2019 ANNUAL REPORT

Baby Bunting

the one stop baby shop

Baby Bunting Group Limited
ABN 58 128 533 693

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The 2019 Baby Bunting Annual Report reflects Baby Bunting's performance for the 53 week period from 25 June 2018 to 30 June 2019.

The Baby Bunting Group Limited Annual Report is available online at babybuntingcorporate.com.au/reports. Hard copies can be obtained by contacting the Company's share registry.

Notice of 2019 Annual General Meeting
10.00am (Sydney time)
Tuesday, 8 October 2019
Level 11, 5 Martin Place
Sydney NSW 2000

Baby Bunting Group Limited
ABN 58 128 533 693

Baby Bunting's vision is to be the most loved baby retailer for every family, everywhere.

CELEBRATING 40 YEARS

Baby Bunting was founded in 1979 as a family business and has grown to be Australia's largest speciality retailer of baby goods with 53 stores nation-wide. It's been a pleasure to support Australian families in the early years of parenthood for 40 years!

1979

Baby Bunting was founded in 1979 by Arnold and Gail Nadelman, who had a desire to provide parents with great products, great service and great advice. The first store was in Camberwell, Melbourne

2002

Baby Bunting opened its first superstore in Bentleigh East

2008

The Baby Bunting online store was established

6 Baby Bunting stores, including a store at Thomastown supporting parents in the northern suburbs of Melbourne

2008–10

Baby Bunting stores opened in South Australia, New South Wales and the ACT

2 stores in Adelaide
First store in New South Wales at Moore Park, Sydney and first store in Canberra at Fyshwick

12 Baby Bunting stores

2011

Baby Bunting begins supporting parents in Queensland from the new store at Helensvale and in Western Australia at Myaree

New Store Support Office and Distribution Centre opens at Dandenong South, Victoria

15 Baby Bunting stores

2015

Baby Bunting opens its first regional stores at Ballarat and Bendigo in Victoria

33 Baby Bunting stores

Baby Bunting listed on the Australian Securities Exchange

2018

50th store and the first Tasmanian store opens in Hobart

First shopping centre format store opens at Chadstone, Melbourne in Australia's largest shopping centre

Over 1,000 Team Members around Australia

2019

Celebrates 40 years since its establishment

53 Baby Bunting stores, including 5 regional stores

Over 1,250 Team members around Australia

CHAIRMAN AND CEO'S REPORT

We are very proud of what the team at Baby Bunting has achieved.

The year saw Baby Bunting truly establish itself as the go to destination for baby goods in Australia. We started the 2019 financial year in unsettled trading times. There was a number of competitor closures in the prior year and in the early part of this year, which had an adverse effect on Baby Bunting's sales and gross margin performance in 2018. In response, the management team focussed on a number of actions to grow market share and build profitability, including:

- continued focus on customer service;
- capitalising on available market share opportunities;
- securing prime sites for our store network;
- stabilising gross margin without compromising value;
- driving our private label and exclusive product expansion program; and
- investing in people and systems to support growth.

With great discipline, the team achieved what it needed to do. At the end of the year we have seen strong market share growth and a recovery in gross margin back to levels that support Baby Bunting's ongoing strategy. Our Net Promoter Score (NPS) finished the year around 75, which shows we have strong customer advocates for the business.

FY2019 financial results overview

The 2019 financial year was a 53 week trading period. Baby Bunting achieved some strong financial results for the year.

In FY2019:

- total sales were $368.0 million, up 20.9% on the prior year;
- gross profit increased 27.3% on the prior period to $128.4 million; and
- statutory net profit after tax was $12.4 million, up 43.3% on the prior period and the Company finished the year with net cash of $2.7 million.

Presented on a 52 week basis (to enable comparisons with prior 52 week trading periods) and excluding some significant one-off project and acquisition related expenses and the non-cash impact of employee equity incentive expenses:

- pro forma sales of $362.3 million, up 19.0% on the prior corresponding period;
- total transactions were up 16.6% and comparable store sales transactions were up 6.4%;
- comparable store sales were 8.7% up on the prior corresponding period;
- pro forma gross profit as a percentage of sales increased 190 basis points to 35.0%;
- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) were $27.1 million, up 45.9% on the prior corresponding period. Pro forma EBITDA margin increased 140 basis points to 7.5%; and
- pro forma net profit after tax (NPAT) was $15.1 million, up 58.2% on the prior corresponding period.

A reconciliation between the statutory and pro forma financial results is set out in Section 2.5 on pages 33 to 34 of the Directors' Report.

Dividends

The Board has approved a final dividend of 5.1 cents per share fully franked. Together with the interim dividend of 3.3 cents per share, the total dividend payment for the year is 8.4 cents per share. This is equivalent to approximately 70% of the Company's FY2019 pro forma NPAT.

Operational highlights

The year's financial results came about through the focussed execution of the Company's strategy combined with operational excellence. During the year there were a number of highlights.

Store network growth

There are now 53 Baby Bunting stores throughout Australia. We opened stores at Toowoomba (Qld), Chatswood (NSW), Hobart (Tas), Chadstone (Vic), Bankstown (NSW) and Shellharbour (NSW). We also relocated our Cannington (WA) store to a more prominent location within the Cannington catchment.

With the addition of the Toowoomba store, there are now 5 regional stores in the Baby Bunting store network with more planned for the years ahead.

We now have three store models to ensure that we can best service the customer in particular catchments. In addition to our large format store and our regional format store, we have developed a shopping centre format, with our store at Chadstone Shopping Centre being our first store of this type. Chadstone is Australia's premier retail destination and our Chadstone store is a 1,500 square metre store with all the service attributes of our large format destination stores. It has dedicated car seat fitting bays, a dedicated parcel pick up area, as well as parenting amenities within the store. Since opening, we have obtained insights into the design and operation of a shopping centre format store and we have plans to deploy the format into other shopping centres as appropriate opportunities arise. Our next shopping centre store at Westfield Doncaster (Vic) is expected to open later in 2019.

EBITDA margin improvement

We continue to target EBITDA margin improvement. Pro forma EBITDA margin for the year was 7.5%, an improvement of 140 basis points on the prior corresponding period.

There were a number of factors driving this performance.

Pro forma gross profit percentage was 35.0% an improvement of 190 basis points on the prior year. This was achieved without compromising the focus on value for the customer.

Sales of private label and exclusive products across the year were at 27.6% of total sales, an increase of 56.5% on the prior year and we are well on our way of achieving our long term target of 50% of sales. This highlight reflects the work our merchandise team continues to undertake with our supplier partners to deliver exclusive products for our customers throughout our store network and online.

Considerable progress was made during the year to achieve efficiencies in the supply chain, through increasing the volumes of inventory coming direct to Baby Bunting from source and also expanding capacity in our Dandenong South Distribution Centre and third party logistics (3PL) distribution centres. Supply chain investments will continue to be a focus in the periods ahead as we seek to extract value from the flow of products from source through to store shelves, which will support ongoing margin improvement.

Investments in digital providing growth

Digital remains a very important part of Baby Bunting's business with total online sales growing 46%, including click and collect sales growing 55% on the prior financial year. Online sales represented 11.8% of total sales. The trends observed in the past continue with online sales in relevant catchments consistently increasing following the opening of a Baby Bunting store in that catchment. The growth in the store network complements the growth in online sales.

The 2019 financial year has been another big year for investments in digital and this will be an area where we continue to focus our efforts as a driver of market share growth.

Our website re-platform project was a key project during the year. The new e-commerce platform and website was initiated in July 2019 and work continues on establishing and optimising the platform. It is part of our efforts to deliver engaging content and experiences for our customers at every stage of their journey as parents or parents-to-be.

Other developments during the year include:

- continuing our investments in digital marketing and increasing our utilisation of marketing automation and Customer Relationship Management (CRM) technologies. We have appointed a new digital marketing specialist as well as a loyalty manager to continue to optimise our engagement with customers;
- commissioning the first of our store-based online fulfilment hubs. We have a plan to leverage stores to facilitate fulfilment of online metro orders throughout Australia to support our long term target of being able to fulfil 90% of online metro orders with a same day delivery service. The Tasmanian online fulfilment hub commenced in July 2019.

We also commenced work on a significant project to improve our merchandise and planning and forecasting systems in the final quarter of the financial year. We expect this project will continue through the 2020 financial year and into the 2021 financial year. Once implemented this project will transform the manner in which we forecast, plan merchandise and replenish our stores. This is expected to deliver significant benefits for the business.

Building the best Team

We have undertaken a significant investment in our Team to develop our leaders at the store and area management level. We have also invested in additional in-store technology and communications systems to facilitate a better customer experience and sales process. This kind of investment continues to improve the customer experience and our Net Promoter Score (NPS) finished the year at around 75. This is just one measure and we remain focussed on ensuring that we have a well-trained and knowledgeable team to provide great service and advice to our customers.

Growing our services offer – Baby On Board

Baby Bunting has for a number of years provided car seat installation services to our customers. Historically, this service has been provided through various third party businesses around Australia. In the last quarter of the year, Baby Bunting acquired the car seat installation businesses of some of our partners in Victoria, New South Wales, Queensland and South Australia. Our national car seat installation service has been consolidated under a single brand – Baby On Board – which we commenced promoting in July 2019. This single brand strategy has enabled us to take a consistent approach to child car seat safety throughout Australia. We have adopted installation principles intended to enhance child safety in cars. For example, we believe infants should be in rear-facing child restraints for as long as possible and our installers will not install a child restraint in forward facing mode until the child is over 12 months old.

Our strategy for car seat installations has been supported by additional investments to improve the way car seat installation bookings are made, through initiating an online booking system providing greater convenience to our customers and more accurate information about the availability of car seat fitting appointments throughout our store network.

The investment in the installation service business also lays the platform for Baby Bunting to enter into the nursery hire market with a focus initially on the hiring out of car seat and baby capsules. We expect this business to grow organically and it will further differentiate us from others in the market, in particular those online only retailers who are unable to facilitate this complete service offering.

The Board

During the year, Gary Kent joined the Board as a Non-executive Director and a member of the Audit and Risk Committee. Gary has brought strong retail, financial and operational experience to the Board and complements the existing skills and experience that is represented on the Board.

In considering its composition during the year, the Board reflected on the gender diversity among its members. As a result, the Board has adopted a new measurable objective to have the Board comprise 50% of women and 50% of men by 2025. Currently, one third of the Board comprises women. The Board intends to work towards this objective over the coming years as it manages director succession.

40 years young

In July 2019, Baby Bunting celebrated its 40th birthday. From a business started by Arnold and Gail Nadelman in a single store in the Melbourne suburb of Camberwell, Baby Bunting has grown to be Australia's leading specialist baby goods retailer with a network of over 50 stores throughout Australia and a leading online store. With the Company's listing on ASX in October 2015, growth has accelerated with twenty new Baby Bunting stores added since that time.

The baby goods market has changed a lot since 1979. Retailing has evolved and has been transformed by the introduction of technology and online shopping. The choice of products available to parents and parents-to-be has expanded dramatically and there has been considerable improvements in nursery product safety standards.

The Australian baby goods market has always been competitive with a variety of retailers operating throughout Australia. Today consumers can choose from traditional speciality retailers, department stores and discount department stores and the newer online players and marketplaces.

From the start, Baby Bunting has worked hard to help new and expectant parents during the early years of parenthood. This is a purpose that we remain committed to today.

Each year the number of Baby Bunting Team Members has increased as we expand our store network to reach more parents and parents-to-be throughout Australia. We would like to thank our more than 1,250 Team Members for their commitment and efforts during the year. It is through our combined efforts that we believe we will make Baby Bunting the most loved baby retailer for every family, everywhere.

Ian Cornell

Ian Cornell
Chairman

Matt Spencer

Matt Spencer
CEO and
Managing Director

We are very proud of what the Team has achieved in our 40th year of supporting new and expectant parents

OUR STRATEGY

Our core purpose is to support new and expectant parents during the early years of parenthood. We seek to have that guide everything we do at Baby Bunting. Our strategy is intended to help us fulfil that purpose today and tomorrow.

Our strategy continues to be to grow market share through concentrating on four key elements.

Investing in digital to deliver the best possible customer experience across all channels

Our investments in this area aim to engage and retain the customer through the customer journey and lifecycle. We have been making specific investments in this area in our new website and e-commerce platform, marketing automation and customer insights. A priority in the year ahead will be investing in our loyalty strategy.

We have a long term target of same day online fulfilment for major metro markets, leveraging our store network. Investments in store fulfilment hubs were made in the 2019 financial year and will continue to be rolled out in FY20 and beyond.

To provide even greater choice to our customers, we are exploring endless aisle opportunities enabling customers the ability to shop from a range of products online and beyond the range held in-store.

Investments to grow sales from existing stores

We are focussed on delivering a leading service offering supported by well-trained team members with great product knowledge. We continually target improving our systems and processes to enable operational evolution with savings reinvested back into customer service. Expanding our services offer and related businesses is a key elements in our investments to grow sales from existing stores. The expansion of our car seat installation business – Baby on Board – is a key part of this.

Growth from new markets

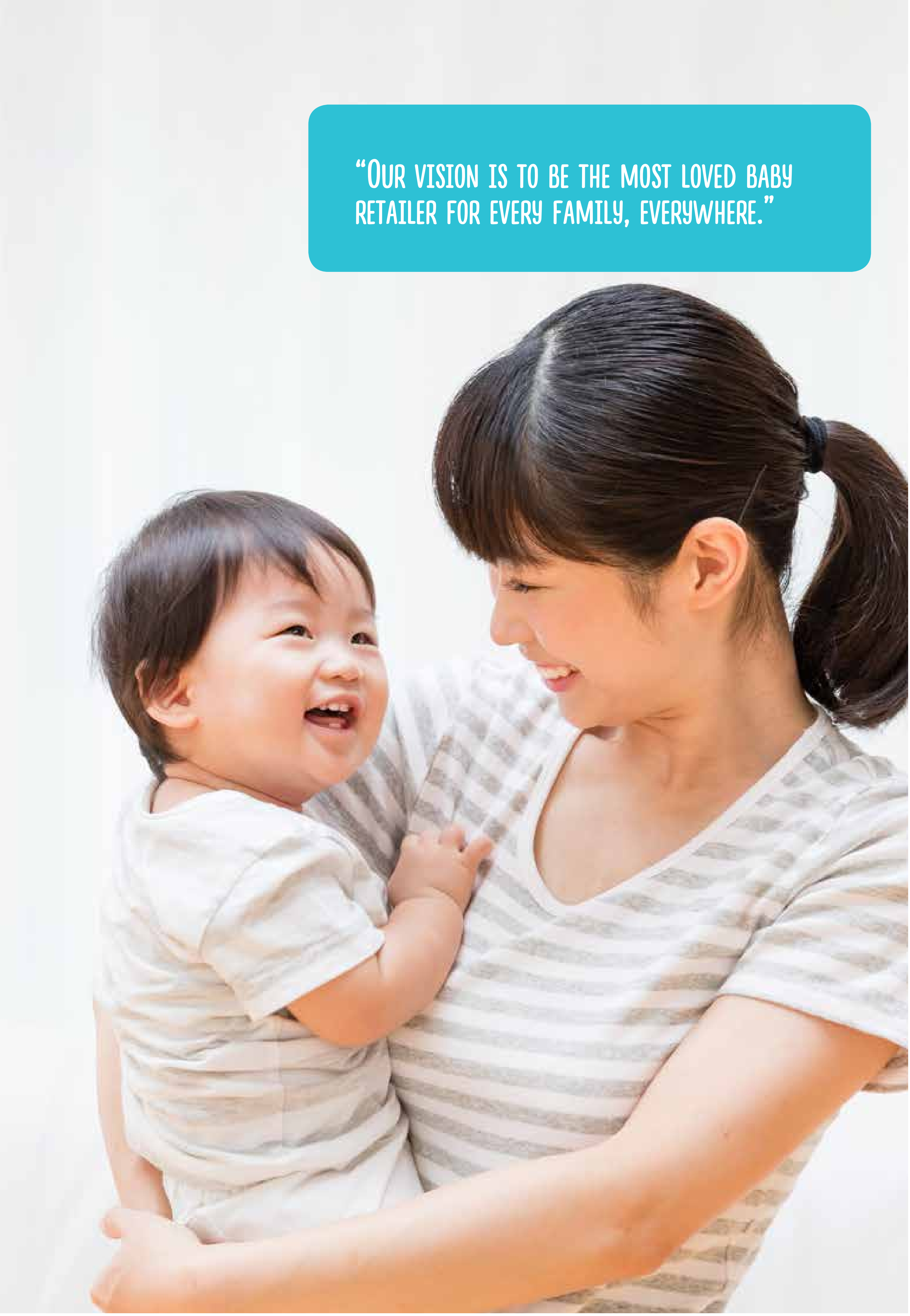
Baby Bunting is looking to continue to grow its network of stores to over 80 stores throughout Australia. Baby Bunting aims to open between four and eight new stores a year and at 53 stores presently, there remains considerable scope to grow from new markets.

We intend to continue with our major market large store format and the variation deployed in regional store markets. This will be complemented by the shopping centre format that has recently been developed.

Achieving EBITDA margin improvement

EBITDA margin improvement continues to be a priority for the Company. This will be pursued through gross margin expansion by increases in scale, supply chain improvements, improved sourcing and the expansion of our private label and exclusive products offering (where we have a target of 50% of total sales).

We are also pursuing cost of doing business leverage through scale as well as improvements in procurement arrangements and processes.



"Our vision is to be the most loved baby retailer for every family, everywhere."

OUR STATS

In the 2019 financial year, Baby Bunting experienced improved growth momentum after the challenging trading conditions in the prior financial year. Baby Bunting achieved substantial growth in sales and market share. Comparable store sales grew at 8.7%, which is above our long term historical average of 6.2%. Online sales continued to grow and now represent 11.8% of sales, an increase of 46%.

Pro forma gross margin percentage improved significantly over the prior year finishing up 190 basis points to be 35.0%. All up, it was a strong year and we are well-placed to continue to build on this financial performance.

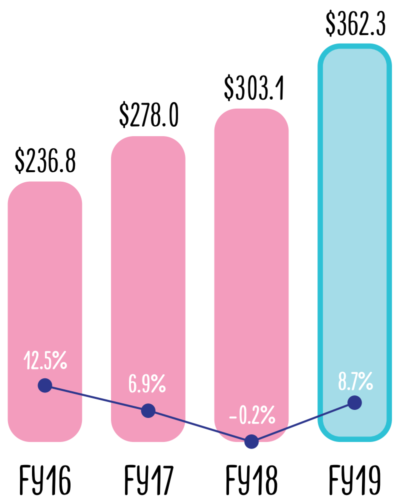
PRO FORMA SALES OF $362.3M UP 19.0%

COMPARABLE STORE SALES GROWTH 8.7%

PRO FORMA NPAT $15.1M, UP 58.2%

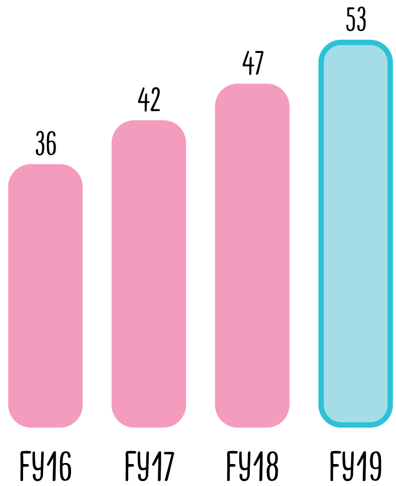
Pro Forma Sales ($M)

Comparable store sales growth (%)



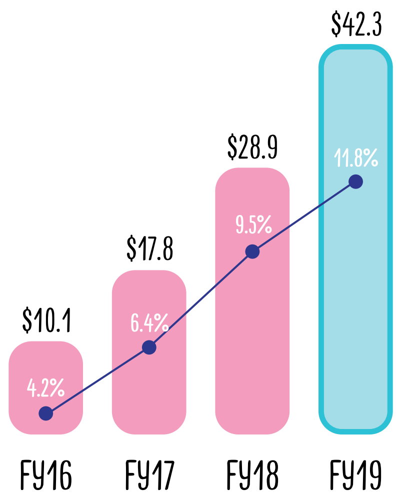
Stores

Number of stores at year end



Pro Forma Online Sales ($M)

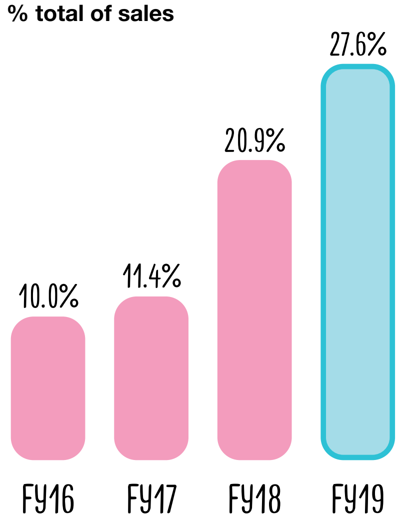
% total of sales



FY19 results are presented on a pro forma basis. Refer to section 2.5 of the Directors' Report for a reconciliation to statutory results. In respect of pro forma sales, the results of week 53 in FY19 have been excluded to enable a comparison to prior 52 week periods.

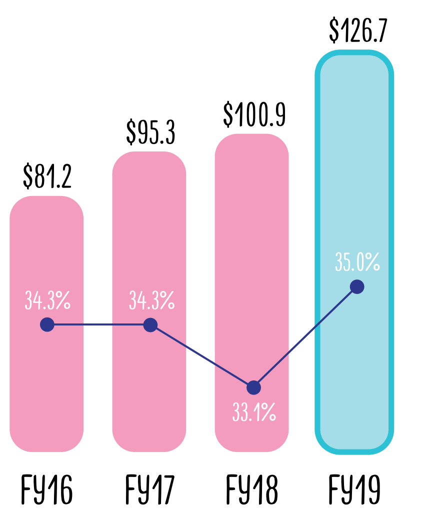
Private label & exclusive products

% total of sales

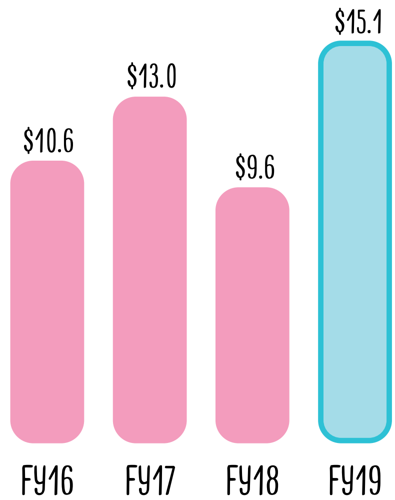


Pro Forma Gross Profit ($M)

gross margin (%)



Pro Forma NPAT ($M)



OUR STORES

Our stores are at the heart of enabling us to help new and expectant parents in the early years of parenthood.

