance rights) to vest.

Set out below are summaries of performance rights granted under the LTI plans as at 30 June 2018:

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Vested/ Exercised	Expired/ forfeited/ lapsed	Balance at the end of the year
9/12/2015	31/08/2020	$0.00	818,182	-	-	-	818,182
9/12/2015	31/08/2018	$0.00	77,955	-	(51,970)	(25,985)	-
01/11/2016[1]	30/09/2019	$0.00	2,050,000	-	(683,333)	(100,000)	1,266,687
			2,946,137	-	(735,303)	(125,985)	2,084,849

[1] Performance rights vested during the financial year ended 30 June 2018 as per the vesting conditions of the performance rights plan. Shares were not issued as at 30 June 2018.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.7 years.

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

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Vested/ exercised	Expired/ forfeited/ lapsed	Balance at the end of the year
9/12/2015	31/08/2020	$0.00	818,182	-	-	-	818,182
9/12/2015	31/08/2018	$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 previous financial year was 3 years.

Note 16. Share-based payments (continued)

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

Grant date	Vesting date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
9/12/2015	31/08/2020	$0.90	$0.00	50.00%	-	2.12%	$0.432
9/12/2015	31/08/2018	$0.90	$0.00	34.75%	-	2.12%	$0.900
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 Nomination and Remuneration 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 are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. STI performance targets are based on Group and Individual KPIs, which are set at the beginning of the performance period and are aligned to business level strategic priorities. Each participant might need to meet the service condition for STI (performance rights) to vest.

Set out below are summaries of performance rights granted under the STI plan as at 30 June 2018:

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Vested/ exercised	Expired/ forfeited/ lapsed	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	1,240,402	-	(157,500)	-	1,082,902	$0.160
01/09/2017	31/08/2018	$0.00	-	1,428,775	-	-	1,428,775	$0.320
31/08/2017	31/08/2019	$0.00	-	235,964	-	-	235,964	$0.740
			4,040,402	1,664,739	(2,957,500)	-	2,747,641	-

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

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Vested/ exercised	Expired/ forfeited/ lapsed	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	-

Cash-settled share-based payments of $175,000 were granted under the STI Plan on 1 September 2017 and vested on 30 June 2018 (none in the previous financial year).

Accounting policy for share-based payments

Equity-settled transactions
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. 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, or a fixed percentage of remuneration as determined by the Performance Rights Plan.

Note 16. Share-based payments (continued)

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.

Cash-settled transactions
A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (refer to note 4). The fair value is expensed over the period until the vesting date with recognition of a corresponding liability and is determined as a percentage of the fixed remuneration.

Note 17. Equity - dividends

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

Note 18. 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.

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.

Note 18. Financial instruments (continued)

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

Consolidated	Assets 2018 $'000	Assets 2017 $'000	Liabilities 2018 $'000	Liabilities 2017 $'000
US dollars	-	-	95	19
	-	-	95	19

Based on this 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.

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 - 2018	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	-	4,354	-	-	-	4,354
Other payables	-	335	-	-	-	335
Total non-derivatives		4,689	-	-	-	4,689
Other						
Derivatives - Foreign exchange forward contracts	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-

Note 18. Financial instruments (continued)

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

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

Note 19. Fair value measurement

The carrying amounts of trade and other receivables, trade and other payables and other financial 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.

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 20. Key management personnel disclosures

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

	Consolidated 2018 $	Consolidated 2017 $
Short-term employee benefits	1,058,327	709,008
Post-employment benefits	84,637	63,491
Share-based payment	644,477	409,221
	1,787,441	1,181,720

Note 21. 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 Group:

	Consolidated	
	2018	2017
	$	$
Audit services - Ernst & Young Australia		
Audit or review of the financial report	175,100	177,100
	175,100	177,100

Note 22. Contingent liabilities

The Group had no contingent liabilities at 30 June 2018 and 30 June 2017.

Note 23. Commitments

	Consolidated	
	2018	2017
	$'000	$'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	394	437
One to five years	455	614
	849	1,051

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 2018 and 30 June 2017.

Note 24. Related party transactions

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

Subsidiaries
Interests in subsidiaries are set out in note 26.

Key management personnel
Disclosures relating to key management personnel are set out in note 20 and the remuneration report included in the directors' report.

Transactions with related parties
No transactions with related parties other than key management personnel occurred in the current and previous financial year.

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.