Apart from enabling parents to touch and feel products, our store network provides a platform to provide our expanding range of services including car seat installation services and same day fulfilment. Our store network complements our online offering, with online sales in catchments where we have a store consistently increasing following the establishment of a Baby Bunting store in that area.

During the year, we opened 6 new stores at Toowoomba (Qld), Chatswood (NSW), Hobart (Tas), Chadstone (Vic), Bankstown (NSW) and Shellharbour (NSW). We also relocated our Cannington (WA) store to a more prominent location within the Cannington catchment.

We continue to target between four and eight new stores each year.

WA

Baldivis
Cannington
Joondalup
Midland
Myaree
Osborne Park

SA

Gepps Cross
Melrose Park
Mile End
Munno Para

Our stores are at the heart of enabling us to help new and expectant parents in the early years of parenthood. With 53 stores today, we have a plan to open more than 80 stores around Australia to expand the areas where we have an opportunity to meet, serve and advise parents and parents-to-be.

QLD

Aspley
Booval
Browns Plains
Burleigh Waters
Capalaba
Fortitude Valley
Helensvale
Kawana
Macgregor
North Lakes
Toowoomba
Townsville

NSW/ACT

Albury
Auburn
Belrose
Bankstown
Blacktown
Campbelltown
Camperdown
Chatswood
Fyshwick (ACT)
Moore Park
Penrith
Rutherford
Shellharbour
Taren Point
Warners Bay
West Gosford

VIC

Ballarat
Bendigo
Chadstone
East Bentleigh
Frankston
Geelong
Hawthorn
Hoppers Crossing
Maribyrnong
Narre Warren
Preston
Ringwood
Taylors Lakes
Thomastown

TAS

Hobart

OUR SERVICES

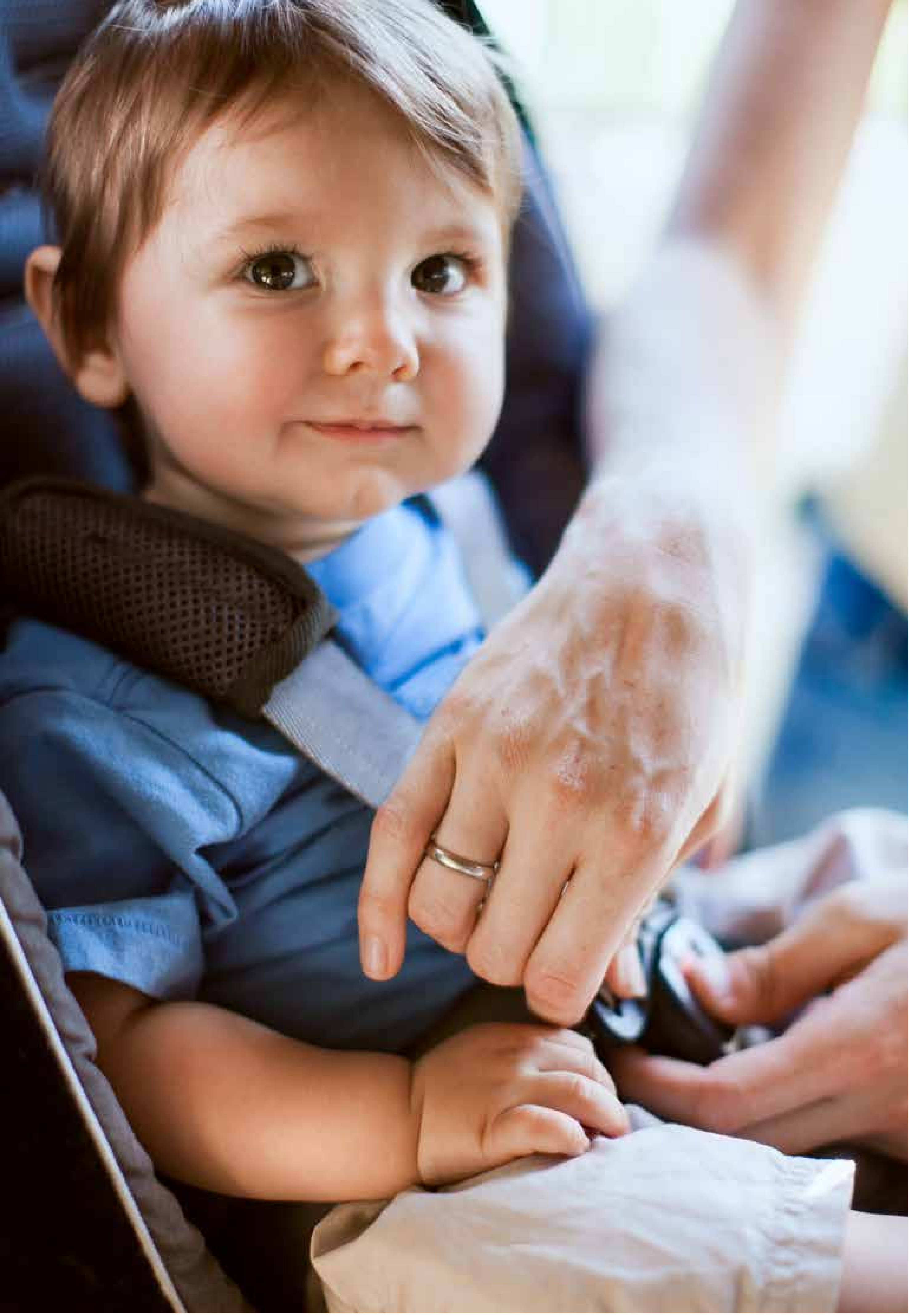
Baby Bunting took some key steps during the year to expand the services we have available for our customers in store. We have consolidated a number of separate car seat installer businesses that were operating for Baby Bunting around Australia under the Baby on Board brand. We have plans to expand the services available for parents and parents-to-be, initially around car seats, to provide even more ways to support them in the early years of parenthood.

For a number of years, Baby Bunting has provided car seat installation services to our customers. During the year, Baby Bunting brought together the car seat installation businesses of some of our partners in Victoria, New South Wales, Queensland and South Australia under a single brand. Our Baby On Board team consists of accredited car seat installers working at our stores. We have made investments to expand our car seat installer coverage across our store network – including into Tasmania and Western Australia. We have also made more fitting times available to ensure parents can conveniently have their child's car seat restraint fitted correctly to assist in keeping children safe when travelling in cars.

We have around 30 installers working across our store network with plans to expand this number.

To provide even more convenience, our online car seat appointment booking service commenced in July 2019 and will make it even easier for parents to book an appointment at a time and a store that is convenient for them.

The next stage of our services strategy is car seat and capsule hire. This service will provide parents with a choice of hiring a car seat or capsule appropriate for their child's age and stage of development. It will also provide short term hire for parents travelling interstate or when families come to visit from overseas.



OUR BOARD

Details of the qualifications, experience and special responsibilities of each current director are as follows:

IAN CORNELL

Chairman, Non-executive Director
FAIM, FAHRI

Member of the Remuneration and Nomination Committee
Member of the Audit and Risk Committee (from 16 July 2018)

Ian has extensive experience in the retailing and property industries in Australia. He most recently held senior executive corporate roles with the Westfield Group until 2012, including responsibility for all HR functions and the overall management of retail relations of the Group.

Prior to joining Westfield, Ian had a 23 year career with Woolworths. His roles included Chief General Manager of Woolworths' Supermarket division and as a key member of the management team that implemented successful growth strategies such as "The Fresh Food People" and the establishment of the Dan Murphy's chain.

Ian has also been Chairman and CEO of Franklins.

Ian is currently a non-executive director of Myer Holdings Limited (appointed in February 2014).

MATT SPENCER

CEO and Managing Director
B.Bus

Matt joined Baby Bunting as CEO and Managing Director in February 2012 (he was appointed as a Director of the Company on 23 April 2012).

Prior to Baby Bunting, Matt was General Manager Retail – Australia, New Zealand and the UK at Kathmandu from 2007 to 2012 where he was responsible for over 110 stores, including network planning, store design and store development.

Matt's previous roles include Operations, Strategy and Development Manager of Coles Express as well as various management roles at Shell Australia. He was a key contributor to the establishment and roll-out of the Coles Express brand.

GARY LEVIN

Non-executive Director
B.Comm, LLB, MAICD

Chairman of the Audit and Risk Committee

Gary has over 30 years' management, executive and non-executive experience in public and private companies including in the retail, investment and property industries.

Gary was previously the founder and managing director of TLC Dry Cleaners Pty Limited and joint managing director of Rabbit Photo Holdings Limited.

He was a non-executive director of JB Hi-Fi Limited from November 2000 until October 2016.

MELANIE WILSON

Non-executive Director
MBA, B.Comm (Hons), GAICD

Chairman of the Remuneration and Nomination Committee
Member of the Audit and Risk Committee

Melanie has more than 15 years' retail experience in senior management roles. Her appointments included Limited Brands (Victoria's Secret, Bath & Bodyworks – New York), Starwood Hotels (New York), Woolworths and Diva/Lovisa and have covered a wide spectrum of retail including store operations, merchandise systems, online e-commerce, marketing, brand development and logistics/fulfilment. In her most recent position, Melanie was Head of Online at BIG W.

Prior to her retail experience, Melanie performed roles at Bain and Company (Boston) and Goldman Sachs (Hong Kong and Sydney).

Melanie has an MBA from the Harvard Business School and is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of iSelect Limited (appointed in April 2016), Shaver Shop Group Limited (appointed in June 2016) and EML Payments Limited (appointed in February 2018).

DONNA PLAYER

Non-executive Director
BA, GAICD

Member of the Remuneration and Nomination Committee

Donna has over 35 years' experience in retail, marketing and product development gained in both retail and wholesale industries. Currently, Director of Merchandise for Camilla Australia. In the four years to May 2016, Donna was the Group Executive of Merchandise for Fashion, Beauty, Footwear, Accessories and Home for David Jones. Prior to her role at David Jones, Donna was General Manager, Merchandise and Planning for BIG W.

During her career, Donna has had executive responsibilities for merchandise, planning, branding, sourcing and supplier strategies.

Donna holds a Bachelor of Arts from the University of NSW and is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of Accent Group Limited (appointed in November 2017).

GARY KENT

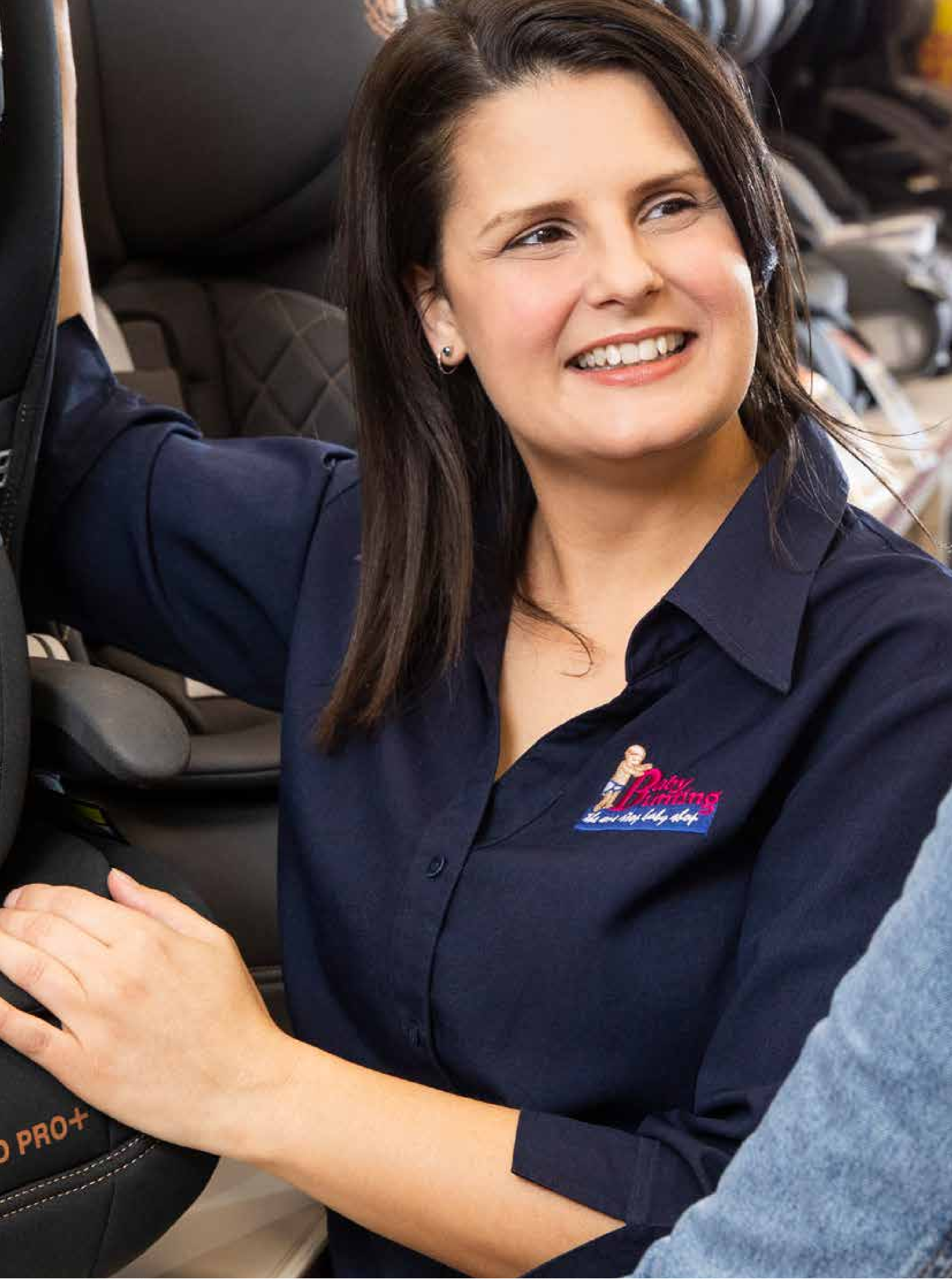
Non-executive Director
BEc, GAICD

Member of the Audit and Risk Committee

Gary was appointed as a Non-executive Director during the year.

Gary has an extensive background in the retail and services sector, with considerable experience in corporate finance transactions. He had a career of 18 years with Coles Myer and the Coles Group, during which time his roles included Chief Financial Officer of the Coles Group and Group General Manager for Finance at Kmart and Myer. More recently, Gary has served as the Chief Executive Officer of the Western Bulldogs AFL club, where he has also served as a non-executive director and as chair of the club's audit and risk committee.

Gary holds an economics degree, is a chartered accountant and a graduate of the Harvard advanced management program.


Baby Bunting
the one stop baby shop
PRO+

OUR VALUES

From humble beginnings with a single store in suburban Camberwell, Baby Bunting now employs more than 1,250 people across its 53 national superstores and 10,000sqm warehouse in Melbourne.

We pride ourselves on providing our customers with excellence in service, expert advice, a range of great quality products, and value.

Being Passionate	be passionate about providing our customers with great products and services, advice and value every day
Being Considerate	be considerate and respectful of others and think about how our decisions and actions impact others
Being Honest	act with integrity and use good judgement
Being Positive	be positive and enjoy doing the things that contribute to a great team spirit
Being Focussed	think big, but get on with doing the small things that make a big difference
Being Bold	never be afraid to evolve – encourage a culture of adventure and creativity

OUR PEOPLE AND OUR COMMUNITY

People

Safety

We want our Team to come to work safe and go home safe at the end of the day. A constant focus is safety at work and on having all of our Team Members follow safe work practices. All Team Members have a responsibility for contributing to their own safety and the safety of those around them. A number of initiatives were undertaken during the year to minimise injuries to Team Members and ensure they return to work (on the same or modified duties) as soon as practicable.

Training and opportunities

Building the best Team is a key goal at Baby Bunting – not only to ensure that our customers are provided with great service and advice, but to ensure that all Team Members enjoy and are satisfied with what they do at Baby Bunting.

During the year we have undertaken a significant investment in our Team to improve leadership at the store and area management level. We have also invested in additional in-store technology and communications systems to facilitate an easier customer experience and sales process.

Considerable time is spent on training our team on new products in courses developed and deployed by Baby Bunting's Learning and Development Team.

In terms of providing opportunities for growth and development for our Team, a priority for us is promoting from among our existing Team where appropriate opportunities arise. During the year, around 50% of key opportunities that arose were filled by internal candidates.

Employee Share Plan

For the fourth year in a row, offers of Baby Bunting shares were made under the Company's General Employee Share Plan. This plan provides employees with an opportunity to acquire Baby Bunting shares at no cash cost so that they can participate in the benefits of share ownership. At the end of the year, around 42% of Baby Bunting Team Members are shareholders.

Diversity

Baby Bunting has a Diversity Policy. The Policy sets out Baby Bunting's commitment to recognising the importance of diversity and inclusion for its business. The policy recognises that diversity not only includes gender diversity but also includes matters of age, ethnicity, religion, cultural background, physical ability or sexual orientation. Other matters address in the policy include a commitment to diversifying sources of recruitment and merit-based appointments, as well as recognition that Baby Bunting will not tolerate unlawful discrimination, bullying, harassment or victimisation.

During the year the Board adopted new measurable objectives for gender diversity (details are included in the Corporate Governance Statement on page 22).

Community

Life's Little Treasures Foundation

Baby Bunting continues to be a Major Partner for the Life's Little Treasures Foundation. Life's Little Treasures Foundation provides support to parents and families of premature babies to assist them during what can be an uncertain and emotional journey. Life's Little Treasures Foundation has grown into Australia's leading charity dedicated to supporting premature babies and their families. Each year in Australia, over 48,000 babies are admitted into neonatal intensive and special care units.

Baby Bunting will continue as a presenting partner for the Life's Little Treasures Foundation annual "Walk for Prems" event. During 2018, Baby Bunting raised and contributed just under $100,000 for this event. This year, the walk will be held on Sunday, 27 October 2019 at locations around Australia. Further information about the Foundation and how to contribute is available at lifeslittletreasures.org.au. People can also support the 2019 "Walk for Prems" event by making donations at Baby Bunting stores.

Maternal and child health nursery equipment program

The Victorian Department of Education and Training provides support for the Victorian Maternal and Child Health Service nursery equipment program. The program is administered by EACH Limited, a provider of an integrated range of health, disability and community mental health services across Australia.

Under the program, Baby Bunting supplies nursery products, such as car seats, cots and mattresses, to eligible families identified by the Maternal and Child Health Service. Baby Bunting has been assisting with the program since 2011 and is committed to the program through 2020.

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement describes the corporate governance practices of Baby Bunting Group Limited (Baby Bunting or the Company) for the financial year ended 30 June 2019 and it is current as at that date. This Statement has been approved by the Board.

This Statement reports the Company's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) (ASX Principles and Recommendations).

During the 2020 financial year, the Company intends to review and, where necessary, modify its governance practices in advance of reporting against the 4th edition of the Corporate Governance Principles and Recommendations. These updated principles and recommendations were released earlier in 2019 and will first apply to the Company in the financial year commencing on 1 July 2020.

Copies of a number of the charters and policies referred to in this Statement are available under the "Governance" section of the Company's corporate website babybuntingcorporate.com.au.

Principle 1: Lay solid foundations for management and oversight

Responsibilities of the board and management

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the composition, role and responsibilities of the Board, including that the Board is responsible for approving and monitoring the Company's strategy, business performance objectives and financial performance objectives, and overseeing and monitoring the establishment of systems of risk management and systems of internal controls;
- the roles and responsibilities of the Chairman and the Company Secretary;
- the division of authority between the Board and the CEO and Managing Director and management;
- the ability of Directors to seek independent advice; and
- the process for periodic performance evaluations of the Board, each Director and Board committees.

Director appointments – conducting appropriate checks

Potential new directors are subject to appropriate screening and background checks prior to appointment as a director by the Board. In addition, the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

Written appointments

The Company has entered into written agreements with each of its Directors and senior executives setting out the terms of their appointment. The material terms of all employment, service or consultancy agreements with Directors or other related parties have been disclosed, to the extent required, in accordance with ASX Listing Rule 3.16.4.

The Company's Remuneration Report contains additional details on the remuneration of each Non-executive Director and summaries of the employment contracts of each other member of the Company's key management personnel.

Role of the Company Secretary

Corey Lewis is the Group Legal Counsel and Company Secretary. As part of his role, he is responsible for day to day operations of company secretarial matters, including the administration of Board and committee meetings, overseeing the Company's relationship with its share registrar and lodgements with the ASX and other regulators. The company secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Darin Hoekman, the Chief Financial Officer, is also a company secretary of the Company. He has responsibility for the above matters in the absence of the Group Legal Counsel.

Diversity and inclusion

During the year, the Board adopted an updated Diversity Policy which sets out Baby Bunting's commitment to recognising the importance of diversity and inclusion for its business. The policy is available on Baby Bunting's corporate website (babybuntingcorporate.com.au).

Currently, there are two female directors out of a total number of six directors (33%). The Board has a target that women and men be equally represented on the Board by 2025. A time frame to 2025 has been chosen as it has regard to the ideal number of the directors, the current mix of tenure on the Board and the time required to identify and attract appropriate candidates.

In addition, the Board has adopted two new measurable objectives for achieving gender diversity at the Company:

Objectives	Progress
That at least a third of the Company's senior executives be women in the medium term	Currently, women comprise 22% (2 out of 9) of the Company's senior executives. Over the medium term, the objective is that the Senior Executive team reflect an increased degree of gender diversity. The "Senior Executive" team comprise those executives reporting to the CEO, plus the CEO.
That 50% of the Company's Area Managers and Regional Managers be women in the medium term	In our retail operations, Regional Managers, Area Managers and Store Managers are the leadership roles. Across this group, approximately 58% are female. However, at the Regional Manager and Area Manager level only 22% are female. The objective is to increase this proportion to 50%, including by drawing on our talent within the business.