Note 25. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2018 $'000	2017 $'000
Loss after income tax	(1,599)	(42,900)
Total comprehensive income	(1,599)	(42,900)

Statement of financial position

	2018 $'000	2017 $'000
Total current assets	27,672	27,672
Total assets	33,712	33,712
Total current liabilities	3,575	2,770
Total liabilities	3,575	2,770
Net assets	30,137	30,942
Equity		
Contributed capital	94,878	94,878
Reserves	1,586	792
Accumulated losses	(66,327)	(64,728)
Total equity	30,137	30,942

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 2018 and 30 June 2017.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 30, 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 27).

Note 26. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
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	Australia	100.00%	100.00%

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

Note 27. 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 28. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 2018 $'000	Consolidated 2017 $'000
Loss after income tax benefit for the year	(21)	(7,765)
Adjustments for:		
Share based payment expense	794	691
Forfeited shares	-	(100)
Depreciation and amortisation	242	642
Movements in make good provision	6	(60)
Income tax benefit	(682)	(18)
Foreign exchange differences	-	11
Doubtful debts	-	15
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(25)	111
(Increase)/decrease in inventories	(833)	2,145
(Increase)/decrease in other operating assets	(291)	167
Increase/(decrease) in trade and other payables	1,621	(3,472)
Increase/(decrease) in employee benefits	151	(7)
(Decrease)/increase in other provisions	(63)	481
Increase/(decrease) in deferred revenue	371	(428)
Net cash used in operating activities	1,270	(7,587)

Note 29. Earnings per share

	Consolidated 2018 $'000	Consolidated 2017 $'000
Loss after income tax attributable to the owners of Temple & Webster Group Ltd	(21)	(7,765)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	108,051,252	105,707,717
Weighted average number of ordinary shares used in calculating diluted earnings per share	108,051,252	105,707,717
	Cents	**Cents**
Basic earnings per share	(0.02)	(7.35)
Diluted earnings per share (1)	(0.02)	(7.35)

(1) 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 16.

Note 29. 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 30. 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 2018.

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').

The consolidated financial statements provide comparative information in respect of the previous period.

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 25.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Temple & Webster Group Ltd as at 30 June 2018 and the results of all subsidiaries for the year then ended.

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.

Note 30. Significant accounting policies (continued)

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.

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.

Note 30. Significant accounting policies (continued)

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.

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 31. 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 2018. 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
In December 2014, the AASB issued the final version of AASB 9 Financial Instruments that replaces AASB 139 Financial Instruments: Recognition and Measurement and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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'). With regard to the measurement of financial liabilities designated as at fair value through profit or loss, in accordance with AASB 9, the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. 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 plans to adopt the new standard from 1 July 2018 and will not restate comparative information. During the current financial year, the Group has performed an impact assessment of all three aspects of AASB9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the next financial year. Overall, the Group expects no significant impact on its statement of financial position and equity.

AASB 15 Revenue from Contracts with Customers
AASB 15 was issued in December 2014, and amended in May 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under Australian Accounting Standards. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early

adoption is permitted. During the previous financial year, the Group performed a preliminary assessment of AASB 15, which continued with a more detailed analysis completed in the current financial year.

Contracts with customers and performance obligations
The Group sells furniture and homewares online to both end consumers and commercial customers. Each sale represents a separate identified contract with a customer for which generally three performance obligations are expected: sales of goods, shipping revenue and purchase protection revenue. The Group expects that for sales of goods and shipping the revenue will be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. This will result in more revenue being deferred than under current Australian Accounting Standards. AASB 15 requires purchase protection to be recognised over time. Given its short-term nature (30 days) this treatment is not expected to have a material impact on the Group's financial statements.

Transaction price
In accordance with AASB 15, when a performance obligation is satisfied the Group will recognise revenue to the extent of the transaction price allocated to that performance obligation taking into account the impact of constraints arising from variable consideration. Currently, some contracts with customers provide a right of return or trade discounts. Such provisions might give rise to variable consideration under AASB 15 and will be required to be estimated at contract inception and updated thereafter.