Gender diversity

The table below shows the level of gender diversity within the Company and changes from the prior year:

	Number of females in category at 30 June 2019	Total number in category at 30 June 2019	% of females	Number of females in category at 24 June 2018	Total number in category at 24 June 2018	% of females
Board (including CEO and Managing Director)	2	6	33%	2	5	40%
Senior Executives (including CEO and Managing Director)	2	9	22%	2	9	22%
Regional, Store and Area Managers	38	65	58%	35	53	66%
All Team Members	1,002	1,272	79%	775	971	80%

In July 2019, the Company lodged its Workforce Profile report with the Workplace Gender Equality Agency (WGEA).

Board performance evaluation

The Remuneration and Nomination Committee Charter provides that the Remuneration and Nomination Committee will assist the Board to assess Board performance, and the performance of Board committees and individual Directors.

During the financial year, the Board assessed its own performance, and considered the performance of the Board committees and individual Directors. The performance reviews were undertaken by way of questionnaires as well as discussions on how the Board and each committee's processes could be improved or modified.

Senior executive performance evaluation

The Remuneration and Nomination Committee Charter provides that the Committee will oversee the processes for the performance evaluation of the executives reporting to the CEO and Managing Director and review the results of that performance evaluation process. The Board is responsible for reviewing the performance of the CEO and Managing Director.

In relation to the performance of senior executives, after the end of the reporting period, the Remuneration and Nomination Committee received reports of the outcome of the executive performance evaluation processes. These were subsequently considered by the Board. The executive evaluation processes involved, among other things, assessing the performance of executives against their specific performance objectives as well as the Company's overall performance on a range of measures (including financial and specific key performance indicators).

For the performance assessment of the CEO and Managing Director, the Board considered the CEO and Managing Director's performance for the year having regard to, among other things, his specific performance objectives and the Company's performance. The Chairman was responsible for engaging with the CEO and Managing Director in relation to the Board's assessment of his performance.

Principle 2: Structure the Board to add value

Nomination – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee. Its role is to review and make recommendations to the Board on remuneration policies and practices related to the Directors and senior management and to ensure that the remuneration policies and practices are consistent with the strategic goals of the Board.

The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell Donna Player

Details of the qualifications and experience of Committee members are set out on pages 16 and 17. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 40 of the Directors' Report.

The Remuneration and Nomination Committee Charter sets out:

- the composition of the Committee, including that the Committee must comprise only Non-executive Directors, a majority of whom are independent and that the Chairman of the Committee is not to be the Chairman of the Board;
- the Committee's ability to have access to Company records and employees and the external auditor for the purpose of carrying out its responsibilities. The Charter also provides that the Committee may seek the advice of independent advisors on any matter relating to the duties or responsibilities of the Committee; and
- the specific responsibilities of the Committee in respect of the areas of nomination (including in respect of matters going to the composition of the Board, the Board's skills matrix and succession planning for the Board) and remuneration (including responsibilities to review and make recommendations to the Board on executive and Non-executive Director remuneration, reviewing the Company's remuneration policies, overseeing employee equity incentive plans and responsibility for reviewing the Company's remuneration report).

Board skills matrix

The Board, having regard to the current size of the Company and its current strategies, has adopted a skills matrix setting out the mix of skills and diversity that the Board is looking to achieve in its membership at this time. The Board also has regard to the attributes and personal qualities of Directors, including the ability of individual Directors to contribute effectively to the functioning of the Board and a commitment to the Company's values and its Code of Conduct. For persons being considered for appointment to the Board, the Board will seek to identify whether the person has a demonstrated or assessed ability to work in a collegiate environment along with the ability, where necessary, to express a dissenting view objectively and constructively. The Board considers that each Non-executive Director possesses these attributes.

Given the Company's size, the Board considers that the Board should be comprised of five to seven Non-executive Directors. During the year, Gary Kent was appointed as a new Non-executive Director, bringing the number of Non-executive Directors to five. He will seek election at the Company's 2019 annual general meeting.

Collectively, the Board has those skills and other relevant experience that it considers is appropriate for the effective governance of the Company. The matrix, and the extent to which those skills are represented on the Board collectively among the five Non-executive Directors, are set out below:

Skill or experience	Number of Non-executive Directors
Retail Experience at a customer/retail business obtained through an executive or leadership position	5
Logistics Knowledge and experience in retail logistics and distribution	3

Skill or experience	Number of Non-executive Directors
Information technology Knowledge and experience in the use and governance of information technology and applications in a retail environment	5
Digital disruption Current experience with digital and online retailing, including a familiarity with changes in technology, applications and changing consumer habits	4
Executive leadership Demonstrated success at CEO or senior executive level in a major business	5
Commercial and financial acumen Demonstrated success in sustainably managing the financial performance of a large retail business or commercial undertaking	5
People Experience with managing people and teams, including the ability to appoint and evaluate senior executives, manage talent development and oversee organisational change	4
Consumer advocacy Recent consumer experience in the retail baby goods sector (eg, as a parent or grandparent to small children) with an ability to bring the perspectives of parents or grandparents to deliberations (being among some of the Company's most important stakeholders)	3
ASX board experience and investor advocacy Experience as a non-executive director of an ASX listed company, including an ability to articulate the expected views of all categories of investors	5

The Board intends to review the skills matrix annually to ensure that it remains appropriate for the Company, its circumstances and its strategies.

Independent Directors

At the date of this Statement, the Board comprises six directors. A majority of the Board are independent Non-executive Directors.

Name	Position	Appointed	Approximate length of service
Independent Directors			
Ian Cornell	Chairman, Independent Non-executive Director	1 January 2015	4 years 8 months
Gary Levin	Independent Non-executive Director	25 August 2014	5 years
Melanie Wilson	Independent Non-executive Director	15 February 2016	3 years 6 months
Donna Player	Independent Non-executive Director	16 January 2017	2 year 7 months
Gary Kent	Independent Non-executive Director	12 December 2018	8 months
Executive Director			
Matt Spencer	CEO and Managing Director	23 April 2012	7 years 4 months

The Board considers an independent Director to be a Non-executive Director who is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company. The materiality of the interest, position, association or relationship will be assessed to determine whether it might interfere, or might reasonably be seen to interfere, with the Director's characterisation as an independent Director.

The Board has assessed each Non-executive Director to be independent. In assessing independence, the Board has had regard to the factors set out in the ASX Principles and Recommendations.

Each Director has confirmed to the Company that they anticipate being available to perform their duties as a Non-executive Director or executive Director without constraint from other commitments.

Director induction and training

The Board Charter contemplates that new Directors will be provided with an induction programme to assist them in becoming familiar with the Company, its managers and its business following their appointment. The induction programme involves, among other things, meetings with members of the Board and the Executive Team and briefings on the Company's operations and relevant business matters.

Directors may, with the approval of the Chairman, undertake appropriate professional development opportunities (at the expense of the Company) to maintain their skills and knowledge needed to perform their role.

The Board and the Executive Team have adopted processes to ensure that the Board is briefed on developments relevant to the Company and the markets in which it operates in.

Principle 3: Act ethically and responsibly

Code of Conduct

The Board has approved the adoption by the Company of a formal Code of Conduct which outlines how Baby Bunting expects its employees to behave and conduct business in the workplace. The Code of Conduct applies to all employees, regardless of employment status or work location. In addition, the Directors, in the Board Charter, have committed to abiding by the Code of Conduct as it applies to the Board.

The Code of Conduct is designed to:

- provide a benchmark for ethical and professional behaviour throughout Baby Bunting;
- promote a healthy, respectful and positive workplace and environment for all Team Members;
- ensure that there is compliance with laws, regulations, policies and procedures relevant to Baby Bunting's operations, including workplace health and safety, privacy, fair trading and conflicts of interest;
- ensure that there is an appropriate mechanism for Team Members to report conduct which breaches the Code of Conduct; and
- ensure that Team Members are aware of the consequences they face if they breach the Code of Conduct.

The Code of Conduct is available on Baby Bunting's corporate website (babybuntingcorporate.com.au).

Whistleblower Policy

During the 2019 financial year, the Company adopted a Whistleblower Policy. A copy of the policy is available on Baby Bunting's corporate website (babybuntingcorporate.com.au).

Baby Bunting's Values

Baby Bunting's vision is to be the most loved baby retailer for every family, everywhere. The Company sees its core purpose as supporting new and expectant parents in the early years of parenthood. The Board has endorsed the following set of values developed for Baby Bunting:

- **Being passionate**: be passionate about providing our customers with great products and services, advice and value every day;
- **Being considerate**: be considerate and respectful of others and think about how our decisions and actions impact others;
- **Being honest**: act with integrity and use good judgement;
- **Being positive**: be positive and enjoy doing the things that contribute to a great team spirit;
- **Being focussed**: think big, but get on with doing the small things that make a big difference;
- **Being bold**: never be afraid to evolve – encourage a culture of adventure and creativity.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The Board has established the Audit and Risk Committee. Its role is to assist the Board in fulfilling its responsibilities for corporate governance and oversight of the Company's financial and corporate reporting, risk management and compliance structures and external audit functions.

The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Gary Levin
Members	Melanie Wilson
	Gary Kent (appointed 12 December 2018)
	Ian Cornell (appointed 16 July 2018 – stepped down from the Committee on 12 December 2018)

Details of the qualifications and experience of Committee members are set out on pages 16 and 17.

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 40 of the Directors' Report.

The Audit and Risk Committee Charter sets out:

- the composition of the Committee, including that the Committee must comprise only Non-executive Directors, a majority of whom are independent and that the Chairman of the Committee is not to be the Chairman of the Board;
- the Committee's ability to have access to Company records and employees and the external auditor for the purpose of carrying out its responsibilities. The Charter also provides that the Committee may seek the advice of independent advisors on any matter relating to the duties or responsibilities of the Committee; and
- the specific responsibilities of the Committee in respect of the areas of risk management and compliance, financial and corporate reporting and external audit matters. With respect to external audit matters, the Committee has responsibility for developing and overseeing implementation of the Company's policy on the engagement of the external auditor to supply non-audit services (noting that the Committee is required to advise the Board as to whether it is satisfied that the provision of any non-audit services is compatible with the general standard of independence for auditors).

CEO and CFO Declarations

The Board, before it approved the Company's financial statements for the half year ended 30 December 2018 and the full year ended 30 June 2019, received from the CEO and Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

Auditor's attendance at the AGM

A representative of the Company's external auditor will attend the Company's annual general meetings. The Company's annual general meeting will be held on 8 October 2019.

Principle 5: Make timely and balanced disclosure

The Company has adopted a Continuous Disclosure Policy. The Continuous Disclosure Policy establishes procedures to ensure the Company complies with its continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules.

The Board receives copies of all material market announcements promptly after they have been lodged with ASX. In addition, a copy of any new and substantive investor or analyst presentation is released to ASX in advance of the presentation.

Principle 6: Respect the rights of security holders

The Company's website

The Company's corporate website (babybuntingcorporate.com.au) has information about the Company and its governance.

Investor relations programme

The Board's aim is to ensure that shareholders are provided with sufficient information to assess the performance of the Company and that they are informed of all major developments affecting the affairs of the Company.

The Company is required by law to communicate to shareholders through the lodgement of all relevant financial and other information with ASX and, in some instances, mailing information to shareholders. Information (including information released to ASX) is published on the Company's website. The Company's website also contains information about it, including media releases, key policies and the charters of the Board committees.

In addition, from time to time, the Company conducts ad-hoc briefings with institutional and large private investors, as well as financial media. In some instances, that can involve site visits to stores or the Company's Distribution Centre. It is the Company's policy not to hold briefings with investors or analysts from 1 June until the release of the full year results in August and from 1 December until the release of the half year results in February.

Shareholder participation at meetings

The Company's annual general meeting for the financial year ended 30 June 2019 will be held on 8 October 2019. In previous years the annual general meeting has been held in Melbourne. This year, the annual general meeting will be held in Sydney, in order to provide shareholders based in Sydney an opportunity to attend the meeting.

Generally, the Board aims to hold general meetings in or near either the Melbourne or Sydney central business district. This is to ensure that the venue is convenient for those shareholders who wish to attend the meeting who travel by public transport.

Shareholders are provided with notice of the meeting (either electronic or by hard copy) in advance of the scheduled meeting time. Shareholders have an opportunity to ask questions at the meeting. In addition, shareholders can submit questions electronically in advance of a meeting via the share registrar's website.

It is the Company's practice that all voting on substantive resolutions at shareholder meetings is conducted by way of a poll.

Electronic shareholder communications

The Company encourages shareholders to receive communications from it and its share registrar electronically and provides details for shareholders to send electronic communications and to have them actioned appropriately.

Principle 7: Recognise and manage risk

Risk – Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Company's financial reporting, internal control structure, risk management systems and internal and external audit functions. This includes considering the quality and reliability of the financial information prepared by the Company, working with the external auditor on behalf of the Board and reviewing non-audit services provided by the external auditor to confirm they are consistent with maintaining external audit independence.

The Audit and Risk Committee provides advice to the Board and reports on the status and management of the risks to the Company.

The purpose of the Committee's risk management process is to assist the Board in relation to risk management policies, procedures and systems and ensure that risks are identified, assessed and appropriately managed.

Details of the Committee are contained on page 27 above (see "Audit and Risk Committee") and details of the meetings of the Committee and the attendance of members are set out on page 40 of the Directors' Report.

Risk management framework

The Board is responsible for overseeing the establishment of and approving risk management strategies, policies, procedures and systems of the Company, and is supported in this area by the Audit and Risk Committee. The Company's management is responsible for establishing the Company's risk management framework.

The objectives of the risk management framework include:

- identifying the key risks associated with Baby Bunting's business;
- raising the profile of risk within Baby Bunting and helping embed a risk-aware culture within Baby Bunting;
- assisting management and the Board to ensure that the Company has a sound risk management framework;
- supporting the declarations by the CEO and Managing Director and the Chief Financial Officer that their opinions on the Company's financial statements are based on a "sound system of risk management and internal control which is operating effectively";
- where appropriate, having controls, policies and procedures to manage certain specific business risks – eg an insurance programme, regular financial budgeting and reporting, business plans, strategic plans, etc – so as to mitigate the likelihood, or consequence, of certain specific business risks.

As part of the risk management framework, processes have been introduced to identify, assess, monitor and review the Company's key risks and to document and monitor the Company's other risks. In addition, regular processes have been introduced involving the senior executives and other Team Members to help identify, assess, monitor and review the Company's key risks. In connection with its responsibilities for risk management, the Audit and Risk Committee receives reports from management on the risk management system, key risks and the related risk treatment plans as well as information on critical events that may arise throughout the year.

Internal audit function

The Company does not have a formalised internal audit function, but has processes for evaluating and continually improving the effectiveness of risk management and internal financial control processes.

To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks. These processes are implemented, overseen and assessed by the management team, the Chief Financial Officer and CEO and Managing Director, and the Audit and Risk Committee.

Economic, environmental and social sustainability risks

Economic sustainability risks are risks to the Company's ability to continue operating at a particular level of economic production over the long term. Environmental sustainability risks are risks to the Company's ability to continue to operate in a manner that does not compromise the health of the ecosystems in which it operates over the long term. Social sustainability risks are risks to the Company's ability to continue operating in a manner that meets accepted social norms and needs over the long term.

Having regard to the definition in the ASX Principles and Recommendations, the Company understands "material exposure" to mean a real possibility that the risk in question could substantively impact the Company's ability to create or preserve value for shareholders over the short, medium or long term. This is a broad and, in some sense, imprecise definition. Nevertheless, the Company considers that it does not, at this time, have a material exposure to environmental or social sustainability risks. The Company is exposed to a number of economic and operating risks, details of which are included in the Directors' Report on pages 38 and 39. These economic and operating risks could have a material impact on the Company, its strategies and future financial performance. These risks were identified as part of the Company's risk management framework (described above). Management is responsible for developing strategies to manage identified risks.

Economic, environmental and social sustainability risks are likely to change over time. For example, significant increases in the rate of disruption and innovation in online retail and distribution networks, combined with the entry of significant and well-resourced competitors in the Australian baby goods market could result in a change to the extent of the Company's exposure to economic sustainability risks. Accordingly, the Company will continue to consider potential sustainability risks as part of its risk management framework and strategy development.

Principle 8: Remunerate fairly and responsibly

Remuneration – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee with specific responsibility for remuneration matters.

The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell Donna Player

Details of the Committee are contained on page 24 above (see "Nomination – Remuneration and Nomination Committee") and details of the meetings of the Committee and attendances by members during the reporting period are set out on page 40 of the Directors' Report.

Remuneration for Non-executive Directors and Executives

The Company's Remuneration Report, included as part of its Directors' Report, describes the Company's remuneration policies and practices as well as providing details for each Director and those executives considered to be members of the Company's key management personnel.

Non-executive Directors are not entitled to participate in the Company's short term or long term incentive plans.

Securities Trading Policy and hedging

The Company's Securities Trading Policy provides that persons subject to that policy (including Directors and Executive Team Members) must not engage in transactions designed to hedge their exposure to the Company's shares.

DIRECTORS' REPORT

The Directors of Baby Bunting Group Limited ("the Company" or "Baby Bunting") submit the financial report of the Company and its controlled entities ("the consolidated entity") for the financial year ended 30 June 2019.

1. Principal activities

During the financial period, the principal activity of the Company and its consolidated entities was the operation of Baby Bunting retail stores and its online store babybunting.com.au.

Baby Bunting is Australia's largest specialty retailer of baby goods, primarily catering to parents with children from newborn to three years of age and parents-to-be. The Company's principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester and associated accessories. Baby Bunting's core purpose is to support new and expectant parents in the early years of parenthood.

2. Operating and financial review

2.1 The Company's business model

The Company's business model centres around the sale of third party produced and branded baby goods through its store network and digital channel. The Company also sells private label and exclusive products. Private label products are products sold by the Company under its own brand (the Company currently markets its private label products under the 4baby brand name). Exclusive products are products sourced by the Company for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time.

Baby Bunting's business model leverages several core competitive advantages, as summarised in the table below.

Drivers of competitive advantage	Comment
Scale	Baby Bunting is the largest specialty retailer in the Australian baby goods market and the only specialty baby goods retailer with a multi-state presence. Its industry position and continued growth has enabled the Company to invest in its people, technology, brand, inventory levels, prices and customer experience.
Convenient network of stores and a leading digital channel	The Company currently operates 53 stores across Australia. The Company's website, babybunting.com.au, continues to be Australia's leading specialty baby goods website as measured by number of visits. The Company is focused on delivering customers the best possible retail experience across all channels, in store, online or on mobile.
Customer centric team culture	Baby Bunting has a dedicated team of well trained and knowledgeable staff to service customers' individual needs. Insights gained from customer preferences are enabling Baby Bunting to tailor its offering to focus on the steps in the customer journey of first time parents.
Consistent retail format	Baby Bunting is focused on providing customers with a consistent retail experience across its network. The Company's stores in major market catchment range in size from approximately 1,500 to 2,000 square metres and are typically located in either bulky goods centres or at stand-alone sites. In regional centres, the Company typically operates a smaller store format of approximately 1,000 to 1,200 square metres, without compromising product range or customer service. Store formats and layout are largely consistent across the network, with customer-friendly navigation and clear demarcation of categories. Convenient parking is available directly outside all stores with parcel pick-up facilities allowing for easy loading of bulky items into customers' vehicles. A shopping centre format has been developed which incorporates the key elements of the standard destination store format.
Widest product offering, in-stock and available	Baby Bunting offers what it believes to be the widest range of products, with over 6,000 products available. Through its store network and approximately 10,000 square metre Distribution Centre and through the use of interstate third party logistics, Baby Bunting aims to have its product range in-stock and available at the time of the customer's purchase.

Drivers of competitive advantage	Comment
Competitively priced	Baby Bunting's approach to pricing is centred on offering customers value every day, every visit. As the customer journey evolves in a digital world, transparency on pricing is very important. Baby Bunting's scale enables it to maintain low prices and deliver value to customers with a national pricing policy backed by a pricing guarantee. In particular, Baby Bunting's range of private label products (sold under the brand 4baby) are sold at entry level prices across a number of categories. Baby Bunting also has a "Best Buy" range, with everyday low prices. The Best Buy range includes our core range of car seats.
Comprehensive range of ancillary services	Across its entire store network, Baby Bunting provides additional services to its customers, including "click & collect" services, lay-by, consumer payment services (including Afterpay, zipMoney and zipPay), car seat fitting, parenting rooms which include baby weigh scales, and an in-store/online gift registry.
Cost effective marketing	The Company considers that its most successful marketing tool is word of mouth. This is a critical factor in allowing the Company to limit its marketing expenditure to under 2% of sales. Baby Bunting's marketing is further supported by traditional channels (regional TV, print media, catalogue and radio), online (email, search and digital) as well as social media. Baby Bunting also participates actively in baby expos.

2.2 Store network

The Company currently operates a network of 53 stores across all Australian states and territories, except Northern Territory. The location and layout of stores is designed to deliver customers a consistent retail experience across the network.

2.3 People

At the end of the financial year, the Company employed 1,272 employees throughout Australia with the majority employed at the Company's stores, and others located at the Company's Support Office and Distribution Centre at Dandenong South (Vic).

2.4 Review of the Company's operations

During the financial year, the Company continued to implement its strategy of growth from existing stores and its online store as well as growing its network of stores.

Key operational achievements for the Company in FY2019 included:

- finishing the year with a Net Promoter Score at 75;
- opening six new stores, being Toowoomba (Qld), Chatswood (NSW), Hobart (Tas), Chadstone (Vic), Bankstown (NSW) and Shellharbour (NSW). The Company also relocated the Cannington (WA) store to a more prominent location within the Cannington catchment;
- opened the first shopping centre format store at Chadstone Shopping Centre, Australia's premier retail destination;
- continuing to expand the range of private label and exclusive products – together these categories made up 27.6% of sales. This is a demonstration of the work undertaken by Baby Bunting's merchandise team in building and enhancing relationships with key suppliers;
- work undertaken on the website re-platform project to establish a new e-commerce platform and website.

Refer to the Chairman and CEO's Report on page 4 of this Annual Report for more information on the Company's operations during the 2019 financial year.

2.5 Review of the Company's financial performance

The full year statutory results for the 53 week period ended 30 June 2019 (FY18: 52 week period ended 24 June 2018) are summarised below:

- Total sales up 20.9% to $368.0 million, with comparable store sales growth of 8.7% for the year;
- Gross profit of $128.4 million up 27.3%;
- Statutory net profit after tax (NPAT) of $12.4 million, an increase of 43.3% on the prior year;
- Statutory basic earnings per share (EPS) of 9.8 cents; and
- Net cash of $2.7 million (versus net debt of $3.5 million at the end of FY2018).

In relation to the 2019 and 2018 financial years, the results are also shown excluding the non-cash impact of employee equity incentive expenses. This has been done to more clearly represent the consolidated entity's underlying earnings given this is a non-cash item whose primary economic impact is issued capital dilution if and when shares are issued. In addition, the 2019 financial year results are shown excluding the revenues and expenses incurred during the 53rd week of the period and some other pro forma adjustments related to significant/one-off items. The Directors consider that these adjustments are appropriate to better represent the underlying financial performance of the business and to facilitate comparisons with prior periods.

On a pro forma basis, the FY2019 financial results were:

- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) was $27.1 million, up 45.9% on the prior corresponding period;
- pro forma gross margin was 35.0%;
- pro forma NPAT of $15.1 million, up 58.2% on the prior corresponding period;
- pro forma costs of doing business (CODB) were $99.5 million or 27.5% of sales, an increase of 50 basis points on the prior corresponding period (CODB of 27.0% of sales in FY2018).

A reconciliation between statutory and pro forma financial results is on the next page.

Non-IFRS financial measures

The consolidated entity uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as "non-IFRS financial measures". Non-IFRS financial measures are intended to supplement the measures calculated in accordance with Australian Accounting Standards and are not a substitute for those measures. Underlying statutory and pro forma results and non-IFRS financial measures are intended to provide shareholders additional information to enhance their understanding of the performance of the consolidated entity. Non-IFRS financial measures that are referred to in this report are as follows:

Non-IFRS financial measure	Definition
EBITDA	Earnings before interest, tax, depreciation and amortisation expenses. Eliminates non-cash charges for depreciation and amortisation.
EBIT	Earnings before interest and tax. EBIT eliminates the impact of the consolidated entity's capital structure and historical tax position when assessing profitability.
Operating EBIT	Excludes the effects of interest revenue, finance costs, income tax and other non-operating costs. The CEO and Managing Director assesses the performance of the only operating segment (Australia) based on a measure of Operating EBIT.

Pro forma financial results

Pro forma financial results have been calculated to exclude the non-cash impact of employee equity incentive expenses, given this is a non-cash item whose primary economic impact is issued capital dilution if and when shares are issued. Pro forma financial results for the year ended 30 June 2019 also exclude the revenues and expenses incurred during the 53rd week of the period; acquisition related expense for the purchase of four car seat installation businesses in the last quarter of the year, and non-recurring project related expenses associated with significant one-off projects related to business review and improvement, business transformation and brand modernisation.

The following table reconciles the statutory to pro forma financial results for the year ended 30 June 2019 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 30 June 2019	Sales ($'000)	EBITDA ($'000)	EBIT ($'000)	NPAT ($'000)
Statutory results	**368,006**	**24,065**	**18,944**	**12,407**
Employee equity expenses[1,2]	–	2,227	2,227	2,227
Impact of week 53[3]	(5,674)	35	135	93
Acquisition related expenses[4]	–	248	248	248
Project related expenses[5,6,7]	–	540	540	540
Tax impact from pro forma adjustments	–	–	–	(366)
Pro forma results (52 weeks to 23 June 2019)	**362,332**	**27,115**	**22,094**	**15,149**

1. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the current reporting period.
2. The Company issued 163,944 shares (297 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $750 worth of shares. In total this expense was $400,000.
3. FY2019 was a 53 week retail financial year. Week 53 revenues and expenses have been excluded to enable comparison to the FY2018 full year financial period (52 weeks) and prior years.
4. The Company acquired four car seat installation businesses during the year – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. The costs identified relate to due diligence costs and integration costs of the acquisitions (but not the acquisition consideration) which were finalised during the last quarter of FY2019.
5. The Company is currently undertaking a process of assessment and, where necessary, replacement of its core information and merchandising technology systems. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems into the business are significant, but one-off in nature and not related to the operation or financial performance of the business on a day-to-day basis. We anticipate this project will continue through FY2020 and FY2021.
6. The Company currently receives over 1.5 million phone calls directly to its stores each year. A business review and improvement project was undertaken during the year for the purpose of better managing those calls and to improve customer service within stores. Costs were incurred with external consultants in relation to this project.
7. In FY2020 the Company will undertake brand modernisation. Costs were incurred during the year in relation to this project that will be announced in FY2020.

The following table reconciles the statutory to pro forma financial results for the year ended 24 June 2018 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 24 June 2018 Restated[1]	Sales ($'000)	EBITDA ($'000)	EBIT ($'000)	NPAT ($'000)
Statutory results	**304,459**	**17,513**	**13,150**	**8,657**
Employee equity expenses[2, 3]	–	1,071	1,071	1,071
Tax impact from pro forma adjustments	–	–	–	(150)
Pro forma results	**304,459**	**18,584**	**14,221**	**9,578**

1. AASB 15 Revenue from contracts with customers restatement. Refer to Note 2(x).
2. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the current reporting period.
3. The Company issued 260,108 shares (546 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares.

Revenue

The FY2019 sales for the year ended 30 June 2019 of $368.0 million represented an increase of 20.9% on FY2018. This sales growth was achieved through:

- growth from existing stores;
- growth in online sales;
- growth from the opening of six new stores during FY2019;
- the annualising benefit of five stores opened in FY2018, trading for a full financial year in FY2019.

Comparable store sales growth for the year was 8.7% up on the prior year. Comparable store sales growth is calculated having regard to the growth of stores that have been open for all of the prior financial year and includes click & collect sales fulfilled from the store.

Sales from private label and exclusive products grew by 56.5% on the prior year, and were 27.6% of total sales in FY2019, up from 20.9% in FY2018. This growth has come primarily from the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting. Categories where exclusive product ranges have expanded significantly include prams and strollers, cots and furniture and car safety (ie car seats).

Baby Bunting continues to expand its Best Buy range and in July 2017 it introduced everyday low pricing for Best Buys, which includes the core range of car seats.

Online sales continued to see strong annual growth. Total online sales (including click & collect) grew 46.3% on the prior financial year and click & collect sales grew 54.6%. Online sales now represent 11.8% of total sales. Baby Bunting's online channel and store networks are complementary. Online sales in a relevant catchment consistently increase following the establishment of a Baby Bunting store in that area.

Expenses

Pro forma costs of doing business (CODB) expenses as a percentage of sales increased 50 basis points to be 27.5% of sales (versus 27.0% of sales in FY2018). In FY2019, pro forma CODB expenses were $99.5 million, up 21.0% on the prior year pro forma CODB expenses of $82.3 million. The increase in business expenses was driven by:

- five stores opened in FY2018 trading for a full financial year in FY2019;
- six new stores opened in FY2019; and
- the continued investment in the Support Office team, business processes and business systems to support the expanding store network and to improve the customer experience both in stores and online. Ensuring the business is appropriately sized for future growth continues to be a priority.

2.6 Review of the Company's financial position

The Company finished the financial year in a net cash position of $2.7 million, up $6.2 million on the prior year net debt position of $3.5 million. The $6.2 million movement was driven by $14.9 million additional of cash generated from operations less the following significant cash outflows:

- payment of $7.3 million in dividends, relating to the FY2018 final dividend of $3.2 million (paid on 14 September 2018) and the FY2019 interim dividend of $4.2 million (paid on 15 March 2019);
- capital expenditure of $11.8 million in FY2019, including $1.3 million relating to the acquisition of the car seat installation businesses; and
- cash outflows of $7.6 million relating to debt repayments.

Maintaining appropriate inventory levels to fulfil customer needs continues to be a key focus of the business. In FY2019, inventory increased by $5.2 million to be $68.2 million at the end of FY2019. The increase was driven by a combination of six new stores opened in FY2019 (each new store requires an inventory investment of approximately $0.8 million), and the need for further investment in inventory to support the increase in transaction volumes experienced by the existing store network.

Trade and other payables increased from $36.5 million in FY2018 to $44.3 million in FY2019, which has increased in line with increased inventory holdings and the expanded store network relative to the prior year.

Dividends

The Board has determined to pay a final dividend of 5.1 cents per share fully franked. Together with the interim dividend of 3.3 cents per share, the total dividend to be paid in respect of FY2019 is 8.4 cents per share, equivalent to approximately 70% of the Company's FY2019 pro forma NPAT. The dividend payment date for the final dividend is 13 September 2019.

3. Business strategies and future development

The Company's strategy is focussed on growing its existing business and continuing to improve its execution and financial performance.

This strategy has the following key elements:

Invest in digital to deliver the best possible retailing experience across channels

Baby Bunting has a multi-channel approach to grow market share.

Baby Bunting's goal is to create a seamless shopping experience across all channels. The website re-platform project progressed during the year with the new website launched in July 2019. We continue to work on fully establishing and optimising the website.

Investments in digital marketing and loyalty continue to be made to increase the utilisation of marketing automation and the Customer Relationship Management (CRM) system.

Continually improving online fulfilment is a key part of this strategy. Customers can transact online and have goods delivered directly or obtain the goods via click & collect. During the year, the first of the Company's store-based fulfilment hubs was commissioned. These enable online orders to be fulfilled from selected stores supporting the long term target of being able to fulfil 90% of online metro orders with a same day delivery service.

In the year ahead, work will be undertaken on a significant project to improve the Company's merchandise and planning and forecasting systems. This project will continue through the 2020 financial year and into the 2021 financial year. Once implemented this project will transform the manner in which the Company forecasts, plans merchandise and replenishes stores. This is expected to deliver significant benefits for the business.

Investment to grow sales from existing stores

Baby Bunting's key strategies to grow sales from existing stores and capture greater market share include:

- improving customer experience. In this regard, Baby Bunting aims to be the leading place for parents and parents-to-be to come to for an extensive product range and great service, advice and guidance. Customers have the opportunity to give feedback via a Net Promoter Score (NPS) following each transaction. At the end of the year, NPS was 75.
- performing targeted and effective marketing campaigns. In conjunction with implementing a CRM system, the Company has also introduced marketing automation software. This has assisted to create new personalised marketing programs for customers, having regard to customer preferences and product affinities, all leading to improvements in customer experience and engagement with the brand.
- leveraging the store network to grow the services offered to customers which currently include services like car seat fittings (see below).

The Company's stores historically take an average of four years to mature and generally have stronger comparable store sales growth in the first four years of operation. As a result, the maturity of newer stores should support further growth in comparable store sales. As at the report date, the Company's store network includes a significant proportion of "immature" stores, with 32% of stores less than three years old.

The Company's "click & collect" service is a key feature and click & collect sales grew 54.6 % during the year. Click & collect sales are fulfilled in store, providing very convenient fulfilment times for customers.

Historically, car seat installation services have been provided for the Company's customers through third party installers. During the year, the Company acquired the businesses of some of the existing third party installers and has brought these services in-house. The national car seat installation business has been consolidated under a single brand – Baby On Board. Over time, the Company intends to expand into more services for customers including car seat hire services.

Growth from new markets

The Company is looking to continue to grow the network of stores to over 80 stores and the Company plans to open four to eight new stores per year. During the year, the Company opened six new stores and now operates 53 stores around Australia. The Company will continue to focus on new store openings only where its rigorous selection criteria are met.

The Company evaluates potential new store locations on a range of criteria including demographic profile, site factors and anticipated store economics.

Any analysis of potential new store locations also has regard to anticipated changes in future consumer behaviours and retail trends. While the focus continues to be on large format stores, alternative store formats may be considered in unique and attractive locations.

During the financial year ahead, Baby Bunting opened a store at Chadstone Shopping Centre in Melbourne, its first shopping centre format. The circa 1,500 square metre store has enabled Baby Bunting to showcase a range of brands and products at Australia's premier retail destination, while still providing services customers expect such as a car seat fitting service and convenient bulky goods collection. The Company plans to open its next shopping centre format store at Westfield Doncaster in Melbourne in the first half of FY2020.

EBITDA margin improvement

The Company improved its pro forma EBITDA margin from 6.1% in FY2018 to 7.5%. This is approaching the rates seen in previous financial years (7.9% in FY2016 and 8.3% in FY2017). Full year pro forma gross margin was 35.0% an improvement of 190 basis points from the prior year. The pro forma cost of doing business increased by 50 basis points in FY2019.

The Company will continue to grow private label and exclusive product offerings. The Company offers private label products in strollers, change tables, manchester, babywear, portacots, plastics, toys, consumables and highchair categories. While gross profit margin on private label and exclusive products varies by product, the Company believes that increased sales in these categories will facilitate further margin improvement in future periods. During the year, private label and exclusive products grew to represent 27.6% of sales, an increase of 56.5% over the previous year. This was largely driven by the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting. In the year ahead, the Company intends to launch additional private label brands in soft goods and hard goods.

Another element of the Company's strategy for EBITDA margin improvement is the continued leverage of the investment that the Company has made in its Support Office and Distribution Centre.

Following on from completion of the supply chain review in FY2018, maximising efficiencies in all elements of its supply chain to improve the efficiency and flow of product from source to customer remains a focus. New outbound freight and international freight service providers have been appointed. As stated earlier, the Company's first store-based fulfilment hubs opened at the end of the year and more will be added during the year to facilitate delivery of online orders.

Other areas of focus continue to be upgrades of selected store elements and store refurbishments.

Further information on likely developments in the Company's operations and the expected results of those operations has not been included in this Directors' Report. The Directors believe that the disclosure of such information, including certain business strategies, projects, and prospects would be likely to result in unreasonable prejudice to the Company's interests.

4. Key risks and uncertainties

The Company's strategies take into account the expected operating and retail market conditions, together with general economic conditions, which are inherently uncertain.

The Company has a structured risk management framework and internal control systems in place to manage material risks (see page 29 for further information on the Company's risk management framework). Some of the key risks and uncertainties that may have an effect on the Company's ability to execute its business strategies and the Company's future growth prospects and how the Company manages these risks are set out below.

4.1 Competitive and digital disruption risks

The Company faces competition from specialty retailers as well as department stores, discount department stores and online only retailers. International online retailers and market places operating in Australia are also sources of current and future competition. Second hand or buy, swap, sell markets, which facilitate the exchange of used baby goods, are also a source of competition for the Company. In addition, direct to consumer operators (without a physical store network) compete with the Company in specific product categories. Competition is based on a variety of factors including price, merchandise range, advertising, store location, store presentation, product presentation, new store roll-out and customer service. The Company seeks to address competitive risks by focussing on providing customers with low prices, every day. In addition, the Company is focused on providing an excellent customer experience – regardless of whether the customer is visiting a Baby Bunting physical store or the online store. Product differentiation through exclusive access to key brands is a strategy to mitigate this risk. Elements of this experience include quality advice, high service levels and a very wide product range.

4.2 External economic risks

Although the purchase of baby goods may be considered less discretionary compared with other consumer goods categories, Baby Bunting's performance is sensitive to the current state of, and future changes in, the retail environment and general economic conditions in Australia. A deterioration in consumer confidence generally may cause consumers to reduce the size or extent of purchases with the Company, which could have an adverse effect on sales and the Company's financial performance.

4.3 Property and operational risks

The Company's new store roll-out strategy depends upon securing properties that meet the Company's rigorous selection criteria, at financially viable rents. A failure to secure appropriate sites could impact the Company's financial performance and position. As the Company's stores are leased the ability to continue in a store is subject to negotiation at the end of each lease term. The Company actively manages its property portfolio to ensure appropriate sites continue to be available for its stores.

The Company's supply chain is important to ensuring that products are available in-store and online for customers. The key risks associated with Baby Bunting's supply chain include operational disruption due to catastrophic events such as fire or flood, delays in product delivery or complete failure to receive products ordered. Poor supply chain management could adversely affect the Company's financial performance and customers' experience of shopping with Baby Bunting. The Company continues to focus on logistics and technology initiatives to ensure that this risk is managed appropriately.

An element of the Company's strategy involves growing its private label and exclusive product offerings. The ability of the Company to continue to offer exclusive products depends upon the relationships it has with suppliers. Any deterioration of those relationships could adversely impact the Company's ability to supply exclusive products or, more generally, to successfully provide customers with a wide range of products at competitive prices. The Company continues to invest in its merchandising team to continue to ensure that it is appropriately managing relationships with its suppliers.

4.4 Compliance risks

Baby Bunting is subject to government laws and regulations, including competition and consumer law and trade, taxation and workplace health and safety laws.

Many of the products sold in Baby Bunting's stores or online must comply with Australian mandatory product safety standards. In addition, products Baby Bunting sells must comply with general product safety requirements under Australian law and also meet the expectations of our consumers. Failure to do so may require the Company to undertake a recall of products or other actions. This may adversely affect the Company's reputation and performance and result in significant financial penalties. The Company has procedures to assess compliance issues of the products that it supplies, as well as procedures to respond to and investigate reports of product safety incidents that it receives. The Company also engages an external compliance advisory company that performs periodic audits of product compliance as well as providing training and advice on particular compliance matters.

During the year, the Company entered into an enforceable undertaking with the Australian Competition and Consumer Commission (ACCC) and paid two infringement notices. This related to the sale of certain models of convertible tricycles which did not comply with the mandatory standard that applies to strollers and prams. The enforceable undertaking provides that the Company will not sell convertible tricycle products unless they meet all relevant mandatory safety standards. In addition, the Company has undertaken to strengthen its internal consumer law compliance programs.

4.5 Workplace and people management risks

Workplace health and safety is a priority at Baby Bunting. Failure to manage health and safety risks could have a negative effect on the Company's reputation and performance. The Company has a Safety Management System, which includes a Health, Safety and Injury Management Policy, with the aim of identifying and assessing workplace health and safety risks as well as educating employees in stores, at the Support Office and at the Distribution Centre about safe ways of working.

The Company's future performance depends to a significant degree on its key personnel, and its ability to attract and retain experienced and high performing personnel. The Company's remuneration policies and practices seek to ensure that executives and managers are provided with appropriate incentives and rewards to support their retention. In addition, the Company continues to make investments in training and development to further expand the skills of the Company's employees.

4.6 Technology, information and transformation risks

In common with other e-commerce retailers, the Company faces a range of cyber risks. This is a broad concept and encompasses a variety of risks that use or impact computer systems and that can result in unauthorised access or disclosure of information held by the Company (including personal information of our customers), the commission of frauds or thefts, or the disruption of normal business operations.

The Company relies on its IT systems, retail point of sale and inventory management systems, networks and backup systems, and those of its external service providers, such as communication carriers and data providers, to process transactions (including online transactions), manage inventory, report financial results and manage its business. A malfunction of IT systems or a cybersecurity violation, could adversely impact Baby Bunting's ability to trade and to meet the needs of its customers.

The Company has a continuing focus on IT systems and security, with the aim of ensuring that the IT systems are available to support the Company's operations and that steps are being taken to protect against adverse IT and cyber related events. IT infrastructure and data assets have been migrated to an external data centre and the Company remains focused on constantly improving its ability to prepare and respond to a cyber attack or other adverse event.

The Company has a plan to continue making investments in new technology systems, including the new website and e-commerce platform, some core system enhancements and other technology projects. A failure to implement technology changes effectively or to manage and complete projects successfully could have an adverse effect on the Company's financial performance where new technology or projects cost more, take more time to implement and/or fail to achieve anticipated business benefits. In addition, a failure of technology could have an adverse impact on consumers' experience with Baby Bunting. The Company seeks to manage this risk through appropriate project management and resourcing.

The Company also has systems and processes in place designed to appropriately use and secure our customers' personal information. Unauthorised disclosure of, or unauthorised access to, personal information under the control of the Company could have an adverse effect on the Company's reputation and ultimately the Company's financial performance.

5. Significant changes in the state of affairs in FY2019

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

6. Matters subsequent to the end of the financial year

Apart from the determination to pay a final dividend in respect of the financial year ended 30 June 2019, no matter or circumstance has arisen since the end of the financial year which has not been dealt with in this Directors' Report or the Financial Report, and which has significantly affected, or may significantly affect:

- the Company's operations in future financial years;
- the results of those operations in future financial years; or
- the Company's state of affairs in future financial years.

7. Dividends

The following dividends have been paid to shareholders during the financial year:

Dividend	$'000
Final dividend in respect of the financial year ended 24 June 2018 (2.5 cents per share fully franked)	3,150
Interim dividend in respect of the half year ended 30 December 2018 (3.3 cents per share fully franked)	4,172

The Board has determined to pay a final dividend in respect of the financial year ended 30 June 2019 of 5.1 cents per share.

This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 30 August 2019 and the dividend payment date is 13 September 2019. The final dividend of 5.1 cents per share, when combined with the interim dividend of 3.3 cents per share, represents a payout ratio of approximately 70% of the full year pro forma NPAT.

8. Directors

The following persons were Directors of the Company during the financial period and/or up to the date of this Directors' Report:

Director	Position	Date appointed	Date retired
Ian Cornell	Chairman (from 21 November 2016)	1 January 2015	–
Matt Spencer	CEO and Managing Director	23 April 2012*	–
Gary Levin	Non-executive Director	25 August 2014	–
Melanie Wilson	Non-executive Director	15 February 2016	–
Donna Player	Non-executive Director	16 January 2017	–
Gary Kent	Non-executive Director	12 December 2018	–

* Matt Spencer joined the Company in February 2012 as CEO. He was appointed a Director on 23 April 2012.

Details of the qualifications, experience and special responsibilities of each current director are set out on pages 16 and 17 of the Annual Report.

9. Meetings of Directors and Board Committees

The number of meetings of the Board and each Board Committee held during the period ended 30 June 2019 are set out below. All directors are invited to attend Board Committee meetings and most Board Committee meetings are attended by all directors. However, only attendance by directors who are members of the relevant Board Committee is shown in the table below.