Right of return
When a contract with a customer provides a right to return the good within a specified period, under the current Group's accounting policy, a provision for the amount of revenue related to the expected returns is recognised in the statement of financial position. Currently no corresponding adjustment is made to cost of sales for the right to recover products from customers on settling the refund liability. The estimated calculation for refunds will not change under AASB 15 but an additional asset for the right to recover products from customers will be disclosed separately in the statement of financial position. This will also reduce cost of goods sold for the same amount. Based on the Group's assessment, had the right of return been recognised in the current financial year it would have increased equity by less than $300,000

Advances received from customers – gift cards / store credits
Under the current accounting policy upfront payments received for gift cards are recognised as revenue only when the future performance to which they relate occurs. Initially all payments are recognised in the statement of financial position as deferred revenue. As a result, revenue from the sale of a gift card is accounted for when the Group supplies the goods upon exercise of the gift card. No specific models are provided for recognising breakage. Store credits are treated in a similar way with the difference that no cash is received from customers when they are issued. Under AASB 15, when a customer purchases a gift card, it is pre-paying for goods or services to be delivered in the future. The Group has an obligation to transfer, or stand ready to transfer, the goods or services in the future – creating a performance obligation. The Group should recognise a contract liability for the prepayment and derecognise the liability (and recognise revenue) when it fulfils the performance obligation. This approach would not impact materially the current treatment for gift cards and store credits. AASB 15 requires expected breakage (i.e. the customer's unexercised right) to be estimated and recognised as revenue in proportion to the pattern of rights exercised by the customer. The Group's assessment, including the estimate for breakage, indicates that this will not have a material impact on the Group's financial statements.

Advances received from customers – other
Generally, the Group receives only short-term advances from its customers. Under the current accounting policy, the Group presents such advances as deferred revenue. No interest is accrued given its short term nature. The Group does not receive material long term advances. Under AASB 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group decided to use the practical expedient provided in AASB 15 and will not adjust the promised amount of consideration for the effects of a significant financing components in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Therefore, for short-term advances, the Group will not account for a financing component even if it is significant. The Group's assessment indicates that the requirements of AASB 15 will not have a material impact on the Group's financial statements.

Presentation and disclosure requirements
The presentation and disclosure requirements in AASB 15 are more detailed than under current Australian Accounting Standards. Many of the disclosure requirements in AASB 15 are new. These requirements relate to the next year financial statements and the Group is yet to perform a detailed analysis of the AASB 15 requirements. The Group expects that the notes to the financial statements will be expanded because of the requirements for the disclosure of significant judgements to be made, i.e. when determining the transaction price of those contracts that include variable consideration, how the transaction

Note 31. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as required by AASB 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors if material.

Method of adoption and estimated impact
The Group plans to adopt AASB 15 on the required effective date using the modified retrospective method. As a result, the comparative prior periods in the next year financial statements will not be adjusted and the Group will recognise the cumulative effect of initial application in equity at the start of the initial application period. Based on an impact assessment, the Group has estimated that equity will be decreased by less than $100,000 on 1 July 2018.

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 (refer to note 23 for details on lease commitments).

Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 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 30 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 2018 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 27 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

21 August 2018
Sydney

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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 2018, 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 2018 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. 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 2018 the Group's goodwill and other intangible assets balance is $7.5 million which represents 35%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.	Our audit procedures included the following: - Assessing whether the methodology used by the Group met the requirements of Australian Accounting Standards, including the appropriateness of the identified cash generating unit; - Testing whether the models used were mathematically accurate; - Evaluating the assumptions made in the Board approved budget and the cash flow forecasts, including the growth rates and the discount rates; - Considering the historical accuracy of the Group's cash flow forecasting by reference to actual results compared to Board approved budgets; - Involving our valuation specialists to assist in evaluating significant assumptions; and, - Assessing the adequacy of the disclosures included in the financial report in respect of the carrying value of intangible assets and impairment testing.

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2. Revenue recognition

Why significant	How our audit addressed the key audit matter
As disclosed in note 13 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. Due to 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: - Testing the operating effectiveness of controls over the capture and measurement of revenue transactions; - For a sample of revenue transactions during the year, near year-end and subsequent to year-end, testing whether the revenue was recorded in the appropriate period including testing whether the sale transactions were appropriately included as deferred revenue at balance date; - Considering whether customer returns and credit notes issued post balance date that related to sales recognised in the 2018 financial year were recorded in the proper period; - Assessing whether the revenue recognition policy applied to the terms and conditions of sale was in accordance with Australian Accounting Standards; and, - Considering the adequacy of the revenue recognition policy disclosure contained in note 13.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 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, with the exception of the Remuneration Report and our related assurance opinion.

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.