	Meetings of directors		Audit and Risk Committee[1]		Remuneration and Nomination Committee	
Director	Attended	Held	Attended	Held	Attended	Held
Ian Cornell	12	12	3	3	4	4
Matt Spencer	12	12	–	–	–	–
Gary Levin	12	12	5	5	–	–
Melanie Wilson	12	12	5	5	4	4
Donna Player	12	12	–	–	4	4
Gary Kent	7	7	2	2	–	–

Attended = Number of meetings attended by the director.
Held = Number of meetings held during the time the director held office or was a member of the committee during the year.
1. Ian Cornell was a member of the Audit and Risk Committee until 12 December 2018 at which time Gary Kent was appointed a member of the Audit and Risk Committee.

10. Directors' relevant interests in shares

The following table sets out the relevant interests that each director has in the Company's ordinary shares or other securities as at the date of this Directors' Report.

Director	Ordinary shares	Performance Rights
Ian Cornell	900,000	nil
Matt Spencer	1,310,978	2,462,868
Gary Levin	200,000	nil
Melanie Wilson	20,000	nil
Donna Player	36,000	nil
Gary Kent	–	nil

11. Company secretaries

Corey Lewis is the Group Legal Counsel and Company Secretary. He commenced employment with the Company in February 2016 and was appointed company secretary in March 2016. Before joining Baby Bunting, Corey worked as a corporate lawyer at the law firm Ashurst. He holds a Bachelor of Laws (Honours) and a Bachelor of Arts. He is also a graduate of the Australian Institute of Company Directors.

Darin Hoekman, the Company's Chief Financial Officer, is also a company secretary having been appointed in January 2014. Darin is a Chartered Accountant and holds a Bachelor of Commerce.

12. Details of performance rights

The CEO and Managing Director was the only Director eligible to participate in the Company's long term incentive plan (LTI Plan). Further details of the LTI Plan are set out on pages 47 to 51 of the Remuneration Report. Each performance right entitles the holder to receive one fully paid share in the Company, subject to the satisfaction of the applicable performance conditions.

During the financial year, the Company granted 3,818,000 performance rights under the LTI Plan. In addition, 296,697 performance rights vested and were exercised and 207,031 performance rights lapsed in accordance with the rules of the LTI Plan.

All of the performance rights granted during the financial year are subject to performance conditions (see pages 47 to 51 of the Remuneration Report for more details).

Performance rights event	Issue price	Number of performance rights
Opening balance (25 June 2018)		5,461,285
Grant of rights under the LTI Plan – FY16 to FY20 award (3 September 2018)	nil	200,000
Vesting of rights (18 October 2018)	n/a	(296,697)
Lapse of rights (19 October 2018)	n/a	(207,031)
Grant of rights under the LTI Plan – FY16 to FY20 award (30 November 2018)	nil	300,000
Grant of rights under the LTI Plan – retention award (30 November 2018)	nil	580,000
Grant of rights under the LTI Plan – FY18 to FY21 award (30 November 2018)	nil	2,500,000
Grant of rights under the LTI Plan – FY18 to FY21 award (31 May 2019)	nil	204,000
Grant of rights under the LTI Plan – retention award (31 May 2019)	nil	34,000
Closing balance		**8,775,557**

13. Details of options

There are no options over shares on issue as at the date of this Directors' Report and no shares were issued during the year as a result of the exercise of options.

14. Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately from page 44.

15. Indemnification and insurance of directors and officers and the auditor

Under the Company's Constitution, to the fullest extent permitted by law, the Company must indemnify every officer of the Company and its wholly-owned subsidiaries, and may indemnify its auditor against any liability incurred as such an officer or auditor to a person (other than the Company or a related body corporate).

The Company has entered into a deed of access, indemnity and insurance with each Non-executive Director and the CEO and Managing Director which confirms each person's right of access to certain books and records of the Company while they are a Director and after they cease to be a Director. The deed also requires the Company to provide an indemnity for liability incurred as an officer of the Company and its subsidiaries, to the maximum extent permitted by law.

The Constitution also allows the Company to enter into and pay premiums on contracts of insurance, insuring any liability incurred by a current or former Director and officer of the Company. The deed of access, indemnity and insurance requires the Company to use its best endeavours to maintain an insurance policy, which insures the Director against liability as a Director and officer of the Company from the date of the deed until the date which is seven years after the Director ceases to hold office as a Director.

During the financial year, the Company paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for the current and former directors, secretaries, executive officers and officers of the Company and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

16. Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with the leave of the court under section 237 of the Corporations Act. No person has applied to the court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party.

17. Environmental regulation

The Company is not involved in activities that have a marked influence on the environment within its area of operation. As such, the Directors do not consider that the Company's operations are subject to any particular and significant environmental regulation in Australia.

18. Non-audit services

The Company may decide to employ its external auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and assurance ($115,500) (FY2018: $110,000) and ($45,100) (FY2018: nil) services provided during the year are set out in the Financial Statements (at Note 30).

The Board has considered the position and in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence imposed on auditors by the Corporations Act. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact on the impartiality 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.

19. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this Directors' Report on page 56.

20. Rounding of amounts

The Company has taken advantage of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the "rounding off" of amounts in the Directors' Report and Financial Statements. Amounts in these reports have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The Directors' Report is made in accordance with a resolution of Directors.

On behalf of the Directors

Ian Cornell

Ian Cornell
Chairman

Melbourne: 16 August 2019

REMUNERATION REPORT

The Remuneration Report sets out remuneration information for the Company's Non-executive Directors and other key management personnel (disclosed executives) for the year ended 30 June 2019.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

1. Key management personnel

The Company's key management personnel are its Non-executive Directors and those executives who have been identified as having the greatest authority for planning, directing and controlling the activities of the Group.

Non-executive Directors	
Ian Cornell	Non-executive Chairman
Gary Levin	Non-executive Director
Melanie Wilson	Non-executive Director
Donna Player	Non-executive Director
Gary Kent (appointed 12 December 2018)	Non-executive Director
Disclosed executives	
Matt Spencer	CEO and Managing Director
Darin Hoekman	Chief Financial Officer

In the 2018 financial year, Stephen Roche was a Non-executive Director (retired 24 June 2018).

2. Remuneration Governance

Ultimately, the Board is responsible for the Company's remuneration policy and practices. To assist the Board with this, it has established the Remuneration and Nomination Committee (Committee). The Committee's role is to review and make recommendations to the Board on remuneration policies and practices and to ensure that the remuneration policies and practices are consistent with the strategic goal of the Board to build and deliver value to shareholders over the long term.

A copy of the Committee's Charter is available at babybuntingcorporate.com.au. It sets out further details of the Committee's specific responsibilities and functions.

Details of the composition of the Committee and the meetings held during the year are set out on page 40 of the Directors' Report.

3. Key developments during FY2019

Key developments during the 2019 financial year in respect of the Company's remuneration practices and arrangements were:

- **Salary benchmarking review:** A review was undertaking during the year in relation to business critical roles and key employees, having regard to various factors including industry remuneration benchmarks. The focus was on non-key management personnel management and specialist roles. Following that review, some adjustments were undertaken to ensure that Baby Bunting continued to provide market appropriate remuneration and remained able to attract and retain great talent.
- **Incentive and retention arrangements:** The 2018 financial year saw some unprecedented changes in the baby goods sector. Those changes created some short term challenging market conditions for Baby Bunting which impeded earnings in that financial year. Despite those challenges, the management team delivered on improving the execution of the retail experience for customers and strengthened and consolidated the Company's market leading position as the largest speciality baby goods retailer in Australia.

  The performance rights provided under the first grant under the long term incentive plan at the time of the Company's IPO (ie the FY2016 to FY2020 grant) have performance conditions that assess compound annual growth rates in earnings and total shareholder returns over a five year performance period. The performance rights were awarded as part of the Board's remuneration philosophy, which is to favour a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a larger proportion of "at-risk" remuneration.

Throughout the 2019 financial year, the Company's earnings have recovered with growth rates at levels consistent with the Company's strategy. For example, the pro forma NPAT for the 2019 financial year is approximately 42.6% above the pro forma NPAT for the 2016 financial year. However, the exceptional nature of the 2018 financial year had, and will continue to have, an outsized adverse effect on the calculation of compound growth rates for earnings and total shareholder return during the relevant performance period. Modelling undertaken by the Board indicated that even if the Company achieved exceptional earnings and share price performance for the balance of the period, the unusual performance in the 2018 financial year would mean that the EPS and TSR performance hurdles at the end of FY2020 are unlikely to be met in a manner that would provide a meaningful reward for strong performance.

The Board assessed this outcome against the need to provide real incentives for the participating executives and to minimise the risk that the Company's remuneration practices ceased to be appropriately attractive (for example, relative to other opportunities that may be available in the market). Having regard to these matters, the Board determined to provide additional grants during the year in the form of performance rights (under the FY2016 to FY2020 grant) and a one-off award of retention rights. The terms of these additional incentive and retention arrangements are described in sections 5.3.1 and 5.3.2 below.

- **New Long Term Incentive Plan grants:** The Board made grants of performance rights to eligible executives with a three year performance period from the end of FY2018 to FY2021. These grants provide an incentive beyond the existing grant under the long term incentive plan (which measures performance to after the end of FY2020). The grant of the FY2018 to FY2021 performance rights to the CEO and Managing Director, Matt Spencer, was approved by shareholders at the 2018 AGM (see section 5.3.3 below).
- **Fees for Non-executive Directors:** The fees for Non-Executive Directors were last reviewed prior to the Company's 2015 IPO. Directors' fees were reviewed during the year, with the Board approving an increase in the fees that took effect on 1 January 2019. The fee increase is described further at section 6 below.

4. Relationship between remuneration and the Company's performance

The following table shows key performance indicators for the Company over the last five years.

	2015	2016	2017	2018	2019
EBITDA (statutory) $'000	11,982	15,743	22,138	17,549	24,065
Net profit after tax (statutory) $'000	6,040	8,334	12,247	8,686	12,407
Net profit after tax (pro forma) $'000	–	10,627	12,957	9,607	15,149
Dividends per share – ordinary (cps)	–	6.3	7.2	5.3	8.4
Dividends per share – special (cps)	–	15.0	–	–	–
Basic earnings per share (cents) (statutory)	6.2	7.0	9.7	6.9	9.8
Earnings per share (cents) (pro forma)	–	8.4	10.3	7.6	12.0

5. Remuneration policy and practices

The Company's remuneration policy seeks to appropriately reward, incentivise and retain key employees, by providing a link between remuneration outcomes and both the Company's and an individual's performance.

The remuneration practices adopted by the Company include the use of fixed and variable remuneration, and short term and long term performance based indicators.

For executives, the Board has a philosophy of favouring a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a large proportion of "at-risk" remuneration.

5.1 Fixed remuneration

Fixed remuneration for employees is determined according to industry standards, relevant laws, labour market conditions and the profitability of the Company. It consists of base remuneration and superannuation. Base remuneration includes cash salary and any salary sacrifice items.

The Company provides employer superannuation contributions at Government legislated rates, capped at the relevant contribution limit unless part of a salary sacrifice election by an employee.

Fixed remuneration is reviewed annually and adjusted where appropriate. There is no guaranteed or automatic entitlement to an increase in fixed remuneration (other than to comply with any applicable legal requirements).

5.2 Short term incentives

The Company operates short term incentive plans for eligible employees, including executives and employees in other management or specialist roles.

Under the Company's principal short term incentive plans (STI plans), a cash bonus can be paid to an eligible employee, subject to the achievement of a range of financial and non-financial key performance indicators for the relevant financial year. Participation in, and payments under, the STI plans for a financial year are at the discretion of the Board. The annual key performance indicators for participants and related targets are also reviewed annually.

Gateway for short term incentive payments

For participants to become eligible to receive a payment under the STI plans, the Company must achieve certain EBIT growth targets for the financial year (with the result inclusive of payments under the STI plans). The amount of the payment (if any) received depends upon the employee satisfactorily achieving previously agreed key performance criteria and the employee's overall performance for the year meeting the required standard.

For the executives participating in the STI plan, the size of any potential STI payment is determined having regard to achieving year on year pro forma EBIT growth. Accordingly:

- if "threshold" year on year pro forma EBIT growth is not achieved, no STI payment is to be made. This reflects the principle that no significant benefit is to be provided where the Company's financial results do not justify providing any payment and also that there must be a relationship between performance and reward;
- if "threshold" year on year pro forma EBIT growth is achieved, the maximum potential STI payment is 20% of the participating executive's base remuneration; and
- if year on year pro forma EBIT growth exceeds "threshold" growth, the size of the maximum potential STI payment increases proportionally and is not limited. This is to encourage and reward participants for extraordinary performance in achieving EBIT growth.

STI outcome for FY2019

For the 2019 financial year, pro forma EBIT growth relative to the prior year pro forma EBIT was 55.4% as determined and approved by the Board.

This exceeded the "threshold" growth requirement and resulted in a potential STI payment for participating executives equal to 35.0% of their base remuneration.

The size of each participating executive's actual STI payment was determined by applying financial and non-financial criteria. Achievement of the financial criteria will provide a participating executive with 70% of the potential STI payment. Achievement of the remaining 30% is subject to achievement of specified non-financial criteria.

Achievement of year on year pro forma EBIT growth of 55.4% (and after allowing for the payments to be made under the STI plans) meant that the financial criteria was satisfied in its entirety.

The non-financial criteria for the disclosed executives (collectively) consisted of:

- achieving a reduction in the Company's lost time injury frequency rate;
- achieving margin expansion targets;
- a significant improvement in the "Net Promotor Score" provided throughout the financial year by the Company's customers;
- successfully implementing projects and operational initiatives, including projects related to core systems and fulfilment processes; and
- new store and future property pipeline related initiatives.

These performance criteria were selected to provide an incentive to participating executives to achieve specific targets relevant to the business as well as contributing to the overall financial performance of the Company.

Assessment of whether the performance criteria have been satisfied for participating executives is undertaken by the CEO and Managing Director with any decision to award a payment approved by the Board. In relation to the CEO and Managing Director, the Board assesses the relevant performance criteria and approves any STI payment.

For the disclosed executives, the extent to which the financial and non-financial criteria were achieved and the resulting STI award for the 2019 financial year was:

Disclosed executives	% of financial criteria achieved	% of non-financial criteria achieved	% of maximum STI awarded	% of STI forfeited
Matt Spencer	100%	33%	80%	20%
Darin Hoekman	100%	50%	85%	15%

STI plan benefits are paid in cash and reflect amounts earned during the financial year and are provided for in the annual financial statements. Any STI plan payments are payable in September.

5.3 Long Term Incentive Plan

The Long Term Incentive Plan (LTI Plan) is designed to align the interests of executives and participating employees more closely with the interests of the Company's shareholders by providing an opportunity for eligible employees to receive an equity interest in the Company through the grant of "rights". Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company. Participation in a grant under the LTI Plan is by invitation. The Board may determine which executives or other employees are eligible.

For grants of performance rights, whether a right vests depends upon the achievement of performance conditions. For this purpose, the Board has selected two performance conditions being:

- growth in the Company's profit (as measured by earnings per share growth); and
- growth in returns to shareholders (as measured by total shareholder return).

The conditions are measured on an absolute basis – that it, growth is measured having regard to the Company's earnings or share price from a prior period. The Board considers this to be appropriate given the current stage of the Company's development and the desire to ensure that management seek sustainable and profitable growth. On this basis, rewards to participating executives are firmly linked to the performance of the Company.

During the 2019 financial year, different grants were made under the LTI Plan and details of those grants are provided in this section.

5.3.1 FY2016 to FY2020 performance rights grant

At the time of the Company's 2015 IPO, performance rights were granted to executives providing an incentive that would be measured over performance periods ending after the conclusion of FY2020.

Grants to new executive during the year

During the financial year, performance rights under this grant were provided to an eligible executive who joined during the year (this did not include any disclosed executive). The rights granted are to be assessed against the second and third performance periods for the FY2016 to FY2020 grant and the number granted was adjusted down to reflect the relatively shorter performance periods for this participant.

Additional grants to participating executives during the year

The Board's remuneration philosophy is to provide executives with sufficient incentives to grow shareholder value over time (long term) by providing participating executives with the opportunity to earn rewards from shares provided to them, combined with a base salary and short-term incentive package that is lower than their peers who do not have the same level of upside in a long term incentive package.

As discussed at section 3 above, having regard to the developments during the 2018 financial year, participating executives may no longer have the potential incentive opportunity as originally planned across the FY2016 to FY2020 performance periods. To ensure that the performance rights under this aspect of the LTI Plan continued to provide an incentive through to the end of FY2020, the Board determined to provide additional grants of these performance rights (300,000 in aggregate under this plan). These rights were allocated among the Chief Financial Officer and other participating executives. The CEO and Managing Director did not participate in this grant.

These performance rights will be assessed against the EPS growth and TSR growth performance conditions (described below) and in respect of the performance period from FY2016 to the end of FY2020.

Terms and conditions of the FY2016 to FY2020 award

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of 8.4 cents per share. This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 26 June 2016 (excluding the expense of the LTI Plan recognised in the Company's statutory financial statements and any unusual items) by the number of shares on issue as at 26 June 2016.
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $1.40 (being the price at which shares were issued in the Company's IPO) used as the base level (and with no allowance for the "pre-IPO dividend" paid by the Company at the time of the IPO). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September (inclusive) or such other period as the Board considers appropriate.
Performance periods	Three separate performance periods apply to the rights: **EPS Rights** • 20% of the EPS Rights were initially assessed against EPS growth for the two year period from the end of FY2016 to the end of FY2018; • 30% of the EPS Rights will be assessed against EPS growth for the three year period from the end of FY2016 to the end of FY2019; and • 50% of the EPS Rights will be assessed against EPS growth for the four year period from the end of FY2016 to the end of FY2020. **TSR Rights** • 20% of the TSR Rights were initially assessed against the TSR growth in the period from the Company's listing on ASX to the period ended 30 September 2018; • 30% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to the period ending 30 September 2019; and • 50% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to the period ending 30 September 2020. If a right does not vest at the end of the first and/or second performance period, it does not lapse but remains available for vesting at the end of the next applicable performance period. If a right has not vested at the end of the third performance period, it will lapse. There is no further retesting after the third performance period.
Vesting schedule	• 15% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 15% EPS CAGR is achieved over the relevant performance period; • 100% of the EPS Rights will vest if the EPS growth hurdle of 25% EPS CAGR is achieved over the relevant performance period; and • if the EPS CAGR is within the range of 15% to 25% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis. • 15% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 15% TSR CAGR is achieved over the relevant performance period; • 100% of the TSR Rights will vest if the TSR growth hurdle of 25% TSR CAGR is achieved over the relevant performance period; and • if the TSR CAGR is within the range of 15% to 25% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis.

Additional comment on performance conditions and performance periods

The terms of the FY2016 to FY2020 grant also provide that if any rights at the end of the first and/or second performance period have not vested, they do not lapse but remain available for vesting at the end of the next subsequent performance period. The Board considers this to be in the interests of shareholders as it ensures participating executives are not penalised for making short term decisions or investments (as occurred in the 2018 financial year) that may dampen near term growth but lead to higher overall growth in the long term. It is important to note as the performance conditions look to compound annual growth rates, the longer the period for testing, the harder the test. So, if 25% CAGR for TSR or EPS growth is not achieved in the period to the end of FY2018, then achieving 25% CAGR over a longer period to the end of FY2019 and FY2020 will be an even more challenging target for participants.

LTI outcomes to date

The 2019 financial year was the second year that the rights have been (or will be) assessed against the relevant performance conditions. The compound annual growth rate in the Company's EPS measured over the period from the end of the 2016 financial year to the end of 2019 financial year was 12.3%. On this basis, none of the second tranche of EPS rights (or the first tranche that did not vest in the prior year) will vest. These rights do not lapse but will remain available for vesting at the end of the third and final performance period.

After the end of the 2018 financial year, 12% of participating executives' TSR rights vested, as the TSR compound growth rate was 20.3%

	Measured performance	Proportion of Rights available for vesting	Proportion of available Rights that vested
		EPS Rights	
First performance period (FY16 to FY18)	The compound annual growth rate of EPS over the period was negative 5.1%	20%	0%
Second performance period (FY16 to FY19)	The compound annual growth rate of EPS over the period was 12.3%	50%	0%
Third performance period/(FY16 to FY20)			
		TSR Rights	
First performance period (IPO to the determination of the 2018 VWAP)	The compound annual growth rate of TSR over the period was 20.3%	20%	60% of the 20% *(This equated to 12% of the disclosed executives' total TSR Rights)*
Second performance period (IPO to the determination of the 2019 VWAP)	*The 2019 VWAP will be calculated after 30 September 2019*	38%	*Yet to be determined*
Third performance period (IPO to the determination of the 2020 VWAP)			

Notes:

- Following the vesting of some of the TSR Rights after the conclusion of the first performance period, 296,697 shares were issued to participating executives on 18 October 2018.
- The 2019 VWAP and 2020 VWAP is the volume weighted average share price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September (inclusive) for 2019 and 2020, respectively (or such other period as the Board considers appropriate).

5.3.2 FY2021 retention rights grant

During the 2019 financial year, the Board made a one-off grant of retention rights to participating eligible executives, including the Chief Financial Officer. There were 580,000 retention rights granted in total. The CEO and Managing Director was not granted retention rights.

The grant was made as part of the Board's remuneration strategy to ensure that participating executives continued to have an appropriate incentive to remain with the business under the Company's current remuneration philosophy. It also assists to ensure stability and that executives remain engaged in the business. The Board considers this is critical to the long term success of the organisation.

The terms of the retention rights provide that each right will vest shortly after the conclusion of FY2021. For vesting to occur:

- the participant must remain employed at the time of vesting (and not otherwise be serving out a period of notice in advance of cessation of employment, unless otherwise determined by the Board); and
- the participant's performance evaluation rating in the period up to the assessment of vesting must exceed an acceptable rating.

If the retention rights vest, a participant may elect to exercise the right and receive a fully paid ordinary share. A vested right may be exercised at any time during the two year period following vesting of the right.

5.3.3 FY2018 to FY2021 performance rights grant

To provide a long term incentive in relation to future periods beyond the IPO grant (the FY2016 to FY2020 period), the Board has decided to make awards of long term incentives on an annual basis (subject to shareholder approval where required) in relation to three year periods.

During the 2019 financial year, the Board decided to make a grant under the Long Term Incentive Plan for the period FY2018 to FY2021. This grant is referred to as the FY2018 to FY2021 grant.

Under this grant, the Board granted 2,500,000 performance rights (in total) to the CEO and Managing Director, the Chief Financial Officer and other participating executives. The grant to the CEO and Managing Director was approved by shareholders at the Company's 2018 AGM.

Terms and conditions of the FY2018 to FY2021 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of 7.6 cents per share. This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 24 June 2018 (excluding the expense of the LTI Plan recognised in the Company's statutory financial statements and any unusual items) by the number of shares on issue as at 24 June 2018.
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $2.22 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2018 to 30 September 2018). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2021 (inclusive) or such other period as the Board considers appropriate.
Performance periods	The performance period ends after the conclusion of FY2021. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.

Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 25% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 25% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights.	• 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.

5.3.4 General comments on rights Treatment on cessation of employment

Upon resignation or in instances where a participant's employment was terminated for cause or as a result of unsatisfactory performance, their unvested rights will lapse. In other circumstances, a person ceasing employment may retain unvested rights with vesting to be tested at the end of the relevant performance period. However, in all cases, the Board has discretion to permit a participant to retain unvested Rights, including a discretion to reduce the number of retained unvested Rights to reflect the part of the performance period for which the participant was employed. Shareholder approval has been obtained for the purposes of sections 200B and 200E of the Corporations Act to permit the Company to give a benefit to a participant who holds a managerial or executive office in these circumstances. This approval was expressed to be for the period up to the 2021 annual general meeting.

Treatment on change of control

Generally, in the event of a change of control of the Company, unvested rights will vest on a pro rata basis having regard to the proportion of the performance period that has passed and after testing the relevant performance conditions at that time. The Board has discretion to determine whether a change in control has occurred and the treatment of the rights at that time.

Other conditions

Subject to the ASX Listing Rules (where relevant), a participant may only participate in new issues of shares or other securities if the right has been exercised in accordance with its terms and shares are issued or transferred and registered in respect of the right on or before the record date for determining entitlements to the issue. Participants will also be entitled to receive an allocation of additional shares as an adjustment for bonus issues.

5.4 General Employee Share Plan

The General Employee Share Plan (GES Plan) is part of the Company's overall remuneration policy to reward Baby Bunting employees, from time to time. By providing share ownership to employees, Baby Bunting is committed to creating a high performance culture and aligning employees to the creation of long term value for the Company.

The GES Plan provides for grants of shares to eligible employees of the Company up to a value determined by the Board. At the end of the financial year, around 42% of the Company's employees were shareholders of the Company, the vast majority of whom acquired their shares because of the GES Plan.

During the financial year, the Company made its fourth offer under this plan and issued 163,944 shares to eligible employees who each received approximately $750 worth of Baby Bunting shares for no monetary consideration. (Eligible employees are generally those full-time or part-time employees (or long term casual employees) who have been employee for approximately 12 months before the date of the offer.)

To illustrate the benefits provided to participating team members under the GES Plan, an employee who has participated in each of the four share offers under the GES Plan (since 2015) has received 1,891 Baby Bunting shares. This represents around $4,300 worth of value (using the share price at the end of the financial year and including the dividends that have been paid on those shares).

Shares acquired under the GES Plan are subject to disposal restrictions having regard to applicable Australian tax legislation (currently, shares granted cannot be dealt with by a participant until the earlier of three years after the date of grant or the day after the day the participant ceases to be an employee).

The Board intends making grants under the GES Plan in the future to eligible employees to reward sustainable financial performance.

6. Non-executive Directors

Remuneration Policy

Under the Company's Constitution, Non-executive Directors' remuneration for their services as a Director must not exceed in aggregate in any financial year $1,000,000 (being the amount specified in the Constitution) or any other amount fixed by the Company in general meeting. Currently, the aggregate fee cap is $1,000,000 (inclusive of superannuation contributions).

Non-executive Directors' remuneration must not include a commission on, or a percentage of, operating revenue. Non-executive Directors are not entitled to participate in any of the Company's employee incentive plans. Non-executive Directors may be reimbursed for travel and other reasonable expenses incurred in on the business of the Company or in carrying out duties as a director. A director may be paid additional or special remuneration where a director performs extra services or makes special exertions.

Review of Non-executive Directors' fees

The Board recognises the need to remain competitive in the market in order to continue to attract and retain talented directors. Non-executive Director fees were last reviewed in preparation for the Company's 2015 IPO. During the year, the Committee assessed the fees paid to Non-executive Directors and recommended to the Board that the fees be increased. In adopting this recommendation, the Board had regard to the Chairman's and the Committees' workloads and benchmarking against comparable publicly listed companies operating in the retail industry.

The fee increase took effect on 1 January 2019 and the former and the current per annum fees (inclusive of superannuation contributions provided by the Company) are set out below:

Role	Fees before 1 January 2019 $ per annum	Fees from 1 January 2019 $ per annum
Chairman	120,000	135,000
Non-executive Director	65,000	80,000
Chairman of a Board Committee	15,000	15,000
Member of a Board Committee	5,000	7,500

For the financial year ended 30 June 2019, the fees paid and superannuation contributions to all Non-executive Directors were approximately $450,143 in aggregate.

7. Details of remuneration for Non-executive Directors and disclosed Executives

Details of the remuneration of the Non-executive Directors and other key management personnel of the Company are set out in the following table.

		Short term employee benefits			Post-employment benefits	Long term benefits	Share based payment[2]			
	Year	Salary & fees[1] $	STI and other fees $	Non-monetary benefits $	Super-annuation $	Long service leave $	LTI Plan rights[3] $	Employee share plan[4] $	TOTAL[5] $	Performance related %
Non-executive Directors										
Ian Cornell	2019	126,608	–	–	12,028	–	–	–	138,636	–
	2018	114,155	–	–	10,845	–	–	–	125,000	–
Gary Levin	2019	81,261	–	–	7,719	–	–	–	88,980	–
	2018	73,086	–	–	6,914	–	–	–	80,000	–
Melanie Wilson	2019	87,047	–	–	8,270	–	–	–	95,317	–
	2018	77,625	–	–	7,374	–	–	–	84,999	–
Donna Player	2019	73,085	–	–	6,943	–	–	–	80,028	–
	2018	63,927	–	–	6,073	–	–	–	70,000	–
Gary Kent (appointed 12 December 2018)	2019	43,089	–	–	4,093	–	–	–	47,182	–
Former Non-executive Directors										
Stephen Roche (retired 24 June 2018)	2019	–	–	–	–	–	–	–	–	–
	2018	63,926	–	–	6,072	–	–	–	69,998	–
Disclosed executives										
Matt Spencer	2019	520,295	143,000	9,500	20,531	18,046	450,999	–	1,162,371	51.1%
	2018	475,209	–	10,878	20,047	21,998	158,041	–	686,173	23.0%
Darin Hoekman	2019	361,804	104,390	7,500	20,531	10,480	239,994	750	745,449	46.2%
	2018	295,658	–	7,500	20,047	9,766	61,909	999	395,879	15.6%
Total	**2019**	**1,293,189**	**247,390**	**17,000**	**80,115**	**28,526**	**690,993**	**750**	**2,357,963**	
	2018	**1,163,586**	**–**	**18,378**	**77,372**	**31,764**	**219,950**	**999**	**1,512,049**	

1. Amount includes the value of annual leave accrued during the financial year and salary sacrifice arrangements.
2. The value of share based payments has been calculated in accordance with applicable accounting standards.
3. The value of the LTI plan rights included as remuneration in the table is an accounting value and represents the aggregate of amounts determined for both market based and non-market based performance hurdles.
4. The Company issued 163,944 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $750 worth of shares. In the prior reporting period, the Company issued 260,108 shares under its General Employee Share Plan with no monetary consideration payment by participating eligible employees who each received approximately $1,000 worth of shares.
5. There were no termination benefits paid or payable during the current financial year.

8. Equity instruments held by key management personnel

The tables below show the number of shares, performance rights and options in the Company that were held during the financial year by key management personnel, including close members of their family and entities related to them. No amounts remain unpaid in respect of the ordinary shares at the end of the financial year.

Ordinary shares

Shares held by key management personnel, including close members of their family and entities related to them.

Disclosed	Balance at start of the year	Net change	Balance at the end of the year
Non-executive Directors			
Ian Cornell	900,000	–	900,000
Gary Levin	388,000	(188,000)	200,000
Melanie Wilson	20,000	–	20,000
Donna Player	16,000	20,000	36,000
Gary Kent	–	–	–
Disclosed executives			
Matt Spencer	1,387,132	(76,154)	1,310,978
Darin Hoekman	337,000	44,377	381,377

Performance rights granted to disclosed executives

Disclosed executives	Balance at start of the year	Number of rights granted as compensation during the year	Fair value per right at grant date	Value of rights granted during the year	Number of rights exercised during the year	Value of the rights exercised during the year	Number of rights held at end of year (all unvested)
Matt Spencer							
FY2016 to FY2020 rights	1,981,714	–	–	–	118,846	$14,262	1,862,868
FY2018 to FY2021 rights	–	600,000	$1.53	$918,000	–	–	600,000
Darin Hoekman							
FY2016 to FY2020 rights	739,962	50,000	$1.53	$76,500	44,377	$5,325	745,585
Retention rights (FY2021)	–	165,000	$2.32	$382,800	–	–	165,000
FY2018 to FY2021 rights	–	400,000	$1.53	$612,000	–	–	400,000

Matt Spencer was granted performance rights pursuant to shareholder approval granted at the 2018 AGM on 30 November 2018. During the year, Darin Hoekman was granted the rights detailed above on 30 November 2018.

Details of the performance conditions and performance periods for those rights are set out in section 5.3 (Long term incentive plan) above.

Options

There are no options over shares on issue as at the date of this Directors' Report.

9. Employment contracts

Each executive has an employment contract specifying, among other things, remuneration arrangements, benefits, notice periods and other terms and conditions. The contracts provide that participation in the STI and LTI arrangements are at the Board's discretion.

The employment contracts do not have a fixed term. Employment may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances including serious or wilful misconduct.

Disclosed executives	Termination – notice by Executive	Termination – notice by Company or payment in lieu
Matt Spencer	12 months	12 months
Darin Hoekman	6 months	6 months

10. Other KMP disclosures

Other than disclosed in this Remuneration Report, no member of the Company's key management personnel (or their respective close family members or an entity over which they have control or significant influence) has entered into any transaction with the Company or a subsidiary during the reporting period, other than transactions that occur within a normal employee, customer or supplier relationship, on arms-length terms and that are trivial or domestic in nature.

There are no loans to key management personnel.

This is the end of the Remuneration Report.

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration to the Directors of Baby Bunting Group Limited

As lead auditor for the audit of Baby Bunting Group Limited for the financial year ended 30 June 2019, 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 Baby Bunting Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
16 August 2019

CONSOLIDATED FINANCIAL STATEMENTS

Baby Bunting Group Limited for the year ended 30 June 2019

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE 53 WEEKS ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000 Restated
Revenue	3	368,006	304,459
Cost of sales		(239,576)	(203,605)
Gross profit		**128,430**	**100,854**
Finance income	4	17	17
Store expenses	5	(78,785)	(64,788)
Marketing expenses		(6,040)	(5,606)
Warehousing expenses	5	(5,240)	(4,319)
Administrative expenses	5	(18,632)	(12,990)
Project and acquisition related expenses	5	(788)	–
Finance expenses	5	(710)	(651)
Profit before tax		**18,252**	**12,517**
Income tax expense	6	(5,845)	(3,860)
Profit after tax		**12,407**	**8,657**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**12,407**	**8,657**
Profit for the year attributable to:			
Equity holders of Baby Bunting Group Limited		12,407	8,657
Earnings per share			
From continuing operations			
Basic (cents per share)	29(a)	9.8	6.9
Diluted (cents per share)	29(b)	9.8	6.9

Notes to the consolidated financial statements are included in pages 62 to 92.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 Jun 2019 $'000	24 Jun 2018 $'000 Restated
Current Assets			
Cash and cash equivalents	26(b)	5,841	7,233
Other receivables	7	4,095	3,805
Inventories	8	68,204	62,974
Other assets	9	1,511	1,677
Total Current Assets		**79,651**	**75,689**
Non-Current Assets			
Plant and equipment	10	24,452	21,030
Intangibles	11	4,535	2,554
Goodwill	11	45,321	44,180
Deferred tax assets	13	4,953	4,526
Total Non-Current Assets		**79,261**	**72,290**
Total Assets		**158,912**	**147,979**
Current Liabilities			
Trade and other payables	14	44,273	36,462
Other liabilities	15	1,928	1,614
Current tax liabilities		2,651	889
Provisions	17	4,902	3,256
Total Current Liabilities		**53,754**	**42,221**
Non-Current Liabilities			
Borrowings	16	3,133	10,770
Provisions	17	3,922	3,987
Total Non-Current Liabilities		**7,055**	**14,757**
Total Liabilities		**60,809**	**56,978**
Net Assets		**98,103**	**91,001**
Equity			
Issued capital	18	85,706	85,292
Share based payments reserve	22	2,515	912
Retained earnings	20	9,882	4,797
Total Equity		**98,103**	**91,001**

Notes to the consolidated financial statements are included in pages 62 to 92.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Issued Capital $'000	Share Based Payments Reserve $'000	Retained Earnings $'000 Restated	Total Equity $'000 Restated
Balance at 25 June 2017	84,816	451	8,861	94,128
Effects of adoption of new accounting standards	–	–	(3,788)	(3,788)
As at 26 June 2017 (restated)	**84,816**	**451**	**5,073**	**90,340**
Profit for the year	–	–	8,657	8,657
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	8,657	8,657
Issue of shares (Note 18, 22)	476	–	–	476
Dividends (Note 19)	–	–	(8,933)	(8,933)
Share based payment (Note 22)	–	461	–	461
Balance at 24 June 2018	**85,292**	**912**	**4,797**	**91,001**
Balance at 24 June 2018	85,292	912	4,797	91,001
Profit for the year	–	–	12,407	12,407
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	12,407	12,407
Issue of shares (Note 18, 22)	414	–	–	414
Dividends (Note 19)	–	–	(7,322)	(7,322)
Share based payment (Note 22)	–	1,603	–	1,603
Balance at 30 June 2019	**85,706**	**2,515**	**9,882**	**98,103**

Notes to the consolidated financial statements are included in pages 62 to 92.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 53 WEEKS ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000 Restated
Cash flows from operating activities			
Receipts from customers		401,917	332,894
Payments to suppliers and employees		(371,601)	(317,845)
Income tax paid		(4,108)	(4,010)
Interest received		17	17
Finance costs paid		(871)	(567)
Net cash from operating activities	26(a)	**25,354**	**10,489**
Cash flows from investing activities			
Payments for plant and equipment	10	(8,080)	(4,987)
Payments for intangibles	11	(2,442)	(1,731)
Acquisition of new business	12	(1,265)	–
Net cash (used in) investing activities		**(11,787)**	**(6,718)**
Cash flows from financing activities			
Dividends paid	19	(7,322)	(8,933)
Net (Repayment of)/Proceeds from borrowings		(7,637)	5,970
Net cash (used in) financing activities		**(14,959)**	**(2,963)**
Net (decrease)/increase in cash and cash equivalents		**(1,392)**	**808**
Cash and cash equivalents at beginning of the period		7,233	6,425
Cash and cash equivalents at end of the period	26(b)	**5,841**	**7,233**

Notes to the consolidated financial statements are included in pages 62 to 92.

Note 1: Reporting entity

Baby Bunting Group Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and its principal place of business is 955 Taylors Road, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "consolidated entity"). The consolidated entity is primarily involved in the retailing of baby merchandise.

The Company was admitted to the official list of the Australian Securities Exchange (ASX) on 14 October 2015 under the ASX code 'BBN'.

The Company has adopted a 53 week retail calendar for financial reporting purposes which ended 30 June 2019. The prior year was a 52 week retail calendar ending on 24 June 2018.

Note 2: Summary of significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the consolidated entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards (IFRS). For the purposes of preparing the Consolidated Financial Statements, the Company is a for-profit entity.

The financial statements were authorised for issue by the directors on 16 August 2019.

(b) Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. All amounts are presented in Australian dollars, unless otherwise noted.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

(c) Critical accounting judgements and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, the directors are required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Determination of inventory provision for shrinkage, obsolescence and mark-down

Management's judgement is applied in determining the inventory provision for shrinkage, obsolescence and mark-down. Estimates of shrinkage trends based on historical observations have been applied against inventory held at year end and where the estimated selling price of inventory is lower than the cost to sell, the difference is recognised in the provision.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation estimates the future cash flows expected to arise from the cash generating unit and a pre-tax discount rate in order to calculate present value. The key assumptions used in the value in use calculations are as follows:

Forecasted sales growth of existing stores	3.0% for comparable store growth over a 5 year period
Terminal sales growth rate	3.0%
Forecasted gross margin	Average gross margins achieved in the period immediately before the forecast period
Forecasted retail store expenses	Forecast increases correlate to the consumer price indices. The values assigned to the key assumption are consistent with external sources of information
Pre-tax weighted average cost of capital	15.7%

Baby Bunting Group Limited as a whole is considered its own cash generating unit.

The recoverable amount of the consolidated entity's cash generating unit to which goodwill is allocated currently exceeds its carrying value. Reasonably possible changes that may occur to the assumptions used would not result in impairment.

(d) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the consolidated entity's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

(e) Business combinations

Businesses combinations are accounted for using the purchase aquisition method. The consideration of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entity in exchange for control of the business acquired. Acquisition related costs are recognised in the statement of profit or loss and other comprehensive income as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the consideration of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the consideration of the business combination, the excess is recognised immediately in the statement of profit or loss and other comprehensive income.

Note 2: Summary of significant accounting policies (continued)

(f) Income tax

The Company is part of a tax consolidated group under Australian taxation law, of which the Company is the head entity. As a result the Company is subject to income tax through its membership of the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group (if any) are recognised by the Company (as head entity in the tax-consolidated group).

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Baby Bunting Group Limited and the other entity in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The consolidated entity's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a weighted average cost formula basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. Volume rebates and supplier promotional rebates are recognised as a reduction in the cost of inventory and are recorded as a reduction in the cost of goods sold when the inventory is sold. Supplier promotional and marketing rebates that arise upon sale of inventory have been brought to account as a direct deduction in costs of goods sold.

(h) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The depreciable amount of all fixed assets, are depreciated over their estimated useful lives. The estimated useful lives and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. The useful life for each class of asset is:

Class of fixed asset	Useful Life
Plant and equipment	3 – 10 years
Leasehold improvements	5 – 10 years

(i) Intangibles – computer software

Intangible assets with finite lives that are acquired separately or internally generated are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Class of Intagible assets	Useful life
Computer software	5 years

(j) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

(k) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. This is generally instore when the customer purchases the goods or services or on delivery to the customer for online sales.

For layby, revenue is recognised when customers make the final payment and goods have been collected. The initial layby deposit paid and subsequent instalment payments are recorded as unearned income in the balance sheet and included in trade and other payables.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method (historical return rates provide a basis for the expected value) to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in AASB 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Note 2: Summary of significant accounting policies (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. The Group sells gift cards which can be redeemed in store or online. The unspent funds are recorded as a contract liability, refer to Note 15.

(m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(n) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition.

Goodwill is subsequently measured at its cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or groups of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in the statement of profit or loss and other comprehensive income and is not reversed in a subsequent period.

(p) Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Financial assets are classified as follows depending on the nature and purpose of the financial assets and are determined at the time of initial recognition. The most applicable category for the Group is amortised cost.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (ie, removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(q) Trade payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

(r) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

Provisions for the expected cost of warranty obligations under applicable consumer law are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

(s) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Note 2: Summary of significant accounting policies (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(t) Borrowing costs

Borrowing costs are recognised as expenses using the effective interest rate menthod as described below.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest rate.

(v) Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 22.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

(w) Comparative amounts

The comparative figures are for the period 26 June 2017 to 24 June 2018. Where appropriate, comparative information has been reformatted to allow comparison with current year information.

(x) Changes in accounting policies and disclosures

New and amended Standards and Interpretations adopted

The Company applied AASB 15 *Revenue from Contracts with Customers* for the first time. This new accounting standard supersedes all previous revenue recognition requirements under Australian Accounting Standards. AASB 15 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 standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted AASB 15 using the full retrospective approach which resulted in an adjustment to opening retained earnings as at 26 June 2017 of $3.788 million and which resulted in restatement of previous financial statements. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

AASB 9 *Financial Instruments* and other amendments to other standards apply for the first time in the current reporting period, but do not have a material impact on the consolidated financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

AASB 15 Revenue from Contracts with Customers

For retail sales other than layby sales, adoption of AASB 15 does not have a material impact on the Company's revenue and profit or loss. Revenue recognition occurs at the point in time when control of the asset is transferred to the customer, generally at the point of sale or on delivery of the goods. Adoption of AASB 15 also does not have any impact on gift card sales, where revenue is recognised only on redemption. Under AASB 15, the Company will recognise revenue from estimated unredeemed gift cards over the expected customer redemption period, which is substantially within 12 months rather than on issue of the gift card or on expiry. The gift card redemption rates have been determined based on historical rates of issued and redeemed gift cards. The change in policy does not have any impact on the Company's gift card revenue recognition on transition to AASB 15.

The impact of change in AASB 15 has been noted in layby sales, customers right to return goods and delivery service revenue. Please refer to accounting policy below for further discussion.

Set out on the following page are the amounts by which each financial statement line item is affected as at 24 June 2018 as a result of the adoption of AASB 15. The adoption of AASB 15 did not have a material impact on Other Comprehensive Income (OCI) or the Company's operating, investing and financial cash flows. The first column shows amounts prepared under AASB 15 and the second column represents figures if AASB 15 had not been adopted.