- 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 18 of the Annual Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Temple & Webster Group Ltd for the year ended 30 June 2018, 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

Christopher George
Partner
Sydney
21 August 2018

Shareholder Information

The shareholder information set out below is applicable as at 27 July 2018.

Number of Equity Security Holders

The number of holders of Ordinary equity securities was 410.
The number of holders of unquoted performance rights was 19.

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.

Performance rights
Holders of Performance Rights do not have any voting rights.

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	103,764,262	95.47	50	12.19
10,001 to 100,000	4,114,958	3.79	107	26.10
5,001 to 10,000	442,432	0.41	55	13.41
1,001 to 5,000	266,192	0.24	81	19.76
1 to 1,000	93,381	0.09	117	28.54
Total	108,681,225	100.00	410	100.00

Distribution of unquoted equity securities

Analysis of number of unquoted performance rights holders by size of holding:

Range	Securities	%	No. of holders of ordinary shares	%
100,001 and Over	4,519,632	93.53	8	42.11
10,001 to 100,000	312,858	6.47	11	57.89
5,001 to 10,000	-	-	-	-
1,001 to 5,000	-	-	-	-
1 to 1,000	-	-	-	-
Total	4,832,490	100.00	19	100.00

Substantial holders

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

	Ordinary shares held	% of issued shares
Kinderhook 2 LP	20,040,229	18.44
Macquarie Group Limited	15,217,673	14.00
IG Investment Management, Inc	8,308,490	7.64
Hingtai Pty Limited	8,007,836	7.37
Mr Dean J Ramler	7,306,394	6.72
Tackelly Pty Limited as Trustee for Tackelly Trust	5,988,884	5.51
Super Properties Pty Ltd as Trustee for Shayne Smyth Trust	5,880,810	5.41

Marketable parcel

The number of holders holding less than a marketable parcel of Ordinary securities was 17.

Shareholder Information
continued

Twenty largest quoted equity security holders

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

Name		Ordinary Shares held	% of issued shares
Citicorp Nominees Pty Limited		27,187,757	25.02
Macquarie Corporate Holdings Pty Ltd		15,217,673	14.00
Bond Street Custodians Limited	(HTT - V56243 A/C)	9,047,796	8.32
Hingtai Pty Limited	(Hingtai A/C)	8,330,699	7.67
Lolek Raja Pty Ltd	(Ramler)	6,400,000	5.89
HSBC Custody Nominees (Australia) Limited		6,349,755	5.84
AP Ecommerce Pty Ltd	(Ardenpoint E Fund Unit A/C)	4,277,828	3.94
Sandhurst Trustees Ltd	(JMFG Consol A/C)	3,409,305	3.14
Brian Shanahan & Jacqueline Shanahan	(The Shanahan Fam A/C)	3,205,324	2.95
Mark Coulter		2,800,000	2.58
Adam Richard McWhinney	(The McWhinney Fam A/C)	2,205,389	2.03
Jewelcross Proprietary Limited	(Schwartz Children's A/C)	1,643,235	1.51
J P Morgan Nominees Australia Limited		1,640,026	1.51
Bariloche Investments Pty Limited	(Conrad Yiu Family A/C)	1,000,000	0.92
Wildflower Pty Limited		1,000,000	0.92
Anglo Ports Pty Limited	(Anglo Ports Investment A/C)	916,081	0.84
Ardenpoint Fund 1 Pty Ltd	(APF 2 Unit Trust A/C)	852,458	0.78
The Shanahan Family Trust	(The Shanahan Family A/C)	669,130	0.62
Eva Xiradis		502,808	0.46
Ben Buckler Investments Pty Ltd	(Ben Buckler Investment A/C)	425,000	0.39
Total		97,080,264	89.33
Balance of register		11,600,961	10.67
Grand total		108,681,225	100.00

Securities subject to voluntary escrow

	Number of shares
Shares escrowed until 27 April 2019	103,750
Shares escrowed until 29 August 2019	2,800,000
Total Ordinary shares subject to voluntary escrow	2,903,750

On-market buy-back

There is no current on-market buy-back.

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
Registered office / principal place of business	1A/1-7 Unwins Bridge Road St Peters, NSW 2044
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
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)
Website	www.templeandwebstergroup.com.au
Corporate Governance Statement	Refer to the Company's website for all corporate governance information www.templeandwebstergroup.com.au/Home/?page=corporate-governance

TEMPLE & WEBSTER