Impact on the Statement of Profit or Loss and Other Comprehensive Income increase/(decrease) for the full year ended 24 June 2018

	Reference	AASB 15 $'000	Previous AASB $'000	Increase/ (decrease) $'000
Revenue	(i), (iii)	304,459	303,093	1,366
Cost of sales	(i), (iii)	(203,605)	(202,203)	(1,402)
Gross profit		**100,854**	**100,890**	**(36)**
Interest income		17	17	–
Store expenses		(64,788)	(64,788)	–
Marketing expenses		(5,606)	(5,606)	–
Warehousing expenses		(4,319)	(4,319)	–
Administrative expenses		(12,990)	(12,990)	–
Finance costs		(651)	(651)	–
Profit before tax		**12,517**	**12,553**	**(36)**
Income tax expense		(3,860)	(3,867)	7
Profit after tax		**8,657**	**8,686**	**(29)**
Other comprehensive income for the period		–	–	–
Total comprehensive income for the period		**8,657**	**8,686**	**(29)**
Profit for the period attributable to:				
Equity holders of Baby Bunting Group Limited		**8,657**	**8,686**	**(29)**
Earnings per share				
From continuing operations				
Basic (cents per share)		6.9	6.9	–
Diluted (cents per share)		6.9	6.9	–

Note 2: Summary of significant accounting policies (continued)

Condensed Consolidated Statement of Financial Position as at 24 June 2018

	Reference	AASB 15 $'000	Previous AASB $'000	Increase/ (decrease) $'000
Current assets				
Cash and cash equivalents		7,233	7,233	–
Other receivables	(i)	3,805	11,091	(7,286)
Inventories	(i)	62,974	54,584	8,390
Other assets	(ii)	1,677	1,277	400
Total current assets		**75,689**	**74,185**	**1,504**
Non-current assets				
Plant and equipment		21,030	21,030	–
Intangibles		2,554	2,554	–
Goodwill		44,180	44,180	–
Deferred tax assets	(i)	4,526	3,640	886
Total non-current assets		**72,290**	**71,404**	**886**
Total assets		**147,979**	**145,589**	**2,390**
Current liabilities				
Trade and other payables	(i)	36,462	30,831	5,631
Other liabilities	(ii)	1,614	1,014	600
Current tax liabilities	(i)	889	914	(25)
Provisions		3,256	3,256	–
Total current liabilities		**42,221**	**36,015**	**6,206**
Non-current liabilities				
Borrowings		10,770	10,770	–
Provisions		3,987	3,987	–
Total non-current liabilities		**14,757**	**14,757**	**–**
Total liabilities		**56,978**	**50,772**	**6,206**
Net assets		**91,001**	**94,817**	**(3,816)**
Equity				
Issued capital		85,292	85,292	–
Share based payments reserve		912	912	–
Retained earnings	(i), (ii)	4,797	8,613	(3,816)
Total equity		**91,001**	**94,817**	**(3,816)**

The nature of the adjustments and the reasons for the significant changes in the statement of financial position as at 24 June 2018 and the statement of financial performance for the year ended 24 June 2018 are described below.

(i) Layby sales (change in recognition point resulting from adoption of AASB 15)

Prior to FY2019, the Company recognised layby sales in full upon initiation of the layby by the customer. When a layby sale was initiated by a customer this included a minimum 25% deposit. At this point, the Company recorded 100% of the sale, took up a receivable to the value of 75%, reduced inventory (now committed to the customer) and increased cash (25% deposit).

Under AASB 15, the recognition point of layby sales now occurs upon the collection of goods by the customer. Relative to the Company's previous accounting revenue recognition policy for layby sales, this has the effect of deferring revenue recognition by around three months (being the average duration from layby initiation to layby completion). Under AASB 15, as the recognition point for a layby sale is now at the point of final payment and collection of goods by the customer, a receivable is no longer recorded, inventory continues to be owned by the Company (until customer collection) and all deposits and layby instalment payments received from customers are recorded as unearned income.

On adoption of AASB 15, an adjustment was made to opening retained earnings on 26 June 2017 for $3.581 million relating to adjustment to layby sales described below.

The prior year Statement of Financial Performance has been restated to adjust for the change in the timing of the recognition of layby sales. The impact on the financial performance for the period ended 24 June 2018 resulting from the change in recognition of layby sales is to increase sales by $0.207 million, increase cost of sales by $0.243 million and increase income tax expense by $0.07 million.

The Statement of Financial Position as at 24 June 2018 and at 26 June 2017 transition date has been restated to adjust for the change in timing of the recognition of layby sales as follows:

- The Company recognised additional inventory of $8.389 million (26 June 2017: $8.632 million) to reflect that ownership is retained by the Company until collection of the goods;
- Layby receivables decreased by $7.287 million (26 June 2017: $7.550 million);
- Deferred tax asset increased by $0.886 million (26 June 2017: $0.910 million), reflecting that income tax is payable on customer deposits received for layby sales, before the layby sale is recognised as income, and tax expense recorded, for accounting purposes;
- Trade and other payables increased by a net $5.630 million (26 June 2017: $5.574 million), representing an increase in unearned income of $6.922 million (26 June 2017: $6.887 million) (being the quantum of deposits and instalment payments received by the Company from customers at that point) less a decrease in GST payable of $1.292 million (26 June 2017: $1.312 million) (GST reduces as it is not payable until the sale is finalised by the customer);
- Retained earnings as at 24 June 2018 decreased by $3.616 million (26 June 2017: $3.581 million), being the net change resulting from the restatement of account balances contained within the statement of financial position.

(ii) Right of Return (creation of liability for sales returns as a result of adoption of AASB 15)

Under AASB 15, the Company estimates the value of expected customer sales returns that will arise as a result of the Company's change of mind return policy which entitles customers to refund unused goods after purchase. Prior to adopting AASB 15, no right of return provision was recognised by the Company. The impact of this change to opening retained earnings as at 26 June 2017 and on the statement of financial position as at 24 June 2018 is as follows:

- Recognise a refund liability of $0.600 million, recorded in other liabilities, being the Company's estimate of refunds it will make to customers post period end in relation to sales made during the relevant reporting period, equating to 14 days of sales at the historical return rate.
- Recognise a right of return asset being the goods the Company expects to be returned by customers as a result of its change of mind returns policy. This asset amounts to $0.400 million, recorded in other assets in the Statement of Financial Position. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods. As a result of these adjustments, retained earnings decreased by $0.200 million.

(iii) Delivery service revenue (change in disclosure resulting from adoption of AASB 15)

The Company provides delivery services to customers for a fee. Predominantly these service fees are freight cost recoveries for online deliveries. Historically it has been allowable to record these fees against the associated delivery service expense (as a component of cost of goods sold). AASB 15 considers that monies received in relation to a performance obligation (in this instance delivery of goods) are to be considered as revenue. The impact of this disclosure change on the statement of profit or loss for the period ended 24 June 2018 is an increase in revenue by $1.159 million and an increase cost of sales by $1.159 million. Net impact on profit is nil.

No other changes to revenue recognition were identified under AASB 15.

Note 2: Summary of significant accounting policies (continued)

(y) Standards and Interpretations in issue not yet adopted

Australian Accounting Standards and Interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Company intends to adopt these new standards and interpretations, if applicable, when they become effective.

AASB 16 Leases – *Effective date: 1 January 2019 (Application date: 1 July 2019)*

AASB 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

Under AASB 16 Leases the Company will account for operating leases as a lessee by recognising a right-of-use (ROU) asset and an associated lease liability on the Consolidated Statement of Financial Position. The lease liability represents the present value of future lease payments and the corresponding right-of-use asset represents the right to use the underlying asset during the lease term. The standard includes two recognition exemptions for the lessee being low value assets and short-term leases. Lessees will be required to recognise an interest expense on the lease liability and a depreciation charge for the right of use asset.

The Company is currently continuing to assess the impact of the change in the standard which it expects to be material.

Transition to AASB 16

The Company is going to adopt AASB 16 on 1 July 2019.

In applying AASB 16 to leases previously classified as operating leases under AASB 117, the Company is also permitted to use a number of practical expedients to operating leases on a lease-by-lease basis.

The Company is continuing its assessment of the estimated impact that AASB 16 has on its Consolidated Financial Statements as at 30 June 2019:

Estimated impact on consolidated statement of financial position as at 30 June 2019:

New lease liabilities	$80 million to $100 million

The method of retrospective application is currently being finalised. Depending on the method applied the net effect of the new lease liabilities and right of use assets, adjusted for deferred tax and the reversal of the existing straight line leasing and incentive liability may have an impact on opening retained earnings.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on the composition of the Company's lease portfolio, the extent to which the Company chooses to use practical expedients and recognition exemptions, final discount rates used in calculating the lease liability, final determination of reasonably certain renewal options and the new accounting policies which are subject to change until the Company presents its financial statements that include the date of initial application.

Note 3: Revenue from contracts with customers

	2019 $'000	2018 $'000 Restated
An analysis of the consolidated entity's revenue for the year, is as follows:		
Revenue from contracts with customers	368,006	304,459

Note 4: Finance income

	2019 $'000	2018 $'000 Restated
Interest income	17	17

Note 5: Profit for the year

Profit before income tax expense includes the following expenses:

	2019 $'000	2018 $'000 Restated
Interest and finance charges paid/payable	710	651
Depreciation and amortisation	5,121	4,362
Rental expenses relating to operating leases:		
Minimum lease payments	24,133	20,452
Employee benefits expense	59,158	46,015

Depreciation and amortisation

Depreciation and amortisation is disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Store expenses", "Warehousing expenses" and "Administrative expenses" as detailed below:

For the year ended 24 June 2018	As reported $'000	Depreciation and Amortisation $'000	Excluding Depreciation and Amortisation $'000
Store expenses	(64,788)	3,732	(61,056)
Warehousing expenses	(4,319)	176	(4,143)
Administrative expenses	(12,990)	454	(12,536)
Total	**(82,097)**	**4,362**	**(77,735)**

For the year ended 30 June 2019	As reported $'000	Depreciation and Amortisation $'000	Excluding Depreciation and Amortisation $'000
Store expenses	(78,785)	4,389	(74,396)
Warehousing expenses	(5,240)	173	(5,067)
Administrative expenses	(18,632)	559	(18,073)
Total	**(102,657)**	**5,121**	**(97,536)**

	2019 $'000	2018 $'000
Project and acquisition related expenses includes the following:		
Acquisition related expenses[i]	248	–
Project related expenses[ii]	540	–
Total expenses	**788**	**–**

(i) Acquisition related expenses relate to four car seat installation businesses purchased during the year – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. The costs identified relate to due diligence costs and integration costs of the acquisitions (but not the acquisition consideration) which were finalised during the last quarter of FY2019.

(ii) Project related expenses relate to replacement of its core information and merchandising technology systems, business improvement and brand modernisation projects.

Note 6: Income Tax

	2019 $'000	2018 $'000 Restated
Current tax in respect of the current year	6,036	4,156
Current tax in respect of the prior year	–	(91)
Deferred tax	(191)	(205)
Total tax expense	5,845	3,860

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax (expense)/benefit in the financial statements as follows:

	2019 $'000	2018 $'000 Restated
Profit before tax from continuing operations	18,251	12,517
Income tax expense calculated at 30% (2018: 30%)	(5,475)	(3,755)
Non-deductible expenditure	(561)	(196)
Other income tax expenses	191	91
Income tax expense recognised in profit or loss	(5,845)	(3,860)

The tax rate used for 2019 and 2018 in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Note 7: Other receivables

	2019 $'000	2018 $'000 Restated
Current		
Trade receivables	150	475
Other receivables	3,945	3,330
	4,095	3,805

There are no material receivables past due date. Other receivables include rebate receivables and finance receivables. The receivables are expected to be settled within 30 to 90 days.

Note 8: Inventory

	2019 $'000	2018 $'000 Restated
Finished goods	69,256	63,545
Less: Provision for shrinkage, obsolescence and mark-down	(1,052)	(571)
	68,204	62,974

The cost of inventories recognised as an expense during the current reporting period in respect of continuing operations was $239.576 million (2018 Restated: $203.605 million).

Note 9: Other assets

	2019 $'000	2018 $'000 Restated
Prepayments	1,014	1,277
Right of Return	497	400
	1,511	1,677

Note 10: Plant and equipment

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 25 June 2017	**6,462**	**29,944**	**36,406**
Additions	787	4,200	4,987
Disposals	–	–	–
Transfers	–	–	–
Balance at 24 June 2018	**7,249**	**34,144**	**41,393**
Accumulated depreciation			
Balance at 25 June 2017	**(2,208)**	**(14,192)**	**(16,400)**
Depreciation	(663)	(3,300)	(3,963)
Disposals	–	–	–
Transfers	–	–	–
Balance at 24 June 2018	**(2,871)**	**(17,492)**	**(20,363)**
Carrying amount as at 24 June 2018	**4,378**	**16,652**	**21,030**
Cost			
Balance at 24 June 2018	**7,249**	**34,144**	**41,393**
Additions	58	7,927	7,985
Acquisition (Refer Note 12)	–	95	95
Disposals	–	–	–
Transfers	–	–	–
Balance at 30 June 2019	**7,307**	**42,166**	**49,473**
Accumulated depreciation			
Balance at 24 June 2018	**(2,871)**	**(17,492)**	**(20,363)**
Depreciation	(749)	(3,909)	(4,658)
Disposals	–	–	–
Transfers	–	–	–
Balance at 30 June 2019	**(3,620)**	**(21,401)**	**(25,021)**
Carrying amount as at 30 June 2019	**3,687**	**20,765**	**24,452**

Note 11: Intangible assets and goodwill

Cost	Goodwill $'000	Intangibles $'000
Balance at 25 June 2017	**44,180**	**1,997**
Additions	–	1,731
Transfers	–	–
Balance at 24 June 2018	**44,180**	**3,728**
Amortisation and impairment losses		
Balance at 25 June 2017	–	(773)
Amortisation	–	(401)
Transfers	–	–
Balance at 24 June 2018	**–**	**(1,174)**
Carrying amount as at 24 June 2018	**44,180**	**2,554**
Cost		
Balance at 24 June 2018	**44,180**	**3,728**
Additions	–	2,444
Acquisition (Refer Note 12)	1,141	–
Transfers	–	–
Balance at 30 June 2019	**45,321**	**6,172**
Amortisation and impairment losses		
Balance at 24 June 2018	–	(1,174)
Amortisation	–	(463)
Transfers	–	–
Balance at 30 June 2019	**–**	**(1,637)**
Carrying amount as at 30 June 2019	**45,321**	**4,535**

Refer to Note 2 for detail on the inputs used in the impairment calculation of goodwill.

Note 12: Acquisition of businesses

The Company acquired four car seat installation businesses during the year – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. As part of this acquisition we acquired key management personnel and their team of installers providing expertise in car seat installation services. The goodwill of $1,141,000 comprises the value of expected synergies arising from the acquisition of key management personnel and team, which is not separately recognised. Transaction costs of $248,000 were expensed and are included in acquisition expenses (Refer Note 5), and included in the payments to the suppliers and employees cash flow in the statement of cash flow.

Acquisition of New Business	**Fair value recognised on acquisition $'000**
Assets	
Property, plant and equipment	95
Inventory	70
	165
Liabilities	
Provisions	(41)
Total identifiable net assets at fair value	**124**
Goodwill arising on acquisition	1,141
Purchase consideration transferred	**1,265**

Note 13: Deferred tax assets

	2019 $'000	**2018 $'000 Restated**
Deferred tax balances are presented in the consolidated statement of financial position as follows:		
Deferred tax assets	4,953	4,526

2018 – Consolidated Restated $'000	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
Employee benefits	**893**	175	**1,068**
Non-deductible accruals	**374**	(16)	**358**
Non-refundable layby income	**790**	(13)	**777**
Inventories	**502**	(24)	**478**
Gift vouchers	**204**	100	**304**
Operating lease	**928**	178	**1,106**
IPO transaction costs – listing	**337**	(113)	**224**
IPO transaction costs – issuance of new shares	**316**	(105)	**211**
Total	**4,344**	**182**	**4,526**

Note 13: Deferred tax assets (continued)

2019 – Consolidated $'000	Opening balance	Recognised in profit or loss	Closing balance
Employee benefits	**1,068**	294	**1,362**
Non-deductible accruals	**358**	177	**535**
Non-refundable layby income	**777**	(70)	**707**
Inventories	**478**	17	**495**
Gift vouchers	**304**	46	**350**
Operating lease	**1,106**	181	**1,287**
IPO transaction costs – listing	**224**	(112)	**112**
IPO transaction costs – issuance of new shares	**211**	(106)	**105**
Total	**4,526**	**427**	**4,953**

Note 14: Payables

	2019 $'000	2018 $'000 Restated
Current		
Trade payables	30,398	25,808
Sundry payables	13,875	10,654
	44,273	36,462

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Sundry payables includes $4,924,000 (2018: $5,629,000) of deposit and instalment payments received by the Company in relation to layby sales taken out by customers.

Other payables are non-interest bearing and have an average term of three months.

For explanations on the Group's liquidity risk management processes, refer to Note 25(b).

Note 15: Other Liabilities

	2019 $'000	2018 $'000 Restated
Unredeemed gift cards	1,169	1,014
Refund liability	759	600
	1,928	**1,614**

The unredeemed gift cards are expected to be redeemed within a year.

Note 16: Loans and Borrowings

	2019 $'000	2018 $'000
Non-current – Secured		
Bank loan	3,133	10,770

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ("NAB"). The secured multi option facility matures on 31 July 2022. On 19 June 2019, this facility was increased from $36,00,000 to $58,00,000. Security consists of a Deed of Charge over the assets of Baby Bunting Pty Ltd. The Company is a guarantor to the facility.

The total facility limit at balance date was $58,000,000, consisting of $50,000,000 Corporate Market Loan ("CML") facility and $8,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of $50,000,000 or 2.25 times the last 12 months historical rolling EBITDA. Interest on the facility is charged at a variable rate.

The consolidated entity was in compliance with the facility agreement at 30 June 2019. The current facility does not require the consolidated entity to amortise borrowings.

Note 17: Provisions

	2019 $'000	2018 $'000
Current		
Employee benefits	4,111	3,206
Operating lease provision	791	50
	4,902	3,256
Non-current		
Employee benefits	427	353
Operating lease provision	3,495	3,634
	3,922	3,987

The operating lease provision reflects the recognition of rental expenses and lease incentives on a straight-line basis over the lease term.

Note 18: Issued capital

	30 June 2019		24 June 2018	
	No. of shares	$'000	No. of shares	$'000
Fully paid ordinary shares				
Balance at beginning of the year	125,980,596	85,292	125,720,488	84,816
Issue of shares:				
– Employee Gift Offer	163,944	414	260,108	476
– LTI vesting	296,697	–	–	–
Balance at end of the year	126,441,237	85,706	125,980,596	85,292

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Note 19: Dividends

	2019		2018	
	$ per ordinary share	**$'000**	**$ per ordinary share**	**$'000**
Recognised amounts				
Final 2018 dividend	0.025	3,150	0.043	5,406
Interim 2019 dividend	0.033	4,172	0.028	3,527

On 10 August 2018, the directors determined to pay a fully franked final dividend of 2.5 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 24 June 2018. The dividend was subsequently paid to shareholders on 14 September 2018 totalling $3.150 million.

On 15 February 2019, the Directors determined to pay an interim fully franked dividend of 3.3 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 30 December 2018. The dividend was subsequently paid to shareholders on 15 March 2019 totalling $4.172 million.

On 16 August 2019, the directors determined to pay a fully franked final dividend of 5.1 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2019, to be paid to shareholders on 13 September 2019. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 30 August 2019. The total estimated dividend to be paid is $6.432 million.

	Company	
	2019 $'000	**2018 $'000**
Adjusted franking account balance	7,310	5,970

Note 20: Retained earnings

	2019 $'000	2018 $'000 Restated
Retained earnings		
Balance at beginning of year	4,797	5,073
Profit attributable to owners of the Company	12,407	8,657
Payment of dividends	(7,322)	(8,933)
Balance at end of year	**9,882**	**4,797**

Note 21: Segment information

Management has determined the operating segments based on the reports reviewed by the CEO and Managing Director (the chief operating decision maker as defined under AASB 8) that are used to make strategic and operating decisions. The CEO and Managing Director considers the business primarily from a geographic perspective. On this basis management has identified one reportable segment, Australia. The consolidated entity does not operate in any other geographic segment.

The following is an analysis of the consolidated entity's revenue and results from continuing operations by reportable segment:

	Australia		Total	
	2019 $'000	2018 $'000 Restated	2019 $'000	2018 $'000 Restated
Revenue	368,006	304,459	368,006	304,459
Operating EBIT	21,172	14,222	21,172	14,222
Total segment assets	158,912	147,979	158,912	147,979
Additions to plant and equipment and intangibles	10,524	6,718	10,524	6,718
Depreciation and amortisation	5,121	4,362	5,121	4,362
Total non-current assets[1]	74,308	67,764	74,308	67,764
Total segment liabilities	60,809	56,978	60,808	56,978

1. Non-current assets exclude deferred tax assets.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current reporting period (2018: nil).

The accounting policies of the reportable segment are the same as the consolidated entity's accounting policies described in Note 2. The CEO and Managing Director assesses the performance of the operating segment based on a measure of Operating EBIT. This measure basis excludes the effects of interest revenue, finance costs, income tax, change in fair value of interest rate swap, other non-operating costs and associated indirect tax costs.

Operating EBIT

A reconciliation of operating EBIT to profit before tax is provided as follows:

	2019 $'000	2018 $'000 Restated
Operating EBIT	**21,172**	**14,222**
Interest revenue	17	17
Finance expenses	(710)	(651)
Employee equity expenses	(2,227)	(1,071)
Profit before tax	**18,252**	**12,517**

Segment assets and liabilities

The amounts provided to the CEO and Managing Director with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. Reportable segments' assets and liabilities are reconciled to total assets as follows:

	30 June 2019 $'000	24 June 2018 $'000 Restated
Total segment assets	158,912	147,979
Total segment liabilities	60,809	56,978

Note 22: Share based payments

	2019 $'000	2018 $'000
Share based payments reserve		
Balance at beginning of period	912	451
Performance rights – expense (Note 22(a))	1,603	461
Balance at end of period	**2,515**	**912**

(a) Performance rights

The consolidated entity has previously established a Long Term Incentive Plan (LTI Plan) involving the grant of performance rights. Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company. No dividends or voting rights are attached to performance rights prior to vesting. The number of rights that vest, across various grants, will be determined by reference to certain performance conditions that include some or all of the following:

- Earnings per share (EPS) growth;
- Total shareholder return (TSR) growth; and
- Service condition (Retention rights).

Fair value of performance rights granted

The weighted average fair value of the performance rights TSR component granted during the reporting period under the LTI Plan is $0.80 (2018: $0.34). The fair value of the TSR component of performance rights is determined at grant date using a Monte-Carlo simulation. For the non-market component (EPS CAGR), the fair value is determined with reference to the share price of ordinary shares at grant date.

Performance rights series	Grant date	Grant date fair value	Exercise price	Expiry date
2018 – Series 1 (TSR CAGR)	20 September 2017	$0.54	nil	(1)
2018 – Series 1 (EPS CAGR)	20 September 2017	$1.72	nil	(1)
2018 – Series 2 (TSR CAGR)	21 May 2018	$0.30	nil	(1)
2018 – Series 2 (EPS CAGR)	21 May 2018	$1.45	nil	(1)
2019 – Series 1 (TSR CAGR)	3 September 2018	$1.36	nil	(1)
2019 – Series 1 (EPS CAGR)	3 September 2018	$2.39	nil	(1)
2019 – Series 2 (TSR CAGR)	30 November 2018	$2.19	nil	(1)
2019 – Series 2 (EPS CAGR)	30 November 2018	$2.32	nil	(1)
2019 – Series 3 (TSR CAGR)	30 November 2018	$0.74	nil	(1)
2019 – Series 3 (EPS CAGR)	30 November 2018	$2.32	nil	(1)
2019 – Series 3 (Retention)	30 November 2018	$2.32	nil	(1)
2019 – Series 4 (TSR CAGR)	31 May 2019	$1.14	nil	(1)
2019 – Series 4 (EPS CAGR)	31 May 2019	$2.45	nil	(1)
2019 – Series 4 (Retention)	31 May 2019	$2.45	nil	(1)

1. These performance rights vest and can be exercised at the end of the relevant performance and service period, subject to meeting the relevant performance and/or service conditions. The Board determines whether vesting occurs. Any performance rights that have not vested following the final applicable performance period lapse.

	2018 Series 1 TSR	2018 Series 2 TSR	2019 Series 1 TSR	2019 Series 2 TSR	2019 Series 3 TSR	2019 Series 4 TSR
Grant date share price	$1.72	$1.45	$2.39	$2.32	$2.32	$2.45
Exercise price	nil	nil	nil	nil	nil	nil
Expected volatility	39%	45%	45%	45%	45%	45%
Expected life (years)	1.8, 2.8	1.1, 2.1	0.8, 1.8	1.6	2.6	2.6
Dividend yield	4.50%	4.50%	4.50%	3.70%	3.70%	3.70%
Risk-free interest rate (p.a.)	2.15%	2.05%	1.96%	2.11%	2.11%	2.11%

Movements in performance rights during the year

The consolidated entity recorded a share based payments expense for performance rights of $1.603 million (2018: $0.461 million) disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Administrative expenses".

The following reconciles the performance rights outstanding at the beginning and end of the year:

	53 weeks ended 30 June 2019			52 weeks ended 24 June 2018	
	TSR Number of rights	EPS Number of rights	Retention Number of rights	TSR Number of rights	EPS Number of rights
Balance at beginning of the period	**2,730,641**	**2,730,644**	**–**	**2,647,950**	**2,647,954**
Granted during the period	1,602,000	1,602,000	614,000	257,000	257,000
Forfeited during the period	–	–	–	–	–
Exercised during the period	(296,697)	–	–	–	–
Lapsed during the period	(93,721)	(113,310)	–	(174,309)	(174,310)
Balance at end of period	**3,942,223**	**4,219,334**	**614,000**	**2,730,641**	**2,730,644**
Exercisable at end of period	**–**	**–**	**–**	**–**	**–**

(b) General Employee Share Plan ("GESP")

The consolidated entity has previously established the GESP which is intended to be part of the consolidated entity's overall remuneration policy to reward Baby Bunting employees, from time to time. The GESP provides for grants of Shares to eligible employees of the consolidated entity up to a value determined by the Board.

During the reporting period, the Board issued a total of 163,944 shares (2018: 260,108 shares) in the Employee Gift Offer with no monetary consideration payable by participating eligible employees. Shares issued are subject to a disposal restriction in accordance with current Australian tax legislation. The fair value of $0.414 million (2018: $0.476 million) was fully expensed at the time of granting, as there are no performance or service conditions.

Note 23: Related Party Transactions

The immediate parent and ultimate controlling party of the consolidated entity is Baby Bunting Group Limited (incorporated in Australia).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

(a) Loans to and from key management personnel and directors

As at the end of the current reporting period, no loans were outstanding to or from key management personnel or directors of the consolidated entity (2018: nil).

(b) Key management personnel compensation

The aggregate compensation made to directors and KMP of the Company and the consolidated entity is set out below:

	2019 $	2018 $
Short-term employment benefits	1,557,579	1,181,965
Post-employment benefits	80,115	77,372
Other long-term benefits	28,526	31,763
Share-based payments	691,743	220,949
	2,357,963	**1,512,049**

Note 24: Commitments for expenditure

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2019 $'000	2018 $'000
Not later than one year	22,459	18,817
Later than one year and not later than five years	63,618	56,761
Later than five years	27,936	21,999
	114,013	**97,577**

The consolidated entity enters into operating leases for its retail outlets and related equipment such as forklifts. The operating lease commitments in the table above do not include extension options.

Capital commitments

The consolidated entity has capital commitments totalling nil (2018: nil).

Note 25: Financial instruments – Fair values and risk management

The consolidated entity's activities expose it to a variety of financial risks, including market risk (foreign currency and interest rate risk), liquidity risk and credit risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. There have been no changes to the consolidated entity's exposure to financial risks or the manner in which it manages and measures these risks from the previous period.

The consolidated entity holds the following financial assets and liabilities at reporting date:

	2019 $'000	2018 $'000 Restated
Financial assets		
Cash and cash equivalents	5,841	7,233
Other receivables	4,095	3,805
	9,936	11,038
Financial liabilities		
Trade and other payables	39,349	30,833
Borrowings	3,133	10,770
	42,482	41,603

(a) Market risk

(i) Foreign exchange risk management

The majority of the consolidated entity's operations are transacted in the functional currency (AUD) of the group. Therefore the foreign currency exchange risk is limited to less than 10% of goods being the amount which is purchased in foreign currency.

A decrease in the exchange rate of AUD relative to the USD could result in increased costs of goods imported. Consequently, the consolidated entity is exposed to movements in the AUD/USD exchange rate should suppliers pass through to the consolidated entity movements in cost of goods attributed to foreign exchange.

The consolidated entity has historically elected to pass on changes to the cost of goods from foreign exchange movements without adversely impacting sales or gross profit margin.

(ii) Cash flow and fair value interest rate risk

The consolidated entity is exposed to interest rate risk as it borrows funds at floating interest rates. Any increase in interest rates will impact the consolidated entity's costs of servicing these borrowings, which may adversely impact its financial position.

Note 25: Financial instruments – Fair values and risk management (continued)

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity of the consolidated entity's financial assets and financial liabilities to interest rate risk.

The consolidated entity is using a sensitivity of 50 basis points as management considers this to be reasonable having regard to historic movements in interest rates. A positive number represents an increase in profit and a negative number a decrease in profit.

		Interest rate risk	
		–50bps	+50 bps
At 24 June 2018	**Carrying amount $'000**	**Profit $'000**	**Profit $'000**
Financial liabilities			
Borrowings – CML Facility	10,770	54	(54)
Total increase/(decrease)	**10,770**	**54**	**(54)**

		Interest rate risk	
		–50bps	+50 bps
At 30 June 2019	**Carrying amount $'000**	**Profit $'000**	**Profit $'000**
Financial liabilities			
Borrowings – CML Facility	3,133	16	(16)
Total increase/(decrease)	**3,133**	**16**	**(16)**

(b) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, who assess the consolidated entity's short, medium and long term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows.

Financing arrangements

The consolidated entity has access to the following undrawn borrowing facilities at the end of the reporting period:

	2019		2018	
	Limit $'000	**Utilised $'000**	**Limit $'000**	**Utilised $'000**
CML Facility	50,000	**3,133**	30,000	**10,770**
Bank Guarantee Facility	8,000	**3,662**	6,000	**3,766**
Total Facility	58,000	**6,795**	36,000	**14,536**

Maturities of financial assets and financial liabilities

The following tables detail the consolidated entity's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay. The table includes both principal and estimated interest cash flows. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at the reporting date.

	Maturity						
At 24 June 2018 Restated	**Less than 6 months $'000**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**	**Weighted average effective interest rate %**
Financial assets							
Cash and cash equivalents	7,233	–	–	–	–	**7,233**	0.21%
Other receivables	3,805	–	–	–	–	**3,805**	–
	11,038	**–**	**–**	**–**	**–**	**11,038**	
Financial liabilities							
Trade and other payables	30,833	–	–	–	–	**30,833**	–
Borrowings – CML Facility	-	–	–	10,770	–	**10,770**	3.40%
	30,833	**–**	**–**	**10,770**	**–**	**41,603**	

	Maturity						
At 30 June 2019	**Less than 6 months $'000**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**	**Weighted average effective interest rate %**
Financial assets							
Cash and cash equivalents	5,841	–	–	–	–	**5,841**	0.25%
Other receivables	4,095	–	–	–	–	**4,095**	–
	9,936	**–**	**–**	**–**	**–**	**9,936**	
Financial liabilities							
Trade and other payables	39,349	–	–	–	–	**39,349**	–
Borrowings – CML Facility	–	–	–	3,133	–	**3,133**	2.75%
	39,349	**–**	**–**	**3,133**	**–**	**42,482**	

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has endeavoured to minimise its credit risk by dealing with creditworthy counterparties and use of counterparty account based credit limits which are regularly reviewed against historical spending patterns for appropriateness.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represents the consolidated entity's maximum exposure to credit risk.

(d) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Note 26: Notes to the statement of cash flows

(a) Reconciliation of profit/(loss) for the year to net cash flows from ordinary activities

	2019 $'000	2018 $'000 Restated
Profit after income tax	12,407	8,657
Non-cash expenses and other adjustments:		
Depreciation and amortisation	5,121	4,362
Share based payments	2,227	1,071
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	(291)	(1,405)
Decrease/(Increase) in prepayments	166	(507)
Decrease/(Increase) in inventories	(5,230)	(6,462)
Decrease/(Increase) in tax assets	(427)	(1,092)
Increase/(Decrease) in trade and other payables	7,723	3,722
Increase/(Decrease) in provisions	1,286	279
Increase/(Decrease) in income tax liability	1,760	38
Increase/(Decrease) in other financial liabilities	313	933
Increase/(Decrease) in operating lease provision	299	894
Net cash provided by operating activities	**25,354**	**10,490**

(b) Reconciliation of Cash and Cash equivalents

For the purposes of the statement cash flows, cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019 $'000	2018 $'000
Cash on hand	73	66
Cash at bank	5,768	7,167
	5,841	**7,233**

Note 27: Parent entity disclosures

As at, and throughout, the 53 weeks ended 30 June 2019 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
Result of parent entity:	**2019 $'000**	**2018 $'000**
Profit for the year	10,200	8,527
Other comprehensive income	–	–
Total comprehensive income for the year	**10,200**	**8,527**
Financial position of parent entity at year end:		
Current assets	–	–
Non-current assets	99,090	94,064
Total assets	**99,090**	**94,064**
Current liabilities	2,649	914
Non-current liabilities	–	–
Total liabilities	**2,649**	**914**
Total equity of the parent entity comprising of:		
Issued capital	85,705	85,292
Reserves	451	451
Retained earnings	10,285	7,407
Total equity	**96,441**	**93,150**

The Company does not have any contractual commitments for the acquisition of property, plant and equipment.

Note 28: Group entities

Baby Bunting Group Limited has two 100% owned subsidiaries, Baby Bunting Pty Ltd and Baby Bunting EST Pty Ltd. The investment in Baby Bunting Pty Ltd is $8,891,700 which represents the issued capital of the entity, together with the value of non cash costs associated with the acquisition of the business.

The Company and Baby Bunting Pty Ltd have entered into a Deed of Cross Guarantee.

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiary (Baby Bunting Pty Ltd) is relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgment of Financial Reports.

The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of the subsidiary under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full.

The Consolidated Statement of Profit and Loss and Other Comprehensive Income and Consolidated Statement of Financial Position of the consolidated entity approximates the forementioned statements comprising the company and subsidiary which are party to the deed as at the reporting date and therefore additional company and subsidiary financial statements are not presented.

Subsidiaries listing

			Proportion of ownership interest and voting power held by the Company	
Name of subsidiary	**Principal activity**	**Place of incorporation and operation**	**June 2019**	**June 2018**
Baby Bunting Pty Ltd[1]	Retailing of baby merchandise	Australia	100%	100%
Baby Bunting EST Pty Ltd[2]	Trustee of the trust established in connection with the Company's employee share plans	Australia	100%	100%

1. This wholly-owned subsidiary has entered into a deed of cross guarantee with Baby Bunting Group Limited. Baby Bunting Pty Ltd became a party to the deed of cross guarantee on 19 June 2008.
2. Baby Bunting EST Pty Ltd has no material net assets or profit and the financial information disclosed in this report represents the financial information for the group entities that are party to the deed of cross guarantee.

Note 29: Earnings per share

	2019 cents per share	2018 Restated cents per share
Basic earnings per share from continuing operations[1]	9.8	6.9
Diluted earnings per share from continuing operations[1]	9.8	6.9

1. In the current and comparative reporting periods there were no discontinued operations.

(a) Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2019 $'000	2018 $'000 Restated
Earnings used in the calculation of basic earnings per share from continuing operations[1]	12,407	8,657

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	126,144,540	125,980,596

1. In the current and comparative reporting periods there were no discontinued operations.

(b) Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	2019 $'000	2018 $'000 Restated
Earnings used in the calculation of basic earnings per share from continuing operations[1]	12,407	8,657

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	126,144,540	125,980,596
Shares deemed to be issued for no consideration in respect of:		
– Performance rights	296,697	–
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	126,441,237	125,980,596

1. In the current and comparative reporting periods there were no discontinued operations.

Note 30: Remuneration of auditors

	2019 $	2018 $
Assurance Services		
Review of the financial report for the half-year	26,250	30,000
Audit of the year-end financial report	89,250	80,000
	115,500	110,000
Tax and Consulting Services		
Taxation services	45,100	–
Other advisory services	–	–
	45,100	–
Total remuneration	**160,600**	**110,000**

The auditors of the consolidated entity and the Company are Ernst & Young. From time to time, Ernst & Young provides other services to the consolidated entity and the Company, which are subject to the corporate governance procedures adopted by the Company.

Note 31: Events after balance sheet date

Dividends on the Company's ordinary shares

A final dividend of 5.1 cents per fully paid ordinary shares has been determined for the year ended 30 June 2019 – refer Note 19.

There have been no events subsequent to the date of this report which would have a material effect on the financial report of the consolidated entity at 30 June 2019.

DIRECTORS' DECLARATION

The Directors declare that:

a. in their opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b. in their opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements;

c. in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

d. the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

In the Directors' opinion, there are reasonable grounds to believe that the Company and its subsidiary which have entered into the Deed of Cross Guarantee, as detailed in Note 28 to the financial statements 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.

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

On behalf of the Directors

Ian Cornell
Chairman

Melbourne:
16 August 2019

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Independent Auditor's Report to the Members of Baby Bunting Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Baby Bunting Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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.

Building a better working world

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.

Accounting for supplier rebates

Why significant	How our audit addressed the key audit matter
As detailed in Note 2(g) of the financial report, volume rebates and promotional rebates received by the Group from suppliers are recognised as a reduction in the cost of inventory or as a direct reduction from the cost of goods sold. This was a key audit matter due to the quantum of rebates recognised during the year and the judgement required to be exercised in relation to a number of factors, including: ► The nature, complexity and commercial terms of each individual rebate. ► The appropriate timing of recognition, in particular, rebates recorded at the reporting date ► Consideration of whether the rebate and whether the amount should be applied against the carrying value of inventory or recognised in the income statement as a reduction in cost of goods sold. Disclosure relating to the measurement and recognition of rebates can be found in Note 2(g).	Our audit procedures included the following: ► Assessed the appropriateness of the Group's accounting policies in relation to volume rebates and supplier incentives in accordance with Australian Accounting Standards. ► Assessed the effectiveness of controls in place relating to the recognition and measurement of rebate amounts. ► Compared recorded amounts for a sample of significant rebate arrangements with amounts recorded for the same arrangements in the prior year and where material variances were identified, obtained supporting evidence. ► For a sample of individual supplier agreements, we recalculated the rebate entitlements and determined whether these were correctly recorded in accordance with the terms of the agreement and Australian Accounting Standards. ► We assessed the Group's year end rebate receivable at year end by considering the key assumptions, having regard to past claims experience and the Group's claim documentation prepared after balance date. Where available, we agreed the receivable to the amount settled subsequent to year end.

Building a better working world

Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 30 June 2019, the Group held $68.2 million in inventories representing 43%of total assets of the Group. As detailed in Note 2(g) of the financial report, inventories are valued at the lower of cost and net realisable value. Judgement was required to be exercised by the Group to determine the net realisable value for items which may be ultimately sold below cost. These judgements include consideration of expectations for future sales based on historical experience.	Our audit procedures included the following: ▶ Assessed the design and operating effectiveness of relevant controls used by the Group to record the cost of inventories and tested the cost price of inventory recorded for a sample of inventory lines to supplier invoices. ▶ Assessed the basis for inventory provisions recorded by the Group for slow moving inventories and stock losses. In doing so, we examined the Group's process for identifying slow moving inventories, negative margin and historical stock loss rate trends. ▶ Considered the impact of sales subsequent to year end on the value of inventories at balance date by comparing the actual selling prices to the carrying value for a sample of inventory.

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 2019 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.

Building a better working world

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.

Building a better working world

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 44 to 55 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Baby Bunting Group Limited for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
Melbourne
16 August 2019

SHAREHOLDER INFORMATION

AS AT 8 JULY 2019

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 126,441,237 shares on issue. All of the Company's shares are listed on the Australian Securities Exchange. There is no current on-market buy-back.

TWENTY LARGEST SHAREHOLDERS

	Name	Name Number of shares	% of shares
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	30,044,999	23.76
2	NATIONAL NOMINEES LIMITED	19,317,357	15.28
3	CITICORP NOMINEES PTY LIMITED	15,731,299	12.44
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,020,665	10.30
5	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,028,393	3.98
6	BNP PARIBAS NOMS PTY LTD <DRP>	3,987,091	3.15
7	UBS NOMINEES PTY LTD	2,386,503	1.89
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,312,179	1.83
9	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,522,000	1.20
10	MATTHEW SPENCER	1,177,848	0.93
11	MR GRAEME JOHN HAINES + MRS SHARNI GAY HAINES <G & S HAINES S/F A/C>	1,049,364	0.83
12	OAKLEYTOWER PTY LIMITED	958,781	0.76
13	NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	937,000	0.74
14	BNP PARIBAS NOMINEES PTY LTD <IOOF INVMT MNGT LTD DRP>	900,000	0.71
14	COOLUM OAK PTY LTD <THE CORNELL SUPER FUND A/C>	900,000	0.71
16	FIDDIAN TEAL NOMINEES PTY LTD <FIDDIAN TEAL FAMILY A/C>	593,133	0.47
17	MR RICHARD MARTIN HAINES + MRS TUULA SINIKKA HAINES <BENARA S/F A/C>	576,000	0.46
18	FERGUS & CO PTY LTD <FERGUS INVESTMENT A/C>	496,974	0.39
19	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	456,000	0.36
20	KARALIA PTY LTD <KARALIA INVESTMENT A/C>	446,974	0.35
	Total	**101,842,560**	**80.55**

SHAREHOLDER INFORMATION

AS AT 8 JULY 2019

UNMARKETABLE PARCELS

There were 191 holdings of less than a marketable parcel (less than $500 in value or less than 225 shares) based on the closing market price of $2.23 per share at 8 July 2019.

DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS

Range	Total holders	% of holders	Number of shares	% of shares
1 – 1,000	1,112	34.7	589,803	0.47
1,001 – 5,000	1,148	35.8	3,247,412	2.57
5,001 – 10,000	450	14.0	3,526,496	2.79
10,001 – 100,000	445	13.9	10,630,136	8.41
100,001 and over	52	1.6	108,447,390	85.77
Total	**3,207**	**100.0**	**126,441,237**	**100.0**

SUBSTANTIAL SHAREHOLDERS

As at 8 July 2019, the substantial holders (as disclosed in substantial holdings notices given to the Company) are:

Name	Date of most recent notice	Number of shares	Relevant interest
AustralianSuper Pty Ltd	10 October 2018	14,892,583	11.82%
IOOF Holdings Limited	26 June 2019	11,431,964	9.04%
Commonwealth Bank of Australia	21 February 2019	10,487,871	8.29%
Copia Investment Partners Ltd	31 October 2018	8,669,026	6.86%
Yarra Funds Management Limited	25 February 2019	6,368,069	5.04%

VOTING RIGHTS OF ORDINARY SHARES

The Company's Constitution sets out the voting rights attached to ordinary shares. In summary, shareholders may vote at a meeting of shareholders in person, directly or by proxy or attorney and, in the case of a shareholder that is a company, also by representative. On a show of hands, a shareholder has one vote. On a poll, a shareholder has one vote for every fully paid share held.

PERFORMANCE RIGHTS

The Company has unquoted performance rights on issue. As at 8 July 2019, there were 11 holders of performance rights. There are no voting rights attached to performance rights.

CORPORATE DIRECTORY

REGISTERED OFFICE

Baby Bunting Group Limited

955 Taylors Road
Dandenong South VIC 3175
(03) 8795 8100

DIRECTORS

Ian Cornell
Gary Kent
Gary Levin
Donna Player
Matt Spencer
Melanie Wilson

COMPANY SECRETARY

Corey Lewis
Group Legal Counsel and Company Secretary

INVESTOR RELATIONS

Darin Hoekman
Chief Financial Officer
(03) 8795 8100

SHAREHOLDER ENQUIRIES

Share Registry

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne VIC 3001

1300 850 505 (within Australia)

+61 3 9415 4000 (outside Australia)

AUDITOR

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

SECURITIES EXCHANGE LISTING

Baby Bunting Group Limited shares are listed on the Australian Securities Exchange (ASX)
(ASX Code: BBN).

INVESTOR WEBSITE

babybuntingcorporate.com.au

ONLINE STORE

babybunting.com.au

Baby Bunting Group Limited
ABN 58 128 533 693